

International Public Sector Accounting Standards (IPSAS) Adoption and Governmental Financial Reporting in Nigeria- An Empirical Investigation.

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Abstract: Governments all over the world are seen to be representatives of the people. They are by implication agents of their service recipients/citizens. As agents, they are responsible to the people in the area of rendering reliable, transparent, timely and accurate stewardship through financial reporting. Nigeria, in order to ensure more accountability, reliability and transparency recently adopted the International Public Sector Accounting Standards (IPSAS) as the basis of government reporting. This study examined the effects on IPSAS adoption of government reporting in Nigeria. Primary data were sourced amongst accountants and auditors of government ministries, departments and agencies within the Rivers State Civil Service. The data were presented using tables and charts. They were further analyzed using simple percentages. The study revealed that IPSAS adoption will result in financial transparency/accountability, strengthened internal controls, boosts financial and resource stewardship and increased efficiency in decision making and good governance. The researcher therefore supports and recommends the adoption and seamless implementation of accrual based government financial reporting system due to the above attendant benefits derivable from its adoption.

Keywords: Accountability, transparency, cash basis, accrual basis, decision making.

1.0 Introduction

The focus of contemporary financial reporting is the information need of those who use accounting information to make decisions, government and the public inclusive. The decision makers, both internal and external, rely on the financial reports prepared by the accountant to examine the financial position, financial performance and the changes that have taken place in the financial position and performance over time. This forms the basis of their decision making as it affects the future.

The primary function of governments the world

over is to provide services that will enhance the wellbeing of her citizens and other eligible residents. Such services include security, welfare programmes, public education, and provision of infrastructures/amenities for the good of all resident under its territorial jurisdiction. To accomplish the above, governments and other public sector entities raise resources from its citizens and residents in the form of taxes, borrowings from internal and external sources, etc. Government in turn are accountable for the management and accountability of resources to

those persons that provide them with such resources, and those that depend on them to use those resources to deliver necessary services. Hence those that provide the resources and receive, or expect to receive, the services also require information as inputs for decision making purposes. “The discharge of accountability functions or obligations requires the provision of information about the entity’s management of the resources entrusted to it for the delivery of services to the constituents and others, and its compliance with legislation, regulation, or other authority that governs its service delivery and operations. Given the way in which the services provided by public sector entities or government are funded (primarily by taxation revenues or other non-exchange transactions) the discharge of accountability obligations will also require the provision of information about such matters as the entity’s service delivery achievements during the reporting period, and its capacity to continue to provide services in the future periods” (IFAC 2013).

Service recipients or the citizens will require information provided in General Purpose Financial Reports to make decisions. For instance recipients and resource providers will need information from government financial reports that supports the assessments of such matters as: 1. the performance of the government during the reporting period; 2. the liquidity (the ability to meet current obligations) and solvency of the entity; 3. The sustainability of the entity’s service delivery and other operations over the long term, and changes therein as a result of the activities of the entity during the reporting period; and 4. The capacity of the government or entity to adapt to changing circumstances, which are likely to impact on the government and its citizens.

Typically, information about the financial position of a government or other public sector entity will enable users to identify the resources of the entity and claims to those resources at the reporting date. This will provide information useful as input to assessments of such matter as: the extent to which management has discharged its responsibilities for safekeeping and managing the resources of the entity; the extent to which resources are available to support future service delivery activities, and changes during the reporting period in the amount and composition of those resources and claims to those resources; and the amounts and timing of future cash flows necessary to service and repay existing claims to the entity’s resources.

Information about the financial performance of a government or other public sector entity will inform assessments of matter such as whether the entity has acquired resources economically, and used them efficiently and effectively to achieve its service delivery objectives. Information about the costs of service delivery and the amounts and sources of cost recovery during the reporting period will assist users to determine whether operating costs were recovered from, for example, taxes, user charges, contributions and transfers, or were financed by increasing the level of indebtedness of the entity.

Information about the cash flows of a government or other public sector entity contributes to assessment of financial performance and the entity’s liquidity and solvency. It indicates how the entity raised and used cash during the period, including its borrowing and repayment of borrowing and its acquisition and sale of, for example, property, plant, and equipment. It also identifies the cash received from, for example, taxes and investments and the cash transfer made

to, and received from, other governments, government, agencies or international organizations. Information about cash flow can also support assessment of the entity's compliance with spending mandates expressed in cash flow terms, and inform assessments of the likely amount and sources of cash inflows needed in future period to support service delivery objectives.

Information about financial position, financial performance and cash flows are typically presented in financial statements. To assist users to better understand, interpret and place in context the information presented in the financial statements, GPFs may also provide financial and non-financial information that enhances, complements and supplements the financial statements, including information about such matters as the government's or other public sector entity's:

- a) Compliance with approved budgets and other authority governing its operations;
- b) Service delivery activities and achievements during reporting period; and
- c) Expectations regarding service delivery and other activities in future periods, and the long term consequences of decisions made and activities undertaken during the reporting period, including those that may impact expectations about the future.

This information may be presented in the notes to the financial statements or in separate reports included in General Purpose Financial Reports of government entities.

Essentially, "as a result of the global financial crisis and the subsequent debt crisis, governments and other public sector entities around the world are having to cope with substantial pressure due to restricted budgets, significant debt and stagnant economies" (PWC 2013). This has created the need

for governments to improve management of the scarce resources and also report high-quality financial information to their stakeholders, including the citizens and legislatures, international donors, foreign investors and even financial markets. "While sound and transparent public accounting does not in itself guarantee a high quality public financial managements, it is a necessary component. Better accounting leads to better financial reporting, which in turn should lead to better use of public resources" (PWC 2013).

Public sector entities and their stakeholders need to understand the full and long term implications of their decisions on financial position, performance and cash flows. Cash basis of accounting has some lapses in this respect, as it fails to capture information on government assets and liabilities and present a very short term view of public finances in primary financial reports, such as the consolidated Revenue Funds, Other funds, etc. It therefore limited to cash transaction which do not show the amount of debt owed to the government and vice versa as at a particular date.

By the introduction of accrual accounting through the instrumentality of IPSAS, governments are encouraged to demonstrate their desire to achieve greater transparency and accountability, and also produce better information for government decision making process.

As aptly put by PWC (2013) "applying financial reporting standards such as the International Public Sector Accounting Standards (IPSAS) further improves the quality of financial information and facilitates comparison across governments and organizations. The full benefits of IPSAS adoption can be captured as part of a wider finance reform by governments worldwide, serving as a catalyst to provide high-quality financial information thus,

and even more importantly, improving operational and service performance and contribution to the sustainability of public finances". Udu (2013) identified some benefits of IPSAS adoption to include;

(a) Brings about better comparability and consistency in governments financial statements. He maintained that by aligning the Nigerian government accounting and financial policies with accounting best practices through the application of credible, independent accounting standard on a full accrual basis allows the government to report its results in a consistent and comparable basis – not only between governments reporting periods, but also on a comparable basis with other government entities globally. He therefore suggested that by following accounting standards that have been rigorously, reviewed by independent third parties, government's financial statements can be viewed with increased confidence within the local and international community. At the same time the adoption of IPSAS results in improved financial reports, allowing the government to provide more meaningful information to users of its financial statement.

(b) Improved information for good decision making by sector management of government entities. Sound financial information according to him provides sector management of government entities with insights into government's complex operations and can improve decision making when it comes to allocating and reallocating resources among state, local and federal government and competing operational priorities. For example, accrual accounting will provide a clearer picture of governments liabilities such as its debts (internal and external), pension liabilities payable, gratuity due, and amounts owed to contractors, etc. Better

knowledge of liabilities support better management of government's assets and liabilities.

(c) IPSAS provides a clearer picture of how financial resources have been used in a given period. This helps to assess managerial performance and the effectiveness of the use of government resources.

(d) Leads to Increased Transparency and Strong Internal Controls in government entities. IPSAS increases transparency since it requires more financial transactions to be recognized or disclosed either in financial statements (such as inventory, intangible assets, property, plant and equipment, account, payable, accrued staff benefits) or in notes to financial statement.

(e) The strengthening of internal control mechanisms in government establishments has been as integral to the IPSAS project since IPSAS forces certain additional operational and financial controls are on to government to ensure that new accounting requirements are met. A strong and functioning system of internal control also ensures enhanced programme delivery and the attainment of government s objectives.

(f) IPSAS additionally enhances the role and profile of financial management in general and the finance function in particular leading to improved performance, enhanced accountability and decision making.

(g) Enhances Annual audits and Financial Reporting. Under IPSAS government auditors (external) report on the audit of financial statements examined by them to the National Assembly accountability of government and permit more timely assessment of financial reporting.

(h) Boosts Financial and Resource Stewardship and Accountability. IPSAS require a complete and documented account for its assets, liabilities,

revenue and expenses in its financial statement leading to enhanced financial and resource stewardship.

Still on the possible benefits of IPSAS adoption by countries Mariano D'Amore (2015) in his presentation posited that IPSASs enable a more comprehensive and accurate portrait of the financial position and performance, and the impact and sustainability of public policies, they provide a better basis for decision-making at different levels of governments and provide robust support to public financial management. In particular, because the IPSASs give a full vision of the resources of an entity and its obligations, they make it possible to manage them in a more informed way. Also, service management can be based on a fair view of the costs incurred, of the sources to recover them and whether the entity has acquired resources economically and used them efficiently in the delivery of services. Let me just say ...you can only manage what you know...

He maintained that most monitoring authorities for financial stability currently base their decisions on outcomes provided by government finance statistics. IPSASs, according to him, are not meant to provide the same information or to serve the same needs as statistical accounting systems. Nevertheless, government finance statistics (GFS) are based on an accrual approach and build upon financial accounting data produced at single entity level. As the application of IPSASs improves the quality of basic accounting data, it results in greater reliability of the figures provided for the general government sector by GFS and allows the reconciliations between statistics and accounting.

In the wake of the sovereign debts crisis, there is a greater awareness of the importance of better

information concerning public sector borrowers for the assessment of sovereign risk by financial markets. In this context, IPSASs have been addressed by some international financial institutions as a main tool for improving fiscal transparency of governments. There is also increasing evidence – and a growing body of empirical research showing that enhanced fiscal transparency is associated with better sovereign credit ratings for both advanced and developing economies. This naturally, results in a reduction in the cost of government debt. This, in the long term, can be expected to positively impact on governments' finances. He concluded by saying that definitely, applying IPSASs improves decision-making in the public sector facilitates holding governments accountable and enhances fiscal stability and sustainability. Overall, greater transparency and transparency and accountability stands out as the greatest benefit of of adopting IPSAS or equivalent standards, as it provides a basis for comparing governments with one another and making comparisons across individual government units.

Realizing the perceived immense benefits attributable to the speaking of one common accounting language amongst all government entities, and the inherent deficiencies of the cash based accounting system, The Federal Executive Council (FEC) at its meeting of 28th July, 2010 approved that the country should adopt the provisions of the International Financial Reporting Standards (IFRS) and IPSAS for private and Public Sectors respectively. To positively implement the decision of FEC, the Federation Account Allocation committee (FAAC) at its meeting held on 13th June, 2011 set up a Technical Sub-Committee to provide a Roadmap for the

implementation of IPSAS in the three tiers of government in Nigeria.

International Public Sector Accounting Standards (IPSAS) are a set of accounting standards issued by the IPSAS Board for use by public sector entities around the world in the preparation of financial statements. The standards are issued by the International Public Sector Accounting Standard Board (IPSASB), an independent standard setting board supported by the International Federation of Accountants (IFAC). The IPSASB issues IPSAS, guidance, and other resource for the use by the public sector around the world. The IPSASB (and its predecessor, the IFAC public sector committee) has been developing and issuing accounting standards for the public sector since 1997. The IPSAS are intended to be applied in the preparations of general purpose financial reports that are intended to meet the needs of users who cannot otherwise command report to meet their specific information needs aimed at improving the quality of general purpose financial reporting by public sector entities, leading to better informed assessments of the resources allocation decisions made by governments, thereby increasing transparency accountability.

1.1 Statement of the Problem

The main objective of financial reporting, irrespective of the entity is the provision of information that is useful to a wide range of users in making and evaluating decisions about the allocation of resources, and to demonstrate the accountability of the entity for the resources entrusted to it. These objectives can only be achieved by applying accrual accounting system. Accrual accounts provide a comprehensive view of a government's assets and liabilities, and its financial performance and cash flows for the period

under review. Accrual accounting standards reflect the long term economic impact of political decisions in the financial statements. Cash accounting simply do not allow this.

Nigerian government having realized the above had adopted the International Public Sector Accounting Standards (IPSAS) at all levels of government-Federal, State and the Local government. Since then, so many questions have been raised by government accounting personnel, parliamentarians, the public and even professional accountants on the workability and the effect of such adoption on government reporting pattern and its activities generally. This study sought to examine the implications of such move by the government of its financial reporting pattern and by extension its decision making efficiency.

1.2 Research Objectives

The objectives of the study was:

- To determine the implications of IPSAS adoption on public sector financial reporting transparency and reliability.
- To know the extent to which adoption of IPSAS will result in increased efficiency in government decision making and good governance
- To find out how the adoption of IPSAS will enhance financial stewardship and accountability among top government functionaries to its citizens.

2.0 Review of Relevant Literature

2.1 Conceptual Framework

Two basis of accounting exist in practice-the cash and accrual basis. In Nigeria, the government reports under the cash basis or method while the accrual basis is usually adopted by private entities. Under the cash method, income is not accounted for until cash is actually received, and expenses are

not accounted for until actually paid. Under the cash basis, revenues and expenses are recognized when payment is made or received. (Adriana and Alexandra 2005). With *cash-basis accounting*, all transactions are recorded in the books when cash actually changes hands, meaning when cash payment is received by the entity or paid out for purchases or other services. With *accrual accounting on the other hand*, all transactions are recorded in the books when they occur, even if no cash changes hands.

Like its counterparts in the private sector, government functionaries are expected to be accountable to the people and other interested parties via financial reports. In fact, government financial reports are used by these stakeholders to examine not only how their common wealth are appropriated but also used to know the financial health and management of public resources. "Financial information should therefore be transparent in order to effectively hold government to accountable for its use of public funds. Financial information should be available to citizens and all relevant stakeholders, who as tax payers and service recipients, hold the government accountable for the use of public resources and seek to evaluate overall financial performance, and performance against policy commitments and specific interest areas."(PWC 2013)

Government accounting refers to a government's financial information systems and financial disclosure practices. (Udeh and Sokpekan 2015). The desire to hold government accountable for results is becoming more prominent, thus making the demand for quantitative and qualitative financial reports imperative (Olomiyete (2014). Consequently, there has been growing desire to abandon the cash basis towards the accrual based

financial reporting basis, as the former is deficient in meeting up the reporting requirements of some stakeholders. Barret (2006) captured the demerits of cash basis of accounting to include:

- The full cost of a programme and departments are not recorded
- There are no records of government non-cash assets and liabilities
- Non-reporting on performance efficiency, cost control, assets and liabilities
- Performance measure is based on budget compliance only.

The Federal Government approved that the country should adopt the provisions of the International Financial Reporting Standards (IFRS) and IPSAS for private and Public Sectors respectively. IPSASs are intended to be high-quality standards which set requirements for high-quality financial information in the interest of users, that is to say financial information that is relevant, faithful, understandable, timely, comparable, verifiable and internationally consistent. Among those characteristics, let me point out that the IPSASs are the only set of international accounting standards designed for the public sector at present.

Applying them means having financial reports prepared on the basis of standards acknowledged at the international level, and thus financial reports that can be understood, analyzed, compared, audited anywhere on the basis of a shared international language.

The aim was to improve the quality of government financial reporting, leading to better informed assessments of the resource allocation decisions made by government, thereby increasing transparency and accountability. Otunla(2015)

encapsulates the advantages of IPSAS adoption by Nigeria in his paper presentation at Annual Conference of ICAN broadly into political benefits and economic benefits. Under political benefits, he identified the benefits thus:

- Accountability increase disclosure in accounting reports;
- Transparency full disclosure of government financial transactions;
- Decision making provide the executive and legislature with bases for their decisions on the allocation of resources;
- Basis for efficient and effective public sector management,
- Improved credibility/integrity: standards independently set and known worldwide;
- International best practice and comparability: IPSAS seeks to ensure that financial statements are comparable across jurisdictions;
- Enables stakeholders to assess how well their resources have been utilized.
- Enhanced implementation of the freedom of information (FOI) Act 2011: the accountability and transparency requirements of IPSAS are consistent with and supports the provision of the Nigeria FOI Act 2011 which seeks to promote access to government information.

On the economic benefits, Otunla summarized that IPSAS adoption promotes:

- Aggregate reporting: Adoption of IPSAS will ensure a holistic reporting of government financial transactions and positions;
- Improvement service delivery: Greater accountability and transparency, will improve value for money (VFM) spending;
- Enhances public-private partnership arrangement: collaborative efforts between the

public and private sectors are deepened due to use of similar standards;

- Comparability: IPSAS and IFRS are similar and this common basis makes for convergence in accounting of both sectors on comparable matters
- Building confidence in donor agencies and lenders: increases the country's access to international aids/loans and other development assistance;
- Increase competitiveness in the global market place
- Increased cross-border investment and foreign direct investment: increases the propensity to generate more cross border and foreign direct investments through greater transparency and a lower cost of capital for potential investors.

2.2 Theoretical Framework.

In accordance with the Agency Theory, governments (executive, judicial and legislature), irrespective of the level, are representatives of the people. They are seen as agents of the citizenry or tax payers, who in turn are their principal. They are by law and as a matter responsibility accountable to the people. They are expected to render stewardship reports in the form of timely, relevant, detailed and reliable financial reports to the people who have either elected or appointed them to represent their interests.

Aside the people, donor agencies also see the government or their agencies as their agents. They owe them financial reports, detailing the how the amounts given to them were utilized.

2.3 Empirical Evidence

Ijeoma and Oghoghomeh (2014) examined the impact of adoption of IPSAS on the level of accountability and transparency in the public sector of Nigeria. From the findings of their study, it was observed that the adoption of IPSAS is expected to

increase the level of accountability and transparency. They further found out that IPSAS adoption will enhance comparability and transparency and international best practices if adopted in Nigeria.

Udeh (2015) in his study titled "adoption of IPSAS and the quality of public sector financial reporting in Nigeria" found out that the adoption of IPSAS would increase the level of reliance on financial reporting of public sector organizations in Nigeria. Their study also concurred with that of Ijeoma and Oghoghomeh (2014) that above that applying IPSAS would make the results of financial reporting of public sector organizations comparable.

Alan and Susan (2007) posited that the adoption of uniform standards will provide a framework that will guide the preparation and presentation of financial statements to ensure that such statements are comprehensive and present the same information to global users.

Johan C (2015) in a study titled "The effect of IPSAS on reforming governmental financial reporting: an international comparison" reveals an important move to accrual accounting, particularly to IPSAS accrual accounting among European Countries.

PWC (2013) in its Global survey on accounting titled "Towards a new era in government accounting and reporting" quoted some notable authorities who have variously supported the idea thus: "accrual budgeting facilitates far better decision making because it brings more discipline to the process and ensures that the full economic impact of political decisions are considered" (Welsh 2013). In his own contribution, Geoffrey Malombe (2013) opined that "donors may use the

financial statements and disclosures therein to take financial decisions on financing certain programmes and projects". In the words of GilvanDantas, the accounting subsecretary, Ministry of Finance, Brazil "with the adoption of accrual accounting standards based on IPSAS, the country will be able to better project its cash flows, evaluate and compare itself with other countries; and lastly quoting Brian Quinn, the Director, World bank;" research has shown that more transparent countries have better credit ratings, better fiscal discipline, and lower borrowing costs".

3.0 Research Methodology

This study focused on all Ministries, Departments and Agencies (MDAs) in the Rivers State Government of Nigeria. The population comprised of Director of Finance and Supplies in selected ministries and parastatals, chartered accountants in public and private service, as well as statutory auditors to some government ministries, departments and agencies/parastatals. A total of 60 questionnaires were distributed. A total of 52 respondents returned the questionnaires. The researcher employed the convenience sampling technique in that regard. A description method of research was used to obtain information concerning the variables in the study. Primary source of data were collected and employed for data generation. The result of data collected were presented and analyzed using tables, percentages and charts, upon which conclusions were made.

4.0 Data Presentation, Analysis and Result

4.1 Response Rate

The categories of respondents included in the research are presented in the Table 1 below

Table 4.1 Response Rate

Questionnaires administered	Questionnaires Received	Percentage (%)
60	52	86.7

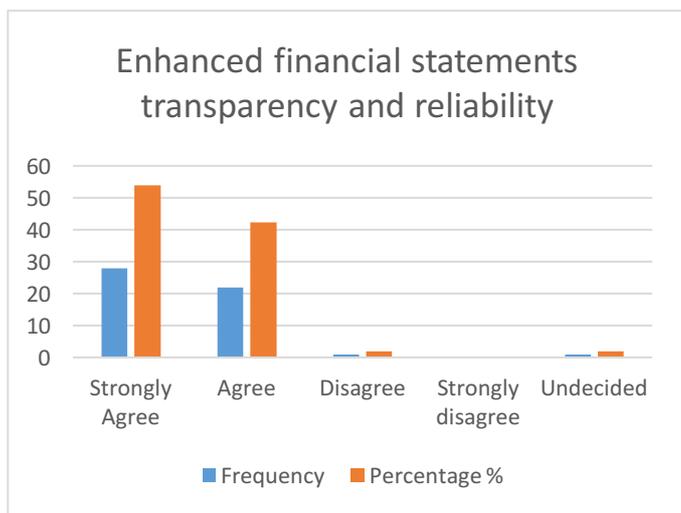
Source: Research Study 2016

From the above, 52 questionnaires were received out of the total of 60 administered. This represents a response rate of 86.7%.

Table 4.2 Enhanced financial statements transparency and reliability

Enhanced financial statements transparency and reliability	Frequency	Percentage %
Strongly Agree	28	53.85
Agree	22	42.31
Disagree	1	1.92
Strongly disagree	0	0
Undecided	1	1.92
	52	100

Source: Research study 2016



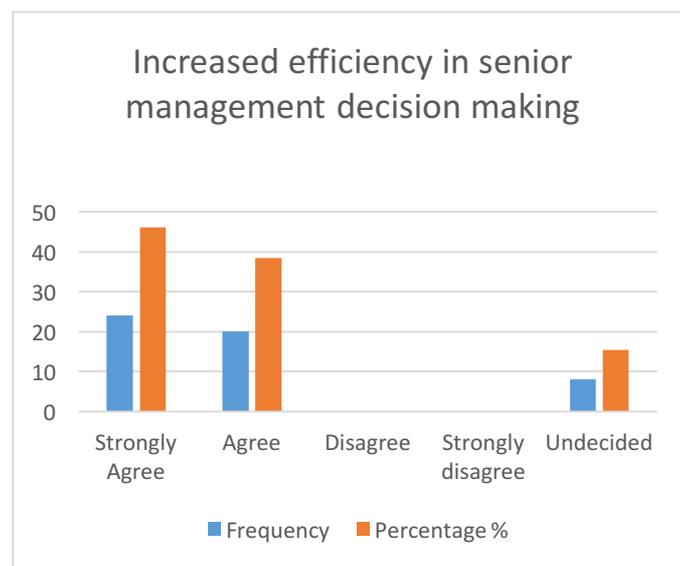
Under this section, the researcher sought to find out from the respondents the effect of IPSAS adoption on financial statements transparency and reliability.

From the findings above, 53.85% strongly agreed while 42.31% of the respondents agreed to the fact that IPSAS adoption will lead to more transparency and reliability on government reporting. As depicted on the chart, it means a total of 96.16% of the respondents concurred to IPSAS adoption.

Table 4.3 Increased efficiency in senior management decision making amongst top government functionaries

Increased efficiency in senior management decision making amongst top government functionaries	Frequency	Percentage %
Strongly Agree	24	46.15
Agree	20	38.47
Disagree	0	0
Strongly disagree	0	0
Undecided	8	15.38
	52	100

Source: Research study 2016



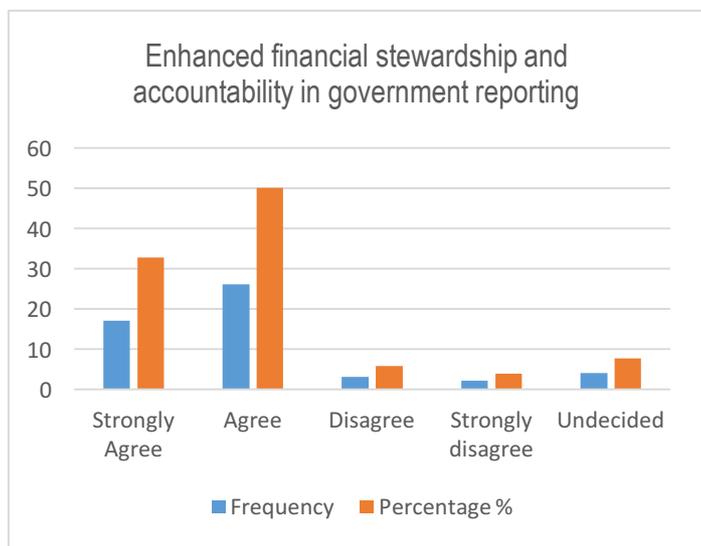
The researcher in this section sought to find out

whether IPSAS adoption will enhance increase efficiency in government decision making. As indicated on the table and chart above, a total of 44 respondents either strongly agreed or agreed representing 84.62%. The breakdown showed that 46.15 % strongly agreed while 38.47% agreed to that fact.

Table 4.4 Enhanced financial stewardship and accountability

Enhanced financial stewardship and accountability	Frequency	Percentage %
Strongly Agree	17	32.68
Agree	26	50.00
Disagree	3	5.77
Strongly disagree	2	3.85
Undecided	4	7.70
	52	100

Source: Research study 2016



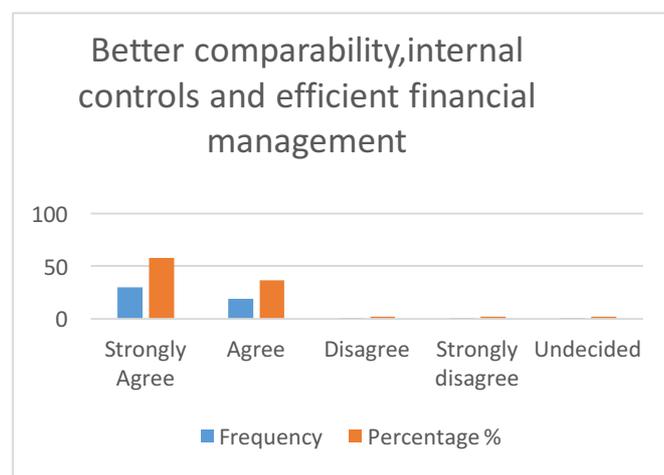
The objective of this section was to find out from the respondents the effect of IPSAS adoption on government financial stewardship and accountability. From the above table, 17

respondents representing 32.68% strongly agreed that IPSAS adoption will enhance financial stewardship and accountability in government reporting while 26 respondents representing 50% also agreed.

4.5 Ensure increased comparability, strong internal controls and better financial management

Ensure increased comparability, strong internal controls and better financial management	Frequency	Percentage %
Strongly Agree	30	57.69
Agree	19	36.55
Disagree	1	1.92
Strongly disagree	1	1.92
Undecided	1	1.92
	52	100

Source: Research study 2016



The objective here was to find out from the respondents whether IPSAS adoption will increase financial comparability, strong internal controls and better financial management in government

financials. From the findings presented in the table and chart above, it is clear that the respondents agreed that IPSAS adoption will ensure comparability, strong internal controls and better financial management. Details showed that while 30 of 52 respondents strongly agreed (representing 57.69%), a total of 19 respondents agreed (representing 36.55%) of the respondents.

5.0 Conclusions and Recommendation

This study examined the implications of IPSAS based financial reporting by public sector entities in Nigeria. From our discussions and findings, it was discovered that the adoption of IPSAS will better government reporting, which will provide information for better decision making, which would in turn better use of public resources by government functionaries. It was observed that the use of cash based accounting was inherently deficient and inadequate for providing needed information by all stakeholders for planning, organising, controlling and decision making by citizens, service recipients, donors and all other interested parties. It was also evidenced from our study that IPSAS would ensure credibility and integrity, which were key to international best practices in financial reporting. This will ensure that financial statements are comparable across jurisdictions, and enable stakeholders to assess how well their resources have been utilized.

From the foregoing, we recommend that the public sector in Nigeria should adopt the International Public Sector Accounting Standards as the basis of financial reporting and immediate transit from the cash basis of accounting. We also recommend that government should ensure more sensitization workshops are carried out for stakeholders, procurement of IPSAS related materials and

training of identified stakeholders, conduct gap analysis of areas and states/local governments where necessary, collaborate with the World Bank and other development partners, issuance of circulars to ensure compliance by public sector entities, provide robust integrated ICT framework for IPSAS adoption and implementation, immediate review of accounting curricula and prompt training of all lecturers in all tertiary institutions to systematically convey IPSAS to students of Accountancy. Finally we recommend the amendment or review of financial regulations, Treasury Manuals and Circulars, Financial instructions of states and Financial Memoranda of Local Governments into one public financial management regulations to ensure uniformity and seamless adoption and implementation nationwide.

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