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International Public Sector Accounting Standards and Financial Reporting in Nigeria: Answers to Implementation Questions

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Abstract: *In an attempt to put in place a practice that is considered new, certain questions will constantly emerge in a bid to getting it right. This is due largely to complications that may result from transitioning to the new practice, using literature, this paper discovered that albeit with varying degrees of gaps, the government sector stands to face a lot of challenges due to incapacity i=on the part of its work force hence the need to develop an accounting manual which will integrate the basic requirement and treatment of some key transactions in line with the IPSAS. Countries such as Switzerland, New Zealand, and South Africa have already made it and taping experience and lessons from these countries will be of help to Nigeria to fast track the adoption process of IPSAS*

Keywords: *Accrual system, Financial statements, Implementation, IPSAS, and Reporting system*

I. Introduction

Over the last decade, a series of international corporate reporting standards and codes have been developed. Most IPSAS can therefore be set by making modest changes to the standards promulgated by the International [Business] Accounting Standards Board (IASB). Additionally, the IPSAS Board would establish standards for transactions and events unique to the public sector.

Consolidated financial statements cover a primary organization and its subsidiaries in which the primary organization has a majority ownership interest. The accrual basis used by business firms regards sale (not production) of goods and services as the criterion for judging financial performance.

For the public sector, independence can be achieved or at least enhanced by giving the task to a private-sector body, an advisory board, or increase the number of public (non-government) members.

Furthermore, adequate opportunities are provided for interested parties to provide inputs before standards are finalized (Achua, 2009).

The board issued one comprehensive cash basis standard, presumably for countries, such as many developing countries, that are not ready to adopt the accrual basis. All the other IPSAS adhere to the accrual basis.

The ongoing sovereign debt crisis in several countries around the world has demonstrated the challenges of maintaining financial stability for these governments. Many governments are exploring the adoption of accrual-based accounting frameworks in order to improve their decision-making ability to prevent and respond to these issues. International Public Sector Accountancy Standards (IPSAS) is considered the definitive set of accrual-based international accounting standards for the public sector. There is a close relationship between IPSAS and International Financial Reporting Standards (IFRS) due to the fact that IPSAS standards are largely based on the principles of IFRS. The rationale for drawing from IFRS is to ensure greater comparability between private and public sector reporting when accounting for similar types of transactions. However, IFRSs are developed primarily for profit-oriented entities, whereas IPSASs are written for public sector entities that provide services to enhance and maintain the well-being of the citizens of a state.

Many of the assets and liabilities of entities within the public sector are acquired or incurred as a result of the entity's service delivery mandate, for example, heritage assets and parks maintained for public access. IPSAS introduces the concept of service potential into the definition of assets, liabilities, revenue and expenses. Service potential is also a supplementary recognition criterion to account for items that do not result in the inflow or outflow of economic benefits, where an item either contributes to or detract from the entity's ability to deliver its services.

Non-exchange transactions are those transactions where an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange. Within the public sector non-exchange transactions are prevalent. IPSAS provides principles to guide the measurement and recognition of non-exchange transactions, whereas IFRS is generally silent on the matter.

IPSAS focuses on whether there is entitlement to the revenue from government grants (even though there may be restrictions on how the funds are spent), or an obligation to meet certain conditions, which is recorded as liability. The distinction between restrictions and conditions is crucial in determining whether or not to recognize revenue from a non-exchange transaction. As a result, government grants are generally fully released to income earlier under IPSAS than under IFRS.

IPSAS presumes that entities that operate within the public sector are generally exempt from income taxes and therefore does not cater for the accounting of income taxes. In the unlikely event that an entity reports using IPSAS but is liable for tax, reference should be made to IFRS (IAS 12 *Income Taxes*) for guidance.

II. Consolidations and Interests in Associates and Joint Ventures

With the introduction of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosures of Interests in Other Entities*, there are significant differences between IFRS and IPSAS. IPSAS is still based on IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates* and IAS 31 *Interest in Joint Ventures*. The main difference that arises with the introduction of IFRS 10, IFRS 11 and IFRS 12 is the manner in which control is determined for the purpose of consolidation. Until the IPSASB finalizes its project to consider these new developments in IFRS, this could become a major source of difference between the two frameworks.

They believe it will help investors understand opportunities better. Large public companies with subsidiaries in multiple jurisdictions would be able to use one accounting language company-wide and present their financial statements in the same language as their competitors.

Recent SEC actions and global trends have increased awareness of the need to address possible adoption (Olakunori, 2008).

All public entities and NGOs other than government business enterprise qualify as a public entity to use International Public Sector Accounting Standards (IPSAS) issued by International Federation of Accountant's International Public Sector Accounting Standards Board (IPSASB).

Government Business Enterprise means an entity that has all the following characteristics:

a) An entity with the power to contract in its own name;
b) Has been assigned the financial and operational authority to carry on a business;
c) Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;
d) Not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and
e) Controlled by a public sector entity (Hayfron, 2013).

Many recipients of external assistance therefore maintain their accounts on the cash basis of accounting and the development of a cash basis standard was therefore a step in the right direction. Accrual accounting focuses on revenue, cost, assets, liabilities and equity – instead of cash flows only. The capitalization of assets, such as computers and machines, makes it possible to calculate depreciations and account for them in each period during which the machine is used. Most of the IPSAS are based on accrual basis which is in line with IFRS (Achua, 2009).

Accounting manuals need to be rewritten; manuals must incorporate IPSAS terminologies and also conform to local requirement. The Controller and Accountant General Department is drafting an accounting manual to assist the public sector which is likely to set the stage for the gradual and smooth take off of IPSAS in Ghana. Education and training will also constitute a substantial amount of government outlay as the nation prepares to adopt IPSAS.

Most of the Public sector and government agencies lack the necessary personnel to adequately carry out the changes in IPSAS as opposed to the financial reporting framework currently existing in the Public Sector.

The use of common language to bring uniformity across cultures and governments in the Public sector is also very key. Some terminologies' used in the IPSAS may not apply to the country or Governments financial reporting system due to some uniqueness in its financial operations.

Some organizations including central admin, regions and a large number of other public sector bodies still use traditional modified cash based accounting even if cost and management accounting is compulsory.

Not all government systems and administrative machinery will support IPSAS. Currently most of the Government agencies and departments have the Budget and Performance Monitoring Software (BEPEM) which is yet to be put to full use.

Other challenges are

- ✓ The IPSASs concept needs to be embraced by stakeholders such as Parliament, National Audit Office, Treasury, Government departments, Development Partners as well as Non – Governmental Organizations (NGOs).
- ✓ It is essential to have a legislative backing for the adoption of IPSASs among the public sector entities
- ✓ There are varying levels of national regulations relating to auditors and preparers of financial statements, as well as a history of developing ethics codes to meet local requirements.
- ✓ There are cost to be incurred in the implementations of IPSASs. Statutory bodies responsible for enforcing accounting regulations require funding to roll out implementation of IPSAS. These costs include research, training, technology and consultancy costs.
- ✓ There is call for political goodwill in the implementation of better accountability in the Public Sector due to divergent views on accountability (Paul, 2014).

Key decision makers including the presidency, cabinet, parliamentary select committee on finance need to support such an agenda.

The Institute of Chartered Accountant (ICA) is the main body mandated to ensure the applicability of IPSAS. The ICA needs to be supported by all in discharging such challenging task. The experience and challenges encountered during the adoption of IFRS will be of immense benefit to ensure the successful and smooth adoption of the standards. Bodies such as the Security and Exchange Commission in Ghana (SEC) should be up to its feet in the campaign aimed at ensuring that Government agencies are applying the rules on submission and compliance as required.

Financial Instruments Classification and Measurement

With the introduction and ongoing development of IFRS 9 *Financial Instruments*, the classification and measurement of financial instruments under IFRS is changing from IAS 39. Prior to IFRS 9, the recognition and measurement of financial instruments were similar under IFRS and IPSAS. Until the IPSASB finalizes its project to consider these new developments in IFRS, this could become a major source of difference between the two frameworks.

With the increased focus on stewardship, service delivery and budget management in the public sector, IPSAS requires a comparison of the actual financial performance of an entity with the approved budget of that entity, where the budget is publicly available. There is no equivalent requirement in IFRS.

In light of the assets recognized based purely on their service potential (as opposed to economic benefits), IPSAS also caters specifically for impairment considerations for non-cash-generating assets. IFRS assumes that all assets will be cash-generating; whereas IPSAS assumes that the majority of a public sector entity's assets are likely to be non-cash generating. IPSAS 21 *Impairment of Non-cash-generating Assets* provides specific guidance on how to determine the value-in-use of such assets.

IFRS provides principles for certain economic phenomena that are irrelevant to the operations of a public sector entity, such as accounting for share-based payments and earnings per share disclosures. IPSAS excludes such guidance and refers reporting entities back to IFRS if and when applicable.

Growing Divergence in the Conceptual Framework of the IPSASB and IASB

The IPSASB is in the process of developing its own conceptual framework, proposing concepts that may be more suitable in the public sector context. We may see further differences in the outlook and focus of the IPSASB and IASB in the future (Ernst and Young, 2013).

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III. Conclusion

I. Some Public sector entities have low capacity in financial management and training. There is a need to recruit qualified accountant and intensify training of personnel. This should include sponsoring finance officers or accountants in the government sector in professional accounting qualification such as the Institute of Chartered Accountants, the Association of Certified Chartered Accountant (ACCA) or any recognized accountancy body. There should be a well-structured training program for all the Public sector organizations, NGOs and the donor communities on the key issues and requirements that needs to be addressed before the adoption of the standard. Currently the big four firms like PricewaterhouseCoopers organizes such training programs for clients across the sub region in both IFRS and IPSAS. PricewaterhouseCoopers was involved in the rollout and training of clients in the various industries during the IFRS adoption process.

II. There is a need to develop an accounting manual which will integrate the basic requirement and treatment of some key transactions in line with the IPSAS.

III. Countries such as Switzerland, New Zealand, and South Africa have already made it and taping experience and lessons from these countries will be of help to Nigeria to fast track the adoption process of IPSAS (International Federation of Accountants 2005).

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