

IMPLEMENTATION OF ACCRUAL BASED IPSAS IN NIGERIA: ISSUES, CHALLENGES AND WAY FORWARD

BY

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Abstract

The Federal Government of Nigeria adopted the International Public Sector Accounting Standards in 2016. Prior to its adoption so much underground activities have gone on in order to ensure a smooth transition from the old method to the new method. This study was commissioned to evaluate the adequacy of the facilities put in place. In order to achieve this, a set of questionnaires was designed and administered on selected staff of ministries, departments and agencies of government in order to obtain their views regarding availability of required facilities. The analysis of responses indicates that the facilities are adequate in some areas while lacking in others. The study recommended amongst others that government should continue to train operators as well set feedback machineries in motion in order to track areas that are not complying.

Key Words: Public Sector, International Public Sector Accounting Standard (IPSAS), Budgets, General Purpose Financial Statements (GPFS).

INTRODUCTION

The public sector financial system in Nigeria has witnessed fundamental changes in the last decade. This changes are necessary in order to align the government financial sector in line with the global best practices. Aside from that, the globalization challenges has imposed on the Federal Government of Nigeria the responsibility of repositioning its financial sector to be at par with what is obtainable in other jurisdictions across the world.

Some of the notable changes include changes in financial management which led to the introduction of Government Integrated Financial Information System (GIFMIS), the E-Payment system, the Treasury Single Account (TSA) and the introduction of the International Public Sector Accounting Standards (IPSAS). These are aside from the treasury circulars which are issued periodically as the need arises. The introduction of these far reaching reforms came as a result of the shortcomings of the earlier systems inherited from our colonial masters. Sadly, those who introduced us to these systems have far abandoned them and moved forward to a more robust and flexibles financial system.

The impetus for these changes came from similar reforms in the private sector. Basically the private sector financial reporting have witnessed monumental changes which culminated in the emergence of International Financial Reporting Standards (IFRS) which overtook all other previously existing standards across jurisdictions in the world. The IFRS represents a single set of high quality, globally accepted accounting standards that can enhance comparability of financial reporting across the globe (Alade and Aderin, 2014). The main thrust of IFRS is to harmonize the financial reports of firms to be line with what is obtainable globally and thus enabling comparison across jurisdictions and at the same time enable users to have a clearer view of the performances of firms so that those who rely financial report for decision making would not be disadvantaged. This will enable investors all over the world to be free to invest across boundaries.

It was in this same direction that IPSAS was birthed. IPSASs are accounting standards for application by national governments, regional governments, local governments and related governmental entities (FAAC, 2015). In Nigeria, the starting point for the introduction of IPSAS in public sector reporting came when it was adopted in 2013. The roadmap to adoption started when in 2010 the Federal Executive Council adopted the provision of IFRS and IPSAS for private and public sectors respectively. To this end, the Federation and Account Allocation Committee (FAAC) set up a Technical Committee to provide a roadmap for its implementation across the three tiers of government in Nigeria. The Federal Government of Nigeria started the adoption of IPSAS in reporting of its activities from January 2016

in the Ministries, departments and agencies (MDAs). However, the implementations across the state and local governments is still doubtful. This is in view of the fact that some states have adopted fully, some have adopted partially while others are yet to adopt.

The need for adoption of IPSAS stems from the fact that it promotes the comparability of financial reports with that of other countries. This is with a view to strengthening domestic and international confidence in Nigeria's public sector management for probity, accountability and transparency. According to Adejola (2014), the absence of a common set of accounting and financial reporting standards over the years have made it difficult to compare financial information across different entities in the world. Moreover, due to increasing cross border capital flows and increasing foreign direct investment in the globalization era, there was strong arguments in support of harmonization of different practices in accounting and the acceptance of worldwide standards. In view of the fact that donor agencies and countries placed a high demand or condition for Nigerian government to adopt IPSAS gave Nigeria no other option than to immediately put machinery in motion towards implementation.

The critical factor in the implementation of IPSAS is the migration from the old method known as cash and modified-accrual basis to accrual basis method. The cash basis method records economic events according to the movements of cash in which revenues are recorded and accounted for when cash is received and expenditure when cash is paid irrespective of accounting period in which the service is rendered and benefits received. In this case, budget appropriations are made under the assumptions of cash receipts and disbursements. This has been found to be inappropriate due to its inherent weaknesses. The major weakness of cash basis method is that it promotes corruption in government transaction. For instance at the operational level, the cash basis of accounting has been identified as the major cause of the unnecessary operational rush at year end to carry out procurement transactions and process payments. This procedure is aimed at exhausting budgetary allocations or reducing the level of unspent balance which would otherwise lapse at the period end (Oshisami, 1991).

On the other hand, the accrual basis of accounting implies that revenues are recognized when earned or due for collection and costs when resources are consumed or delivered or benefits received notwithstanding that the receipt or payment of cash may take place wholly or partly in another accounting period (Oshisami, 1991). This approach is unique for various reasons some of which include measurement of input in terms of resources consumed to provide the output and therefore enables comparison between budgeted and accrual results.

Going by the fact cash basis of accounting have been used in government financial transactions over time in Nigeria, migrating into the accrual basis is not expected to be without challenges. This is in view of the fact that like any other government policy, the implementation of this policy is bound to face opposition from both the government officials and those who benefited from the bad system. This study therefore is to evaluate the challenges associated with the migration process, how the challenges are resolved, and the way forward.

Statement of the Problem

Nigeria commenced the adoption of IPSAS effectively in 2016. The implications of the above is that the Ministries, Departments and Agencies of Governments prepare their general purpose financial statements (GPFS) using International Public Sector Accounting Standards (IPSAS). The Federal Government have put so much resources both in training of human resources and acquisition of necessary equipments and tools. Consequently there is need to appraise how well the policy has fared more than two years into its implementation. Therefore this study is intended to evaluate the successes or otherwise of the policy vis-à-vis whether the target objectives have been attained.

Research Objectives

The major objectives of this study is to explore the possible challenges in the implementation of IPSAS and consequently proffer solution on the way forward. The recommendations on the way forward is

expected to assist the government in fashioning a sustainable solutions to the challenges of implementing IPSAS in the state.

Research Questions

The basic questions which this study is intended to address are:

- a. What are the critical factors to consider in the implementation of IPSAS?
- b. What are the likely challenges that have hindered the smooth implementation of cash basis accounting under IPSAS?
- c. What are the likely remedies to those challenges?

LITERATURE REVIEW

FRAMEWORK OF GOVERNMENT ACCOUNTING IN NIGERIA.

The major responsibilities of government globally is the provision of welfare to its citizens. Government accounting is structured to reflect the kind of activities which government renders towards its citizens. In this context, the reporting format of government financial activities is different from that of the private sector. While the motive of private sector is to make profit, government motive is to provide welfare for its citizens. Consequently, Oshisami (1991) defines government accounting as the process of recording, analyzing, classifying, summarizing, communicating and interpreting financial information about government in aggregate and in detail, reflecting all transactions involving the receipt, transfer and disposition of government funds and property. The purposes are to demonstrate the propriety of transactions and their conformity with established rules, to give evidence of accountability for stewardship of government resources and to provide useful information for the good control and efficient management of government operations. In line with the above, government accounting is concerned with the provision of information about the stewardship to the citizens.

The framework for government accounting encompasses the structures that facilitate the smooth implementation of accounting functions. The legal framework for government accounting is made up of laws, rules, regulations, customs and accepted forms of culture. On the other hand, government accounting thrives on systematic procedures anchored on bureaucratic processes. Thus the totality of government accounting is centered on the application of available machineries in providing information about the activities of government. This accounting reports form the medium of informing the taxpayers and other interested parties on how much taxes government extracted from taxpayers and how these have been applied and for what. Various laws that facilitate the practice of accounting functions in government include the Finance (Control and Management) Acts 1958, Audit Act of 1956, Financial Regulations, Treasury and Finance circulars and the Appropriation Acts. Each of these regulations set the mode of operations as well as the methods of reporting activities of government. The Company and Allied Matters Act of 1990 as amended in 2007 is also another law regulating the practice of accounting profession in Nigeria. In as much as government financial report do not directly draws from CAMA '90, it serves as a reference point for the purpose of comparison.

Another important framework for government accounting is the existence of 'Fund Accounting'. Most government activities are carried out through fund accounting. Fund has been defined by National Committee on Governmental Accounting (USA) as

'an independent fiscal and accounting entity with self-balancing set of accounts recording cash and or other resources together with related liabilities, obligations, reserves and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations'.

Funds can be classified into Government funds which is used to account for resources derived from general taxing and revenue powers of government; proprietary funds which is used to account for resources used and (if applicable) accretions thereto from business operations of government; and fiduciary funds which is used to account for resources held and managed by the government in the capacity of custodian or trustee.

One other important framework is the existence of financial control. Financial control is the process which assures that financial resources are obtained economically and used efficiently and effectively in the accomplishment of desired goals. Financial controls are put in place to ensure that the system

operates properly without deviations. Various controls include budgetary controls, expenditure controls, cash controls and funds control.

These structures were put in place to facilitate the smooth capturing and reporting of government activities to the citizens as well the international community who relate with the country in one way or the other.

Concept of IPSAS

International Public Sector Accounting Standards (IPSAS) are sets of standards designed to be adopted in the reporting of financial activities of government. IPSASs are designed to be adopted across Ministries, Departments and Agencies (MDAs) of government except Government Business Enterprises. The major objective of IPSAS is to improve the quality of general purpose reporting by public sector entities, leading to better informed assessment of the resource allocation decisions made by governments, thereby increasing transparency and accountability (Okowli, 2014). Thus according to Labode (2014) IPSAS are tailored for the public sector and its use is considered best practice for public sector entities.

The International Public Sector Accounting Standards are issued by International Public Sector Accounting Standards Board (IPSASB). The IPSASB is vested with the responsibilities of issuing public sector accounting standards, promote their acceptance and the international convergence of the standards, as well as publications of other documents which provide guidance on issues and experiences on financial reporting in the public sector. So far more than forty five standards have been issued to date. Each of the issued standards follow the general pattern of:

- Introduction;
- Objective (of the specific standard);
- Scope;
- Definitions;
- Accounting policies (the main part of IPSAS);
- Transitional provisions;
- Effective date of commencing implementation;
- Appendices (implementation/application/guidelines);
- Basis of conclusions; and
- Comparison with corresponding IAS (if any).

The major driving force behind the hurry to adopt IPSAS in Nigeria stems from the fact that Nigeria is a part of global community that receives resources from other countries and also give out resources to other countries. Consequently, in order to speak in the same language in financial reporting across borders, there was need for Nigeria to join the rest of the world in adopting IPSAS. The challenge of globalization became very conspicuous as it became difficult for countries to access funds and capital without adopting the harmonized accounting standards (Toluyemi and Feyisetan, 2016).

The reporting entities in Nigeria required to adopt IPSAS are Ministries, Departments and Agencies (MDAs) for both the Federal and 36 states and Federal Capital Territory in Nigeria as well as all the Local Government Areas in Nigeria.

Benefits of Adopting Accrual Based IPSAS

The benefits of adopting accrual based IPSAS cannot be overstated. The countries that have adopted IPSAS have the chance of attracting trans-border investments. The country could easily enjoy international funding from donor agencies across the world. This is necessitated by the fact international community would have confidence on the financial report emanating from such countries. The donor agencies or countries are concerned that their donations are properly utilized and accounted for.

With regard to the quality of financial report, the followings are benefits derivable from the implementation of accrual based IPSAS.

- a. The financial decisions of government are not seen merely from the point of view of cash inflow or outflow but also from their impact on the asset and liability position of government, future funding requirements and assets thereby enabling their timely maintenance and replacement;

- b. It helps in the assessment of financial performance as the financial statements will reflect all expenses whether paid or not and all incomes whether received or not;
- c. It gives information on whether income streams are adequate to meet short and long term liabilities;
- d. It provides comprehensive information on expenses which helps in knowing the cost consequences of policies and enables comparison with alternative policies;
- e. It shows the liquidity position and comprehensive information on financial position, for instance, assets and liabilities of government can be better assessed.
- f. Comparison with other countries that have implemented IPSAS as well as private sector is made possible.

The International Public Sector Accounting Standards (IPSAS) are adopted in the preparation of General Purpose Financial Statements (GPFS). General purpose financial statements are financial statements that are issued for users that are unable to demand financial information to meet their specific needs. These categories of users include citizens, voters and their representatives as well as other members of the public. The main financial statements prepared by reporting entities include:

- Statement of financial position;
- Statement of financial performance;
- Cash flow statement;
- Statement of changes in net assets/equity;
- Statement of comparison of budget with actual amounts (this is applicable when entities makes publicly available its approved budget); and
- Notes to the accounts.

Challenges of IPSAS Implementation

The adoption of International Public Sector Accounting Standards in Nigeria was abrupt as there was no time to plan and phase its adoption and implementation. Consequently, the adoption of IPSAS has been overshadowed with so many challenges.

One of the challenges associated with the implementation of IPSAS came from the attitude of personnel in government. Indeed over the years the attitude of staff towards change have been very worrisome. They believe that change is not possible and consequently they developed negative attitude to any change introduced by government.

The adoption of IPSAS is associated with three categories of cost: the pre-implementation challenges; the actual implementation challenges; and post implementation challenges.

a. *Pre Implementation challenges* – These are costs that are incidental to the commencement of the adoption of IPSAS in Nigeria. They include:

- Training costs – These cost of training the existing staff in the required skills. The staff have to be trained and retrained to acquaint them with the new standards.
- Equipment procurement cost – The implementation of IPSAS is ICT driven. Consequently, new equipment have to be bought or the old ones upgrade.
- Restructuring cost – The office layout or arrangements have to be modified. In some cases new units are created.
- Manpower cost – New personnel with requisite skills have to be sourced to supplement the existing ones.

b. *Actual Implementation challenges* - These are costs that are incurred in the course of actual implementation of IPSAS. The main costs involved here are:

- Power cost – There must be constant power supply to ensure there is no breakdown or interruption of the flow of processes;
- Software or application costs – cost of acquiring application packages.
- Supervision cost.

c. *Post Implementation challenges* – These are cost associated with the monitoring and evaluation of the new policy until it is stabilized.

- Cost associated with identifying and tracking the areas that are not conforming and corrective action,

- Cost of enforcement among reporting entities,
- Cost of training auditors to enable function effectively in the new environment.

IPSAS and Budgets

Another important feature of IPSAS is that it integrates budget preparation as part of it. This implies that the preparation, monitoring and tracking of budget performance and report generation can be achieved through IPSAS. This very important function of government is possible to be undertaken using the IPSAS.

The IPSAS compliant budget is carried out to ensure that the budget of government entity can be seen at a glance, the summary of all segments are highlighted, consolidation of functional budgets to present overall organizational objectives are presented, consolidation of budgets based on programmes and projects of government entity is made possible and most importantly, the comparison of the consolidated actual performance against budgets. These will make it possible for available for funds development to be identified and consequently will assist top management in decision making.

Research Design

This study is exploratory with an intention to identify critical problem areas and how they can be resolved. The study uses primary data obtained from questionnaires administered on relevant staff who are directly involved in the implementation of IPSAS in some selected Ministries, Departments and Agencies. The questions have been designed such that all areas that are expected to assist the researcher in forming opinion have been touched.

One hundred questionnaires were administered on randomly selected desk officers in ministries, departments and agencies. However, only sixty one responses representing sixty one percent were retrieved. The purpose was to ascertain the perception of the implementers of IPSAS standards. The questionnaires were divided into two parts. The first part covers the adequacy of the available facilities to facilitate the smooth implementation of the policy.

Availability of Facilities

This section generates data on the opinion of users of IPSAS on the availability of necessary infrastructural facilities required for the smooth implementation of the programme.

The responses are shown in table 1 below:

Table 1

Areas of focus	Responses	
	Yes	No
Adequate Working Environment	39	22
Ease of Application	60	1
Adequate Training	44	17
Adequate Personnel	46	15
Legal Provisions	51	10
Adequate Infrastructure	40	21
Adequate Internet Facilities	28	33
Adequate Power	32	29
Adequate IPSAS Application kits	42	19

Source: Researcher, 2018.

Analysis of Data.

The data generated from the respondents cover critical areas that are necessary for the implementation of IPSAS in Nigeria. From the responses, 63% agreed that the working environment is conducive for them to effectively carry out their functions. It is assumed here that conducive environment would enhance smooth implementation of the policy. Ninety eight percent of respondents agreed that IPSAS

packages are easy to apply and consequently, it is expected that users of the packages will have no difficulty in applying them.

Another important area is in training in which 72% of respondents agreed that they have been adequately trained. In the same vein 75% consented to the fact there is enough personnel to implement the policy. 84% of respondents agreed that there is enough regulations to guide the usage of the standards. 66% agreed that there is adequate infrastructure while 46% are of the opinion that there is sufficient internet facilities, 52% also stipulate that there is sufficient power facilities and 69% are in agreement that the supporting application kits are available and adequate.

Discussion of Findings

While majority of responses show that the required environment, infrastructure, internet, power and application packages are adequately available, there is still that can be done to make the implementation of IPSAS in Nigeria sustainable. For instance, adequate environment have not been fully created while the internet services in which the implementation of the policy rests is still in an epileptic state. Power supply is not adequate as well as the infrastructural facilities.

Policy Issues and Recommendations

The International Public Sector Accounting Standards (IPSAS) have come to stay in Nigeria. However, government should do everything possible to enable the policy work and appreciated by both preparers of GPFS and users of financial reports. It was indicated in the study that the Federal Government in an attempt to avoid sanctions from international community hurriedly put up mechanism to adopt the standards. This accounts for the inadequate preparation for its adoption and implementation. This also led to the inadequate facilities required for migration from the former method to the current method. Planning for the adoption was haphazard and in its characteristic nature the government is now working backward to cover up for its shortcomings. It is suggested that the government should always adopt proactive measures in the implementation of policies of this nature. It should anticipate and respond to changes in the international arena so as not to be caught unawares.

It is in the light of the above that the following recommendations be made:

- a. There should be continuous training of personnel involved the implementation of the programme.
- b. The adoption and implementation in states and local governments can be done phases to avoid overcrowding. Moreover the success recorded by the federal government can leveraged upon by the states.
- c. Due attention should be given to areas of weaknesses in order to enhance seamless transition.
- d. Monitoring mechanism should be strengthened with emphasis on correction of errors and strengthening of the system.

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