

# Impact of International Public Sector Accounting Standards Adoption on Financial Reporting Quality of Federal Tertiary Institutions in Adamawa, Borno, and Yobe States, Nigeria

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## ABSTRACT

This study aimed to examine the impact of adopting International Public Sector Accounting Standards (IPSAS) on the financial reporting quality of selected federal Tertiary Institutions in North East Nigeria. The study examines how adopting IPSAS has improved the relevance, comparability, and financial reporting of federal tertiary institutions in Adamawa, Borno, and Yobe States, Nigeria. The study employed a survey research design. As a result, data were collected by administering a questionnaire to a selected sample of 133 respondents from the institutions under study, including accountants, internal auditors, and bursary staff. Furthermore, the selected institutions' financial statements were used as secondary data. The collected data was analyzed with descriptive statistics, regression analysis, and t-test statistics. The study discovered a significant difference in financial reporting quality between federal tertiary institutions in Adamawa, Borno, and Yobe States, Nigeria before and after they adopted IPSAS. The study recommended that to maintain the impact of IPSAS on financial reporting quality, the Office of the Accountant General of the Federation intensify IPSAS compliance monitoring of federal tertiary institutions, define sanctions, and ensure that they are implemented on erring institutions.

**Keywords:** relevance, comparability, public sector, adoption, tertiary institutions.

## INTRODUCTION

Financial Reporting Quality (FRQ) has been an issue of interest amongst researchers, the accounting profession, and other users of accounting information. This is because financial reporting has always been a means of communicating financial information to users. The public sector committee of the International Federation of Accountants (IFAC) developed IPSAS to guide government entities in preparing high-quality financial reports to ensure uniformity, and comparability of financial reporting across the world (Udeh & Sopekan, 2015). Dabor and Adeyemi (2009) opined that low-quality financial reporting results from sloppy accounting, inadequate regulation, crony capitalism, lagging, and multiple regulations. It is imperative therefore to note that, financial statements are the end products of financial reporting (Adebisi, 2014). The financial statements convey information to the public that assists in evaluating the performance of those entrusted with public resources (Sour, 2012).

The public sector is that sector of the economy that is under the control and direction of the government. It comprises entities or organizations that implement public policies for the common good of the citizenry. The public sector comprises of government and all publicly owned, controlled, and or publicly funded agencies, enterprises, and other entities of government that deliver public programs, goods, or services. Government is the constituted authority that is responsible for, among others; the welfare of the citizenry, developmental agenda, and security of a nation or state. Financial accountability by the government to its citizens is critical. This is because government is entrusted with public resources to administer for the good of the citizenry. Financial reporting has been a primary instrument of financial accountability by governments around the world (Babatunde, 2017).

Over the years, countries of the world have defined and set the standards of financial reporting in their territories. However, globalization has brought about increasing collaboration, international trade, and commerce among the countries of the world. Hence, there is a dire need for increased uniformity in the standards guiding financial statement preparation so that such statements would remain comprehensible and convey the same information to users across the world (Duenya et al. 2017).

The need for the development of unified accounting standards has been the primary driver for the introduction of International Public Sector Accounting Standards (IPSAS) for public-sector financial reporting. Commercial entities across the world converged to International Financial Reporting Standards (IFRS), and the public sector adopted IPSAS as a replica. The IPSAS, governs the accounting of public sector entities, except Government Business Enterprises (Atuilik & Salia, 2019). It is imperative to note that IPSAS is at present the focal point of a global revolution in government accounting in response to calls for greater government financial accountability and transparency (Abimbola et al. 2017).

The IPSAS are sets of accounting standards issued by the International Public Sector Accounting Standards Board (IPSASB) to regulate government accounting in response to calls for greater government financial accountability, transparency, and value relevance. IPSAS are recognized and accepted by international bodies such as the UN, World Bank, and IFAC amongst others. Countries are therefore encouraged to align their national accounting standards with IPSAS to conform to international best practices. It is believed that IPSAS will promote uniformity, accountability, and transparency. Recently, the attention of government regulators, policy-makers, practitioners, and academics has been drawn to its adoption and effect (Dabor & Aggreh, 2017).

The IPSAS emphasizes accrual accounting rather than the cash basis of accounting. Accrual accounting is considered essential for a greater degree of accountability and effective decision-making in the public sector, thereby, giving rise to good governance and economic development (Duenya et al. 2017). Under accrual-based IPSAS, General Purpose Financial Statements (GPFSS) are prepared and presented based on proper recognition, measurement, and adequate disclosure of all material items, transactions, and events.

The implementation of IPSAS in Nigeria has the potential to influence financial reporting quality in terms of accountability and enhanced decision-making. There is no doubt that to ensure and maintain people's trust in government, public funds must be managed in an accountable and transparent manner. Also, there is established proof that accrual-based IPSAS promotes a clearer financial position among public sector organizations globally (Duenya et al. 2017). An international reporting framework like IPSAS is believed to serve as an instrument for ensuring accountability and reducing fraud and corruption to the barest minimum. The rationale behind this assertion is that IPSAS adoption can assist governments in gaining greater control of their revenues, expenditures, payables, and receivables. Also, through IPSAS, decision-making in the public sector can be improved (Danescu & Rus, 2013), particularly in areas of Capital Expenditure (CAPEX). CAPEX involves expenditure on the purchase/construction of property, plant, and equipment, the purchase/construction of investment property, the purchase of intangible assets as well as acquisition of investments (Dabor & Aggreh, 2017). The authors noted that government decisions on CAPEX are highly essential for economic prosperity. The need for improved and increased recognition, measurement, presentation, and disclosure requirements about transactions and events in general-purpose financial statements has led to the adoption of International Public Sector Accounting Standards (IPSAS). Over the years, government accounting has been anchored on a basis of accounting while private sector accounting has been predicated on an accrual basis. Whereas the accrual basis has been working perfectly well in the private sector, the continued application of the cash basis in the public sector appears to have thrown up several challenges relating to underutilization of scarce resources, high degree of vulnerability to manipulation, lack of proper accountability and transparency, inadequate disclosure requirement because the cash basis of accounting does not offer a realistic view of financial transactions.

To improve financial reporting quality, IPSAS 1 has pointed out fairness, relevance, understandability, timeliness, verifiability, comparability, faithful representation, and consistency of presentation of accounting information as qualities of financial reporting. Therefore, the presentation of public sector financial statements by the federal tertiary institutions in line with the qualities would likely ensure high-quality financial reporting.

Atu et al. (2013) opined that IPSAS adoption and implementation would pave the way for the harmonization of

financial statements, accounting of funds provided by the identified authorities, and improved financial information comparability as presented by the public sector entities around the world. Also, Oduware (2012) and Bellanca and Vandernoot (2014) documented that IPSAS adoption will improve the comparability of financial information through transparent and prompt presentation of financial information to the public. Christiaens et al. (2013) have also stressed that IPSAS implementation will improve the comparability of financial information at different levels of government and pave the way for the consolidation of financial statements. In the same light, Ijeoma and Oghomeh (2014) contended that IPSAS adoption will improve and enhance the recognition, measurement, presentation, and disclosure of financial transactions, making for the comparability of financial information in the public sector. The empirical evidence by Sour (2012) revealed that if all tiers of government in Mexico adopt and implement the IPSASs model, there is a high chance that the country will accomplish the harmonization and comparability of the financial information which would improve transparency and credibility. All these propositions point to the adoption and implementation of IPSAS may impact FRQ. It is against this backdrop that this study examines the impact of IPSAS adoption on the FRQ of federal tertiary institutions in Nigeria with a focus on institutions in the northeastern part of the country.

## LITERATURE REVIEW

### The Concept of International Public Sector Accounting Standards (IPSAS)

IPSAS are a set of accounting standards issued by the International Public Sector Accounting Standards Board (IPSASB), an independent organ of the International Federation of Accountants (IFAC), for use by public sector entities around the world in the preparation of financial statements (Modebe & Ogundele, 2016). These standards are a replicate of the private sector standards (International Financial Reporting Standards (IFRS)) issued by the International Accounting Standards Board (IASB). IPSAS are the government's version of 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: [www.ipsasb.org](http://www.ipsasb.org). Observers on the IPSASB meetings include ADB, EU, IASB, IMF, INTOSAI, OECD, UN, UNDP, and the World Bank. IPSASs aim 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. IPSAS are accounting standards for application by national governments; regional governments, such as state, provincial, and territorial; local governments (like cities, and towns) and related governmental entities, such as agencies, boards, and commissions. IPSAS are also widely used by intergovernmental organizations or institutions. IPSAS does not apply to government business enterprises.

### Adoption of IPSAS in Nigeria

The global apprehension, eagerness for better public sector financial management, and fiscal prudence that guarantees improved governance, accountability, and transparency were a driving concern to both developed and developing countries (Modebe & Ogundele, 2016). This gave rise to many reforms such as the introduction of IPSAS by IFAC, which establishes and promotes the application of IPSAS for public sector entities around the world. IPSAS are supported by a strong governance framework, quality principles, and a credible regulatory framework. As such, the adoption of the standards enables greater comparability of financial information by organizational stakeholders, motivation by investors to invest in foreign countries, a reduction in the overall cost of capital, improved economic growth, and improved allocation of resources by the public institutions (De Luca & Prather, 2018).

The demand for good governance triggered the need for reforms in various sectors of the Nigerian economy. Good governance is evidenced in effective financial and human resource management through improved budgeting, accounting, and reporting, with emphasis on accountability, transparency, and eliminating inefficiency, particularly in public enterprises (World Bank, 2003, 1992). Nigeria's governance lacks all these

as the country is bedeviled by poor leadership characterized by abuse of power, misuse of state resources, embezzlement, corruption, and breakdown of law and order, to mention but a few (World Bank, 2003).

Over the years, Nigeria embarked on various economic, institutional, and financial reforms to strengthen its economy. The financial reforms were aimed at ensuring that Government business should be transacted like is done in the private sector, to ensure transparency, accountability, efficiency, and improved financial reporting and service delivery. The International Monetary Fund (IMF), World Bank and other international bodies interested in developing African countries were very much interested in these reforms triggered by the new public management (NPM) program initiative. The NPM has been embraced by the public sector of most countries of the world. It propagates that accrual basis accounting should be introduced in the public sector as it is practiced in the private sector.

Nyong (2011) averred that considerable efforts have been made in the past by the Federal Government to harmonize the financial statements produced by the Federal, State, and Local governments. For instance, a committee, that was set up in 1984 to harmonize the manner of presentation of financial statements in the public sector, discovered a great disparity existing between the accounts of Federal, State, and Local governments in terms of the statements prepared and presentation formats. Hence, the committee recommended 16 statements to be adopted by the three tiers of government in the federation. The key recommendations were accepted and implemented, but the standard reporting formats were not uniformly adopted. In 1998, another committee was set up in response to IFAC exposure guidelines for government financial reporting, which proposed a modified cash basis and modified accrual basis of financial reporting. The committee recommended the adoption of accrual accounting, and it was given the mandate to fashion out a standard format for its application. The committee completed its work, but the report was never considered by the Federation Accounts Allocation Committee (FAAC) for logistic or other technical reasons. As a result of the non-consideration of the report, the Nigerian financial reporting system was bedeviled by inadequacies.

In 2006, the financial management unit of the World Bank South Asia Region developed a new diagnostic tool for the assessment of how well public sector accounting and auditing practices accord with the IFAC and International Organization of Supreme Audit Institutions (INTOSAI). The new diagnostic tool used self-assessment questionnaires to identify the gaps in the national standards implementation on a cash accounting basis. This was applied in Nigeria in collaboration with the South Asia Government Accounting Standard Adversary Board (SASAB) and Exposure Draft Report issued in December 2009 at the instance of the International Development Association under the Economic Reform and Governance Project (ERGP). The study was carried out to identify the gap between the accounting and reporting practice of the Nigerian public sector and the provision of the IPSAS. The result indicated that differences exist between the existing practice and IPSAS-based accounting (Dankwambo, 2010). In other words, the study revealed that the cash basis accounting and the financial reporting system being practiced by the Nigerian public sector were not IPSAS-cash-basis compliant.

The existing financial reporting practice was based on laws and regulations (e.g. Audit Ordinance, 1956 No 38 and Finance (Control and Management) Act 1958 N0 33) and does not accord with the IPSAS cash basis of accounting. The report recommended the implementation of IPSAS cash basis accounting and financial statements as a precondition for the transition to accrual accounting. The report also recommended a Nigerian form of IPSAS accrual basis since a full accrual reporting system would impose some problems (Iyika, 2011).

The Federal Executive Council (FEC) approved the adoption of IPSAS in July 2010 for the public sector marking a real beginning of the IPSAS adoption process, but it was in 2016 that it was fully implemented. The IPSAS adoption is considered a road map to improving the value of public entities' financial reporting and is expected to lead to the presentation of a fair view of public finance and audit towards achieving good governance. They found out that IPSAS adoption will result in financial transparency/accountability, strengthened internal controls, boosted financial and resource stewardship, and increased efficiency in decision-making and good governance.

Onwubuariri (2012) reported that the Federal Executive Council of Nigeria in July 2010 approved the adoption of the International Financial Reporting Standards (IFRS) and IPSAS, for the private and public sectors

respectively. The adoption was aimed at improving the country's accounting and financial reporting system in consonance with global standards. Consequently, the Federation Account Allocation Committee, (FAAC), in June 2011 set up a sub-committee to work out a roadmap for the adoption of IPSAS in the three tiers of government. However, he noted that some stakeholders believe that the tools and strategies needed to fully implement IPSAS in the three tiers of government in Nigeria are still problematic. He explained that IPSAS is a good development and an international best practice that has been embraced in most developed countries. There is nothing wrong with Nigeria taking a queue to make sure that public entities in the country fully adopt IPSAS.

IPSAS are essential to the development of an efficient public sector accounting and reporting system in any country to properly identify and measure the government's expenses, revenues, assets, and liabilities. Therefore, the adoption of IPSAS in Nigeria in 2010 was a welcome development by all the tiers of government. However, each tier (Federal, State, and Local Government) has a different capacity to withstand what it takes to implement it regarding various factors such as finance, expertise, and political party alignment, which may hinder the implementation and slow the process of better governance.

The public sector refers to that segment of the national economy whose activities both economic and non-economic are under the control and direction of the government (Gberegbe & Micah in Ibanichuka & Oyadonghan, 2014). The public sector is concerned with providing services to the general public that would not otherwise be available or provided adequately within the financial resources of any individual members of the public, (Bammeke, 2012). The public sector consists of organizations where control lies in the hands of the public, as opposed to private owners, and whose objectives involve the provision of services, where profit is not a primary objective.

International Public Sector Accounting Standards 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 (Akinleye & Alaran-Ajewole, 2018). International Public Sector Accounting Standards are the guidelines that specify the presentation of annual General Purpose Financial Statements of public sector reporting entities other than Government Business Enterprises. The International Public Sector Accounting Standards are based on two systems of accounting. These are accrual system and cash basis accounting. The embracing of International Public Sector Accounting Standards has some usefulness purposes such as demonstrate the correctness and reasonableness of transactions and their agreement with established rules; give evidence of accountability for the stewardship of government resources; make available vital information for good control and prudent management of government activities, contributing to the improvement of evaluation of financial performance as the financial statements will reflect all expenditures and incomes, providing evidence on whether revenue streams are suitable to meet short and long term liabilities; making comprehensive information relating to expenditure available which can help in knowing the cost implications of policies and enabling comparison with substitute policies; determining the future sustainability of programmes, liquidity position and comprehensive information on the financial position of government at the end of the financial year; and improving good governance (Okoye and Ani, 2004; Duenya, Upaa and Tsegba, 2017). The accrual basis of accounting consists of the statement of financial position; the statement of financial performance; the statement of changes in net assets/equity; the cash flow statement; and accounting policies and notes to the financial statements. The cash basis of accounting is the system of recording receipt or income when actual cash is been received and recording expenditure when actual payment is made irrespective of the accounting period in which the services are rendered or benefits received (Benito, Brusca & Montesinos, 2007).

### **Benefits of Adoption of IPSAS in Nigeria**

Ngama (2012) in a workshop organized by the sub-committee of FAAC, posited that the implementation of IPSAS in Nigeria would promote a peer-review mechanism for financial reports among the three tiers of government. In his opinion, the adoption of IPSAS will serve as the foundation for the preparation of quality financial statements and adequate reporting systems in Nigeria's public sector. Also, the then Accountant-General of the Federation, whose office spearheaded the adoption of IPSAS, stressed that the accounting system would engender economic and political benefits for the country. On the economic side, Ngama (2012) noted that the adoption of IPSAS would provide the basis for the establishment of a harmonized budgetary system for the three tiers of government. He further stressed that the era of IPSAS would also enhance the country's eligibility

to access economic benefits from donor agencies, the private sector, financial institutions, and worldwide financial institutions such as the World Bank. The preparation of the country's financial statement using IPSAS which is an international standard would encourage investors into the country. Furthermore, it would expose the in-house corrupt practice of some of the public officers thereby deterring them from such acts.

Nongo (2014) was also of the opinion that the adoption of IPSAS in the public sector accounting reporting system would enhance better service delivery in the public sector, support efficient internal control, and bring into focus the performances of the agencies. It would also enhance the credibility of government financial information and help build the confidence of Nigerian citizens and Nigerian development partners both within and abroad. The adoption of IPSAS would also enhance access to information to the public, promote the aims of the Freedom of Information Act 2011, and facilitate the expression of individuals' opinions on government activities. Adoption of IPSAS in the Local Government would also help to fight corruption which can be easily traced to the local government because of lack of proper accounting system stipulated by the subcommittee. Comparability of Nigeria's financial statements with those of other countries would be carried out with ease (Oulasvirta, 2012).

The implementation of IPSAS in Nigeria would assist in attracting foreign investment, improving financial management, transparency and accountability, and tackling corruption. While Nigeria is committed to the improvement of financial reporting and accountability, there is more to be done in terms of best practices. Some government agencies have failed to move to IPSAS as required (Premium Times, 2016) and Nigeria's Accountant General has conceded that the country needs to build accountancy capacity to cope with the demands of IPSAS implementation (World Stage, 2017). Akhidime (2012) documented that the quality of financial reporting and accountability in Nigeria's public sector leaves a lot of room for improvement.

Chen (2012) found that the number of reported cases of institutional fraud and irregularities including falsification of financial transactions, leakage of government revenues, assets embezzlement, and other irregular transactions have significantly dropped in countries that have adopted IPSAS compared to those countries yet to do so. Given the level of financial discipline that has been associated with countries that have adopted IPSAS as part of transparent and accountable governance, Babatunde (2017) and Transparency International (2016) in their respective studies called on developing countries to embrace IPSAS to accelerate their respective levels of economic growth and development through increased financial discipline.

### **Concept of Financial Reporting**

Financial reporting is the act of communicating financial statements and related information from a business enterprise to third parties (external users) for sound economic decision-making. Financial reporting is the process of producing statements that disclose an organization's financial status to management, investors, and the government (Rouse, 2017). Financial reporting involves the disclosure of financial information to various stakeholders about the financial performance and financial position of an organization over a specified period. These stakeholders include – investors, creditors, the public, debt providers, governments, and government agencies. According to the Financial Reporting Council (2013), financial reporting is the periodic process of providing information in financial statements (including the notes thereto) about the financial position and performance of a reporting entity to parties (users) external to that entity to assist them in making informed decisions about allocating scarce resources. The objective of financial reporting is to provide information about the financial position, performance, and changes in the financial position of an enterprise that are useful to a wide range of users in making economic decisions (International Accounting Standard Board (IASB), 2010). In the context of this study, financial reporting is essentially a way of following standard practices to give an accurate depiction of a company's finances, including their revenues, expenses, profits, capital, and cash flow for better understanding and appropriate decision-making.

### **The Concept of Financial Reporting Quality**

Financial reporting is the process of communicating financial information from an enterprise, be it private or public, to third parties for sound economic decision-making (Rouse, 2017). According to the Financial Reporting Council (2014), financial reporting is the periodic process of providing information in financial statements

(including the notes thereto) about the financial position and performance of a reporting entity to parties (users) external to that entity to assist them in making informed decisions about allocating scarce resources. The objective of financial reporting is to provide information about the financial position, performance, and changes in the financial position of an enterprise that is useful to a wide range of users in making economic decisions (IASB, 2010). To Majid and Adam (2015), the objective of financial reporting is to communicate the financial status of an enterprise for an informed decision-making process. Financial information is useful when it is presented in a comparable, verifiable, and understandable form, and for IASB (2008, 2010) and Van Beest et al. (2009), the main objective of financial reporting is to provide information concerning an economic entity, primarily financial, useful for economic decision making. Financial reporting provides information about the management's stewardship; the entity's assets, liabilities, equity, income and expenses (including gains and losses), contributions by and distributions to owners as well as cash flows. This information is usually in the form of annual financial statements such as the statement of financial position; the income statement or statement of comprehensive income; the statement of cash flows and the statement of changes in equity as well as notes to the accounts.

Financial reporting quality has remained an issue of major concern among professional accountants, regulators, and other users of financial information. This is because financial reporting has been a principal means of communicating the results of transactions and events which transpired within the organization to outsiders; who may use such information in assessing the economic performance and condition of a business as well as a guide in making economic decisions. Hence, every user of financial information expects that such information will help them in gauging the health status of the reporting entity and in making informed financial decisions. However, events in recent times, especially the series of corporate scandals, such as Enron, Worldcom, and several Nigerian banks, have placed serious doubt on the quality of financial reports circulating in our corporate environment and their ability to meet the expectations and needs of the users.

The concept of financial reporting quality has drawn considerable research interest around the world. However, researchers, practitioners, and regulators are in disagreement as to a clear definition of what constitutes 'financial reporting quality' (Pomeroy & Thomson, 2008; cited in Miettinen, 2008). The IASB (2008) has provided a working definition of quality financial reporting. The Board in its conceptual framework defines quality financial reporting as that which meets the objectives and the qualitative characteristics of financial reporting (IASB, 2008; Van Beest et al., 2009).

This study conceives financial reporting as an essential way of following standard practices to give an accurate depiction of public finances, including, expenses, and cash flow for better understanding and appropriate decision-making.

### **IPSAS Adoption and Financial Reporting Quality**

The fundamental economic function of accounting standards is, to provide agreement about how important commercial transactions are to be implemented. According to Clarke (2009), if accounting reports are not prepared following the standards, then the meaning of comparisons between performance in different periods and the performance between entities is virtually impossible. Barth et al, (2006) suggest that accounting quality could be improved with the elimination of alternative accounting methods that are less reflective of a firm's performance and are used by managers to manage earnings. Overall, evidence on voluntary IFRS adoption and accounting quality is mixed, however, there is relatively better accounting quality among the firms that adopt IFRS (Christensen et al. 2008; Ashbaugh & Pincus, 2001). By eliminating many international differences in accounting standards, and standardizing reporting formats, IFRS eliminates many of the adjustments that analysts historically have made to make companies' financial information more comparable internationally. IFRS adoption therefore could make it less costly for investors to compare firms across markets and countries (e.g. Armstrong et al, 2007; Covrig et al, 2007). Thus, a common set of accounting standards would solve agency problems in the corporate sector, reduce information asymmetries among investors, and/or lower estimation risk by increasing comparability between lower and higher quality firms (Bradshaw et al, 2004; Daske et al, 2007). Thus, reducing international differences in accounting standards assists to some degree in facilitating international integration of capital markets (Covrig et al, 2007) by removing barriers to cross-border acquisitions and divestiture, which in theory will reward investors with increased takeover premiums.

Lastly, better accounting standards make reported earnings less noisy and more accurate, hence more “value relevant”. (Ashbaugh & Pincus, 2001; Hope 2003). It would also, make earning easier to forecast and would improve average analyst forecast accuracy. Ball et al, (2000) thought oppositely that managers in low-quality reporting regimes can “smooth” reported earnings to meet a variety of objectives, such as reducing the volatility of their compensation, reducing the volatility of payouts to other stakeholders (notably, employee bonuses and dividends), reducing corporate taxes, and avoiding recognition of losses.

### Measurement of Financial Reporting Quality in the Public Sector

In response to the need for improvement in the existing financial reporting system, the International Accounting Standards Board (IASB) in 2018 released a revised conceptual framework for financial reporting following the exposure drafts issued in 2008 and 2010. The key issues raised in the framework are the objectives of financial reporting and the characteristics of quality financial reporting. The conceptual framework noted that a key prerequisite for achieving quality financial reporting is the adherence to the objectives and the qualitative characteristics of financial reporting information. According to the IASB Framework on financial reporting, qualitative characteristics are the attributes that meet the decision usefulness of financial information. The framework listed these attributes as relevance, faithful representation, comparability, understandability, verifiability, and timeliness (Deloitte, 2018). It has been argued that the model that uses the qualitative characteristics approach in measuring financial reporting quality provides a direct and better measure of financial reporting quality (Van Beest, Braam, & Boelens, 2009).

Financial reporting quality has been measured basically in two ways: qualitative and quantitative measurements. However, for this study, the focus is on qualitative measures. The measurement of financial reporting quality in terms of qualitative characteristics is important because qualitative characteristics are those features that make the information in the financial statements useful to users. These features include relevance, faithful representation, understandability, comparability, timeliness, materiality, reliability, substance-over-form, neutrality, prudence, and completeness. For this study, the objective focuses solely on relevance and comparability features.

**Relevance:** Relevance is the potential that information has to make a difference in the decisions taken by users of that information. Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value, or both (IASB, 2010). Reported information, therefore, is useful only if it relates to the issues that are of prime concern to the users. The nature of the intended use of the information, determines the relevance or otherwise of such information, while a piece of information may be useful or relevant to a particular user since he needs it for a particular purpose, the same information may be irrelevant to another user in a different situation. Therefore, to be relevant, accounting information must have predictive value, and provide useful feedback on past decisions. This is measured through the statistical relations between information presented by financial statements and stock market values or returns (Brown et al., 1999). Ijeoma and Oghoghomeh (2014) assert that IPSAS adoption must be value-relevant to users of public sector financial statements such as international agencies, taxpayers, members of parliaments, creditors, suppliers, public sector employees, and financial analysts. The essence of preparing financial statements in line with IPSAS is that public entities must present their financial position and financial performance in such a manner that users of those financial statements can make relevant and timely value-relevant decisions.

**Comparability:** Comparability refers to the quality of information that enables users to identify similarities and differences between two sets of economic phenomena (IASB, 2008). Information in financial statements is comparable when users can identify similarities and differences between that information and information in other reports. Comparability applies to the comparison of financial statements of different entities; and the comparison of the financial statements of the same entity over periods. Muhammad (2008) further states that comparability stresses that accounting information about any institution for a given period should be comparable to that of the previous periods or similar entities so that users can evaluate the relative position of the institution.

IPSAS 1 states that an important implication of the characteristic of comparability is that users need to be informed of the policies employed in the preparation of financial statements, changes to those policies, and the effects of those changes. Because users wish to compare the performance of an entity over time, financial



statements must show corresponding information for preceding periods. In other words, similar situations should be presented the same, while different situations should be presented differently. Cole, Branson, and Breesch (2007), argued that uniformity is an indicator of comparability. However, comparability is not similar to uniformity because if companies pursue uniformity, not only similar things look alike but also different things look alike. Comparability is a quality of accounting information that makes the accounting information of one institution be compared over the years or with information from other institutions. Comparability can only be possible when different institutions use the same accounting principles but uniformity in accounting methods (such as depreciation methods) is not necessary to achieve comparability, though the methods used must be disclosed to help users in deciding whether accounting information is comparable or not (Bushman, Chen & Engel, 2004).

Comparability is facilitated when accounting principles, procedures, and methods are applied consistently by organizations. According to IASB (2008), comparability includes consistency and refers to the use of the same accounting policies and procedures, either from period to period within an entity or in a single period across entities. Comparability of financial reports reflects the need for public sector entities to have a uniform set of financial statements that is comparable to other public sectors of other nations (Okoh & Ohwoyibo (2010). This comparability of financial reports places a greater demand for transparency and accountability on public officers who manage the activities and transactions of public corporations. This may further enhance public-private partnerships.

## METHODOLOGY

Descriptive research technique characteristics make it suitable to examine the impact of IPSAS adoption on financial reporting quality exceptional in public sectors as it offers a deeper knowledge of the studies' query. This approach is adopted as it permits the use of both quantitative and qualitative data which makes the analysis richer. This study also employed a cross-sectional survey design and expo facto research design for data collection where the data are collected at a single point in time. Descriptive research technique characteristics make it suitable to examine the impact of IPSAS adoption on financial reporting quality exceptional in public sectors as it offers a deeper knowledge of the studies' query. This approach is adopted as it permits the use of both quantitative and qualitative data which makes the analysis richer. This study also employed a cross-sectional survey design and expo facto research design for data collection where the data are collected at a single point in time. The study area for this paper is all the Federal Tertiary Institutions in Adamawa, Borno, and Yobe state. These institutions include Modibbo Adama University, Yola; Federal Polytechnic, Mubi; Federal College of Education, Yola; University of Maiduguri<sup>1</sup>; Federal College of Fisheries Freshwater, Baga; Federal Polytechnic Mungono; Federal University Gashua; Federal Polytechnic Damaturu, and Federal College of Education Potiskum<sup>2</sup>.

### Model Specification

The study has three research objectives and hypotheses. Thus, the model specification is made along the objectives and hypotheses of the study.

#### Model One

The first research objective and hypothesis were designed to examine the impact of IPSAS adoption on the financial reporting quality of tertiary institutions in Adamawa, Borno, and Yobe States, Nigeria. For this model, the independent variable is IPSAS adoption and the dependent variable is Financial Reporting Quality (FRQ). The relevant theoretical model is specified as follows:

$$\text{FRQ} = f(\text{IPSAS Adoption}) \dots\dots\dots (1)$$

<sup>1</sup> Borno State has two (2) Federal Universities and one is selected for the purpose of this study.

<sup>2</sup> The population of the study is spread equally among the institutions, fifty (50) staff each from the various bursary departments of the respective institutions. The total population is 450 respondents.

The econometric model is as follows:

$$FRQ_{it} = \beta_0 + \beta_1 IPSASAdoption_{it} + \epsilon_{it} \dots\dots\dots (2)$$

The control variable, educational qualification was introduced in the model, hence, model (2) becomes thus:

$$FRQ_{it} = \beta_0 + \beta_1 IPSASAdoption_{it} + \beta_2 EDL_{it} + \epsilon_{it} \dots\dots\dots (3)$$

**Model Two**

The second model of the study is developed in line with research objective two and hypothesis two which sought to examine the difference in financial reporting quality of federal tertiary institutions before (pre) and after (post) IPSAS adoption. The student-paired t-test

The model is specified thus:

$$t = \frac{\sum d}{\frac{n(\sum d^2 - (\sum d)^2)}{n-1}}$$

$$IPSAS\ adoption = f(RELV + COMP \dots\dots\dots (4)$$

$$IPSAS\ adoption_{it} = \beta_0 + \beta_1 RELV_{it} + \beta_2 COMP_{it} + \epsilon_{it} \dots\dots\dots (5)$$

To determine the difference in pre and post-IPSAS adoption, the relevant models are as follows:

$$Pre-IPSAS\ adoption = f(FRQ) \dots\dots\dots (6)$$

$$Pre-IPSAS\ adoption_{it} = \beta_0 + \beta_1 RELV_{it} + \beta_2 COMP_{it} + \beta_3$$

$$FREP_{it} + \epsilon_{it} \dots\dots\dots (7)$$

$$Post-IPSAS\ adoption = f(FRQ) \dots\dots\dots (8)$$

$$Pre-IPSAS\ adoption = f(RELV + COMP \dots\dots\dots (9)$$

$$Pre-IPSAS\ adoption_{it} = \beta_0 + \beta_1 RELV_{it} + \beta_2 COMP_{it} + \beta_3$$

$$FREP_{it} + \epsilon_{it} \dots\dots\dots (10)$$

Where:

FRQ = Financial Reporting Quality

RELV = Relevance of financial report

COMP = Comparability of financial report

$\epsilon_{it}$  = Error term

## RESULTS

### Descriptive Statistics

Variables	Obs	Mean	Std. Dev.	Min	Max	Skew.	Kurt.
RELV	72	0.376	0.328	0	1	0.578	2.113
COMP	72	0.546	0.308	0	1	0.276	1.734

Source: Researcher’s computation, 2024

The values for each observation on each variable were arrived at after taking the weighted average of the score for each variable based on a dichotomous value of 1 when an item was disclosed, otherwise 0. The first variable, RELV (relevance), returned a mean value of 0.376 with a standard deviation of 0.328. The low standard predicts that the data distribution was around the mean value. The skewness value of 0.578 further suggests that the data were clustered around the mean and the kurtosis value of 2.113 predicts that the dataset has a lighter tail relative to normal distribution. This means that data was generated from a normally distributed dataset. Comparability of financial statements (COMP) was another variable representing the qualitative measure of financial reporting quality in the study. The mean value for COMP revealed a value of 0.546 with an attributed standard deviation of 0.308. The minimum value was 0 and the maximum value was 1. The skewness of 0.276 and the kurtosis of 1.734 suggest that the dataset was clustered around the mean value, which was normally distributed with a tail.

### IPSAS and Financial Reporting Quality

The first model of the study was developed to test the impact of IPSAS adoption on the financial reporting quality of federal tertiary institutions in Adamawa, Borno, and Yobe States, Nigeria. This model introduced educational qualification as a controlled variable.

### Regression Results

Variables	Coef.	t-statistic	p-value
IPSAS	0.232	2.60	0.010
EDQ	0.041	2.84	0.005
R <sup>2</sup>	0.135		
F-Statistics	8.278		
Pro>F	0.000		

Source: Researcher’s Computation (2024)

The table above shows an R<sup>2</sup> value of 0.135, signifying that about 13.5% systematic variation in financial reporting quality of federal tertiary institutions is explained by IPSAS adoption and the control variable of educational qualification of preparers of financial statements in the sampled institutions. The R<sup>2</sup> of 13.5% also means that about 87.5% change in financial reporting quality is accounted for by other factors besides IPSAS adoption. However, the F- statistics of 8.278 is associated with a p-value of 0.000 which is significant at the 0.05 level of significance and serves as a basis to conclude that the model is fit and the result is reliable.

The table above indicates that IPSAS adoption has a positive coefficient of 0.232, meaning that a unit increase in IPSAS adoption will result in about a 23.2% increase in financial reporting quality, with all other factors held constant. The IPSAS coefficient of 0.232 has a p-value of 0.010 which is less than the 0.05 level of significance and is enough premise concerning hypothesis one of the study that IPSAS adoption has a significant impact on the financial reporting quality of federal tertiary institutions in Adamawa, Borno, and Yobe States, Nigeria.

Concerning the control variable, the table indicates that the Educational Qualification (EDQ) of preparers of financial reports in federal tertiary institutions has a coefficient of 0.041. The coefficient of 0.041 signifies that a unit increase in the educational qualification of preparers results in about a 4.1% increase in financial reporting quality of federal tertiary institutions in Adamawa, Borno, and Yobe States, Nigeria. The p-value of 0.005 is less than the 0.05 level of significance which is instructive that the education qualification of preparers has a positive and significant impact on the financial reporting quality of federal tertiary institutions in Adamawa, Borno, and Yobe States, Nigeria.

### Test of Difference between Financial Reporting Quality before and after IPSAS Adoption

To test the second model of the study which sought to examine the difference in financial reporting quality of federal tertiary institutions before (pre) and after (post) IPSAS adoption, the student t-test was utilized. The table below presents the results.

#### Paired t-Test for Pre and Post-IPSAS Financial Reporting Quality

Variable	Obs	DA	AG	dif	St Err	T value	pvalue
FRD	133	2.2705	29.5489	-27.2782	2.2355	-12.2	0.000

Source: Researcher’s Computation (2024)

The table above shows a mean value of 29.5489 agreement (AG) by the respondents that the financial reporting quality of the tertiary institutions was higher post-IPSAS adoption with a mean of 2.2705 disagreement (DA) that the pre-IPSAS adoption financial reporting quality was higher. The difference in level of agreement and disagreement is -27.2782. The t-value of -12.2 is the ratio of the difference between the mean score for opinions that agreed and those that disagreed with all statements. The p-value of 0.000 is less than the 0.05 level of significance and is the premise to conclude concerning the sub-hypothesis (Ho2) that there is a significant difference in the financial reporting quality of the selected institutions before and after the adoption of IPSAS. In particular, the financial reporting quality post-IPSAS adoption is significantly higher quality than that of pre-IPSAS adoption.

The results present an overall picture of financial reporting quality before and after IPSAS adoption. However, financial reporting quality was measured using the qualitative characteristics of relevance, and comparability. To further understand the nature of financial reporting quality along these specific characteristics, a t-test was conducted for each of the qualitative characteristics.

#### Paired t-Test for Pre and Post-IPSAS Qualitative Characteristics

	Obs	Pre-IPSAS	Post-IPSAS	dif	St_Err	t_value	p_value
RELV	36	0.231	0.522	-0.292	0.054	-5.4	0.000
COMP	36	0.408	0.683	-0.275	0.062	-4.45	0.000

Source: Researcher’s Computation (2024)

### IPSAS Adoption and Relevance of Financial Statements

In the first sub-hypothesis, two tests were performed to determine the difference (if any) between the index score for financial reporting quality of relevance before and after the implementation of IPSAS. The table shows that the financial reporting qualitative characteristic quality of relevance has a mean value of 0.522 post-IPSAS adoption. The pre-IPSAS adoption mean value of relevance of financial reporting quality is 0.231. The difference in the pre and post-IPSAS relevance of financial reporting quality is -0.292. The t-value of -5.4 is the ratio of the difference between the mean score. Based on the higher post-IPSAS mean relevance value of 0.522 and p-value of 0.000 which is less than the 0.05 level of significance, it can be concluded concerning the sub-hypothesis [Ho2 (a)] that

there is a significant difference in the relevance of the financial reporting quality of the selected federal tertiary institutions in Adamawa, Borno, and Yobe States, Nigeria after the adoption of IPSAS.

### **IPSAS Adoption and Comparability of Financial Statements**

The second sub-hypothesis two tests the difference in the comparability of the financial reporting quality of tertiary institutions in northeastern Nigeria pre and post-IPSAS adoption. The financial reporting qualitative characteristic quality of comparability has a mean value of 0.683 post-IPSAS adoption. The pre-IPSAS adoption mean value of relevance of financial reporting quality is 0.408. The difference in the pre and post-IPSAS relevance of financial reporting quality is -0.275. The t-value of -4.45 is the ratio of the difference between the mean score. Based on the higher post-IPSAS comparability mean value of 0.683 and p-value of 0.000 which is less than the 0.05 level of significance, it can be concluded concerning the sub-hypothesis [Ho<sub>2</sub> (b)] that there is a significant difference in the comparability of the financial reporting quality of the selected federal tertiary institutions in North East Nigeria after the adoption of IPSAS. In other words, the adoption of IPSAS has significantly improved the comparability of financial reports in federal tertiary institutions in Adamawa, Borno, and Yobe States, Nigeria.

### **CONCLUSION**

The study concludes generally that IPSAS adoption has significantly improved the financial reporting quality of federal tertiary institutions in Adamawa, Borno, and Yobe States, Nigeria. These results suggest that financial reports are more comprehensive and integrated as a result of the adoption of IPSAS. Specifically, IPSAS adoption has a significant impact on the financial reporting quality of federal tertiary institutions in North East Adamawa, Borno, and Yobe States, Nigeria. There is a significant difference in the financial reporting quality of federal tertiary institutions in Adamawa, Borno, and Yobe States, Nigeria after the adoption of IPSAS. Finally, the study recommends that to sustain the impact of IPSAS on financial reporting quality, the Office of the Accountant General of the Federation should intensify IPSAS compliance monitoring of federal tertiary institutions and define sanctions as well as see to the implementation of erring institutions. There should be efforts to identify gaps in the financial reporting of federal tertiary institutions in the IPSAS era by the office of the Accountant General of the Federation with regular seminars and workshops organized for preparers of financial statements to improve the financial reporting quality of these institutions.

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