

THE EFFECT OF INTERNATIONAL PUBLIC ACCOUNTING STANDARDS (IPSASS) ON THE EXPENDITURE OF LOCAL GOVERNMENT AREAS IN NIGEIRA

¹Mamidu A. I. ²Okezie, A. C. ³Marcus, S.N

Accounting Department, Achievers Univeristy, Owo

1. Chartered Institute of Bankers Consultant, Lagos.
2. Department of Economics, Achievers University, Owo

Abstract

It is believed in many quarters that Nigeria is corrupt and that this has led to opaque record keeping and little or no accountability, even at the local government level. This study examined the transparency and accountability of the Nigerian local governments, by x-raying their-revenues and expenditures between 1993 and 2012. The study used both primary and secondary data employing Ordinary least square technique. It was found that both internally generated revenue and grants have a positive relationship with the Nigerian local governments' expenditure. It was found out that IPSASs' implementation committees were not effective at Nigerian local government as at 1st January 2015.(did you get up to 2015 ?) The study concluded that no sustainable development would be achieved in Nigeria if the Nigeria local governments' expenditure continues to increase without a corresponding increase in internally generated revenue, grants and effective accountability and transparency. The study therefore recommended that the expenditure in Nigerian local governments should be reduced while the internally generated revenue and grants should be improved upon. Also, IPSASs implementation committees in Nigerian local governments should be alive to their responsibilities so as to guarantee accountability and transparency in the financial reporting at local governments. What did we actually study – Is it to find if IPSAS, helped in accountability and transparency at the local government level or if the local governments where 'self-funding' (have enough resources generated internally).

Key words: Local government, Revenue, IPSASs implementation, Transparency and Accountability

1.0. Introduction

Nigeria as a nation at least in the last ten years has always been tagged a corrupt nation (Transparency International, 2015). The major world donors were not even comfortable with the pitiable transparency of the financial reporting system of the developing nations (Nigeria inclusive – even though Nigeria is an under developed nation). Many countries in the world have adopted the New Public Management (NPM) initiative so as to improve accountability and financial reporting of the public sector (Shaw, 1999). The NPM has introduced the adoption of unified accounting standards across the borders of nations. The world has become a global village; hence many countries all over the world had adopted International Public Accounting Standards (IPSASs) so as to shift from the traditional cash basis to accrual basis of accounting (Iyika, 2011). The main driver for the adoption of IPSASs is the craving to eliminate waste, inefficiency, overspending, poor transparency, deprived accountability and poor quality of service delivery in the public sector (Shaw, 1999). On 10th July 2010, the Federal Executive of Nigeria approved the adoption of International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSASs) in order to be relevant and usher-in a good foundation for transparent accounting reporting standards. Ngama Yerima (the then Minister of State for Finance) pointed out that introducing IPSASs into the country would ensure accountability and eligibility to access economic assistance from donor agencies (Onwubuarir, 2012).

Government of Nigeria is clamoring in the recent times that Nigeria is broke. Before now, researchers had found out that there had been poor economic and infrastructural development at the local government level. Many researchers have studied revenue generation and its management at the local government level in Nigeria before International Public Sector Accounting Standards (IPSASs) adoption which was meant to bring transparency and international comparability in financial statements. This therefore seeks to identify the accountability and transparency of the local government financial reporting after the introduction of IPSASs in 2014.

The main objective of this study therefore is to critically examine the relationship between Nigerian local government expenditure, internally generated revenue and grants. It also aims at evaluating the effectiveness of IPSASs implementation committee in supervising the financial reporting system in Ondo State local government in 2014 so as to bring transparency and accountability at the Nigerian local governments in order to bring the needed sustainable development.

In order to meet the above stated objectives, the following research questions were raised:

Are Nigerian local governments generating enough revenues to meet their expenditure? How effective are the activities of the IPSASs Implementation Committee in Nigeria local governments? What is the relationship between Nigerian local governments' expenditure and its internally generated revenue and grants.

2.0. Literature Review

This section captured the relevant extant literature for the conceptual, theoretical and empirical literature.

2.1 Concept Framework

In the bid to become more accountable and transparent in her financial reporting Nigerian government adopted IPSASs (Onwubuariri, 2012). Public goods and services are provided for by government through revenue. Taxation has remained the classical function to raise revenue in order to meet government expenditure. Some of these public goods are defence, law and order, education, health services etc. which will bring development to the system (Afuberoh & Okoye, 2014)

Adams (2001) concluded in his study that taxation is the most important source of revenue for modern governments and that it typically accounted for ninety percent or more of government income. Taxation is defined by Aguolu (2004) as an essential levy by the government. The Joint Tax Board (JTB) has clearly spelt out tax jurisdiction for the three tiers of government in Nigeria in order to avoid multiple collections of taxes from the same taxpayer, at least in theory. Local governments' revenue comes majorly from taxes. The taxes are made up of Shops and Kiosks rates, Tenement rates, on and off liquor license fees, Slaughter slab fees, Marriage, Birth and death Registration Fees. Right of Occupancy on land in rural areas, Market Taxes and Levies, Motor Park Levies, Domestic Annual License Fees, Bicycle, Truck, Canoe, Wheelbarrow and Cart Fees, Cattle tax payable by cattle farmers only, Merriment and Road Closure Levy, Radio and Television License Fees (other than radio and television transmitter), Vehicle Radio License (Local Government Registration of the vehicle), Wrong Parking Charges, Public Convenience and Refuse Disposal, Customary burial ground permit fees, Religious Place Establishments Permit Fees and Signboard and Advertisement Permit Fees (Afuberoh & Okoye, 2014).

Adam's study as (cited in Samuel & Tyokoso, 2014) pointed out that taxation is used for economic growth and sustainable development. The general management of the financial system rests on the government and taxation plays an important role in this direction. Taxation is also used to maintain realistic price stability, promote the near-full employment of all the resources of the country and guarantee an acceptable rate of economic growth. Economic growth and development programmes are geared towards raising the standard of living of the masses of a country through the improvement of their economic and social conditions. Taxation in one approach discourages, postpones or reduces consumption and encourages saving for private investments. Good local government tax system will be a great assistance to Nigerians where there would be mass employment of labour force and economic resources.

Grants will generally only be specified for a specific project or use and will not usually be given for projects that have already commenced. Grants are time limited it is usually between one and three years. Oftentimes grants are given to implement existing government policies, to guide new ways of doing things or to secure approved outcomes (Wikipedia, 2016). From table 1, for twenty years, the extracted ratio of expenditure to grant and IGR ranges from 1% to 10% in Nigerian local government (CBN, 2014)

2.2 Theoretical Literature

Theory of Government Accountability

Theory of government accountability states that government has a duty to account and satisfy individual needs in the society (Simon, 1945). In supporting the theory of Government accountability. Sunder (1997) was of the view that the General Purpose Financial statement of every government is to provide useful information to the entire citizenry and other stake holders. In doing this the government will be able to satisfy all stakeholders evenly.

James, (2008) posit that there are various stake holders with their individual expected benefits from the government. Voters as part of the stakeholders contributed to the government by bringing legitimate government

through the ballot papers in democratically elected government; voters expect public and private goods and services from the government. This theory is summarised in the table below. It shows what each stakeholder contributes to the government and their expectations from the government.

Table 2.1.1: Stakeholders' Contribution versus Expectations

Stakeholders Looking Onto The Government	Contributions To Government	Benefits Expected From Government
Voters	Bringing government legitimacy in democracy	Provision of public and private goods and services
Taxpayers, fee and levy Payers	Payments and promissory	Provision of Public and private goods and services
Grantors and donors	Financial resources	Making good the services terms of grants
Lenders, creditors	Financing, including financial resources	Repayments
Government workers	Services and skills rendered	Compensation- Salaries and other benefits
Contractors/Service providers	Provision Goods and services	Payments – cash and cash equivalents

Source: James, 2008

2.3 Empirical Literature

Ijeoma, & Oghoghomeh (2014) argued that the adoption of IPSASs would develop and improve the quality of financial reporting in Nigeria. Nigeria will improve comparability of financial statements prepared and presented by public sector entities in Nigeria with other parts of the world. The adoption of IPSAS in Nigeria would have positive impact operating procedures and reporting practices and that the resultant effect of the adoption would bring in good governance which both the government and the governed would enjoy. Heald's study (as cited in Ijeoma & Oghoghomeh, 2014) concluded that with IPSASs implementation, governments would be able to operate at a more transparent level in their day to day handling of public funds, financial accountability would be ensured. The adoption of IPSASs is expected to increase the level of accountability and transparency in Nigerian public sector and that IPSASs adoption in Nigeria will improve financial reporting comparability and international best practice. IPSASs implementation in Nigeria was expected to provide more meaningful information for decision makers and improve the quality of Nigerian financial reporting system. Hence the improvement in operating procedure and financial reporting practices will bring good governance in Nigeria (Balogun, 2016). For accountability to be successfully entrenched in public offices in Nigeria there must be a reduction in the level of corruption, improving public sector accounting and auditing standards, legislators taking positions as champions of accountability and total restructure of public accounts committees and monitored application of the value of money in the conduct of government business (ibid.).

The preparation of government accounting progressed over the years with emphasis on cash receipts and disbursements on the cash accounting basis or modified cash accounting. Government income is only recorded when cash is received and expenditure is incurred only when cash is paid irrespective of the accounting period in which the service is rendered. The amounts incurred by the government in purchasing fixed assets are treated the same way as expenses (Oecon, 2010). The modern public sector is moving from cash basis to accrual basis. The accrual-based IPSASs financial records are more thorough than the cash-based ones. The accrual-based IPSASs eliminate the scope for influencing payments and receipts in order to suit specific reporting (Biraud, 2012). Ijeoma (2014) opine that accrual-based accounting provides a more trustworthy presentation of an entity's monetary wealth. Fair value is another major measurement base of IPSASs which denoted to computing assets and liabilities. IPSASs 4, 9, 12, 13, 15, 16, 17, 21, 26, 27, 29, 31 or 32 dealt with fair value. Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

2.0 Methods

Survey research design was employed by this study. Questionnaires were distributed in the three senatorial districts of Ondo state to capture opinion of local government employees on internal generation collections and utilization. Secondary data were sought to capture the expenses and income of the local governments in Nigeria

from Central Bank of Nigeria Statistical bulletin for the period 1993 to 2012 covering the total expenditure, grant and internal generated revenue of Nigeria local governments. The three variables considered for the study were Local Government Expenditure as the dependent variable while grant and internally generated revenue (IGR) as the independent variables. The study employed the use of Ordinary Least Square to run the regression model on the study.

3.1 Model Specification:

$$\begin{aligned} \text{Exp} &= f(R) \text{----- (1)} \\ \text{Exp} &= (\text{GRT}, \text{IGR}) \text{----- (2): Functional Form} \\ \text{Exp} &= \alpha_0 + \alpha_1\text{GRT} + \alpha_2\text{IGR} \text{----- (3): Mathematical Form} \\ \ln\text{Exp} &= \alpha_0 + \alpha_1\ln\text{GRT} + \alpha_2\ln\text{IGR} + \text{l}_t \text{----- (4): Econometric Model} \end{aligned}$$

Where:

- Exp = Total Local Government Expenditure
- GRT = Total Local Government Grants
- IGR = Total Local Government Internally Generated Revenue
- l_t = Model error term

2.1 Type and sources of Data

One hundred and sixty questionnaires were received from Ondo State local governments to evaluate International Public Sector Accounting Standards (IPSASs) implementation Committee status at the local governments.

4.0 Presentation and Analysis of Results

HO1: *The low internally generated revenue of your local government is not a problem.*

Table 4.1: Your Local Government Revenue

	Observed (N)	Expected (N)	Residual
STRONGLY DISAGREED	85	53.3	31.7
DISAGREED	65	53.3	11.7
UNDECIDED	10	53.3	-43.3
Total	160		

From the above table 4.1 it could be seen that higher percentage of the respondents noted that the low internally generated revenue of their local government is a problem as 85 respondents strongly disagreed, 65 disagreed and 10 undecided that the low internally generated revenue of your local government is not a problem.

Table 4.2: Test Statistics

	YOUR LOCAL GOVERNMENT REVENUE
Chi-Square	56.562 ^a
df.	2
Asymp. Sig.	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 53.3.

From the above table 4.2., the chi – square calculated was 56.562 while the critical value at 5% level of significant stood at 5.991. Hence we rejected the null hypothesis of ‘no problem’ and accepted the alternative hypothesis that the poor internally generated at the local government had posed a lot of problem for the local government. This is corroborated by the fact that the P value was 0.00 ($P < 0.05$). Hence, the H_0 could not stand.

HO2: *The efficiency of your local government IPSASs Implementation Committee in 2014 should not be called for questioning.*

Table 4.3: Your Local Government IPSASS Implementation Committee In 2014

	Observed N	Expected N	Residual
STRONGLY DISAGREED	101	53.3	47.7
DISAGREED	49	53.3	-4.3
UNDECIDED	10	53.3	-43.3
Total	160		

From the above table 4.3., higher percentage of the respondents noted that the efficiency of their local government implementation committee in 2014 calls for questioning as 101 respondents strongly disagreed, 49 disagreed and 10 undecided that the efficiency of Nigeria local government IPSASSs implementation committee in 2014 should not be called for questioning.

Table 4.4: Test Statistics

	YOUR LOCAL GOVERNMENTS' IPSASSs IMPLEMENTATION COMMITTEE IN 2014
Chi-Square	78.162 ^a
Df	2
Asymp. Sig.	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 53.3.

From the above table 4.4., the chi – square calculated was 78.162 while the critical value at 5% level of significant stood at 5.991. Hence we rejected the null hypothesis of ‘not be called for questioning’ and accepted the alternative hypothesis that the efficiency of Nigeria local governments’ IPSASSs implementation committee in 2014 should be called to questioning. This is corroborated by the fact that the P value was 0 (P < 0.05). Hence, the Ho could not stand.

Table4.5 The Ordinary Least Square Result with Government expenditure as dependent variable

Variable	Coefficient	Std. Error	t-statistic	Prob. Val
C	0.110908	0.094333	1.175708	0.2593
DLNGRT	0.123985	0.069270	1.789863	0.0951
DLNIGR	0.419645	0.354568	1.183539	0.2563

Authors regression output

The above result show that local government grant and internally generated revenue are directly related to government expenditure meaning that increase in both sources local government revenue increase government expenditure by their various coefficient value. It further reveal that these sources of revenue are not significant in explaining systemic change in government expenditure, hence the null hypotheses cannot be rejected. The reason for this is explained by the fact that these grants are no are not regular while internally generated revenue low compared to the size of expenditure. It further shows that there are other major sources of government revenue other than grants and internally generated revenue.

Table 4.6 Granger Causality Result

Hypotheses	Lag	F-Statistic	Prob. Val
LNGRT→LNEXP	2	2.33910	0.1468
LNIGR→LNEXP	2	2.51830	0.1190

Authors regression output

The granger causality show an independence causality. It show that grant and internally generated revenue do not contain sufficient information to predict changes in government expenditure. This result supports the insignificance of the variable in explaining changes in local government.

4.1. Discussion of Findings:

Nigeria local governments' expenditure had been on increase since 1993. The internally generated revenue and grants had been very minimal when compared to the expenditure. The IPSASs implementation committee that should monitor the accountability of the local government through IPSASs in order to ensure transparency which will bring sustainable development was not functioning as expected as at 1st January, 2015 in Ondo State local governments. This suggests that accountability in the local governments was in doubt as at that date, since the IPSASs implementation was at low ebb. The implication of this is that little resources would be left for developmental purposes in the local governments.

The R-squared of 0.26 means that 26% of changes in local government expenditure is explained by grant and internally generated revenue in the period of 1993 to 2012. This finding was not in agreement with This then means that 74% changes in government expenditure is accounted for by other local government sources of fund such as from the federation account.

5.0 Conclusion

The expenditure of Nigerian local governments has been on increase while the internally generated revenue and grant had been abysmally low in the last three decades (See Appendix 1). The accountability and transparency in Nigeria local governments was in doubt because of the non effectiveness of the IPSASs implementation committee activities at the local government levels. No sustainable development would be achieved in Nigeria local governments if their expenditures are not cut down.

5.1 Recommendation

For corruption to be checked so as to bring the needed sustainable development to Nigeria local governments, the following recommendations are hereby suggested: The activities of each local government IPSASs implementation committee should be reviewed on quarterly basis i.e., they should report in black and white their achievement to the federal government and organised town hall meetings. Local government overheads should be cut down drastically as the internally generated revenue and grants were too low in the period under consideration. Each local government in the country should make public her income and expenditure account on quarterly basis. The revenue generation base of the local governments should be widened. Punitive measure should be meted on any local government that are not IPSASs compliant in their financial reporting.

References

- Afubero, D. & Okoye, E. (2014). The impact of taxation on revenue generation in Nigeria: A study of federal capital territory and selected states. *International Journal of Public Administration and Management Research (IJPAMR)*, 2(2), 22 – 46. Retrieved on 25/5/2016 from <http://www.rcmss.com>.
- Aguolu, O. (2004). *Taxation and Tax Management in Nigeria*, 3rd Edition, Enugu; Meridan Associates.
- Oecon, N. M. (2010). Public Sector Accounting: Democratic control of public money by using administrative cameralistics. Retrieved from http://www.google.com.gh/#gs_rn=17&gs_ri=psyab&pq=what%20is%2
- CBN, (2014). Federal Ministry of Finance & Central Bank of Nigeria Statistical Bulletin
- FAAC, (2013). Federal Account Allocation Committee Subcommittee on the Roadmap for the Adoption of IPSAS. *National Treasury Circular TRY/A-B /2013OAGF/CAD/026N.I/I02*. Retrieved on May 24, 2016, from <http://www.faacipsas.gov.ng>
- Balogun, E. O. (2016). The impacts of international public sector accounting standards in the Nigerian public sector. *International Journal of Advanced Academic Research, Social & Management Sciences*, ISSN: 2488-9849 (2), 7.

Biraud, G. (2012), *Preparedness of United Nations System Organization for the IPSAS*. Geneva, Joint Inspection Unit.

Ijeoma, N. B. (2014). The Contribution of Fair Value Accounting on Corporate Financial Reporting in Nigeria. *American Journal of Business, Economics and Management*,2(1): 1-8.

Ijeoma, N. B. and Oghoghomeh, T. (2014). Adoption of international public sector accounting standards in Nigeria: Expectations, benefits and challenges. *Journal of Investment and Management*, 3(1), 21-29. Retrieved on February 2, 2016, from doi: 10.11648/jjim.20140301.13.

Iyika, P. I. (2011). *The Adaptability of Accrual Accounting in the Public Sector*. Retrieved <http://www.scribd.com>.

James, I. C. (2008) *International Public Sector Accounting Standards: Conceptual And Institutional Issues* “IPSAS” Workshop At The University Of Napoli “Parthenope”

Samuel, S. E. & Tyokoso, G. (2014). Taxation and revenue generation: An empirical investigation of selected states in Nigeria. *Journal of Poverty, Investment and Development – An Open Access International Journal* 4. Retrieved from

Onwubuariri, P. (2012). Improving Nigeria’s public sector accounting standards. *Premium Times Nigeria*. Retrieved www.media.Premiumtimesng.com.

Shaw, P. R. (1999). *New Trends in Public Management in Health Applications in Developed and Developing Countries*. Washington DC, USA, World Bank Institute.

Transparency International, (2015). Corruption Perceptions Index. Retrieved on 26/5/2016 from <http://www.transparency.org/cpi2015>.

Simon, H.A. (1945). *Administrative Behavior*. New York: The Free Press, 1945).

Sunder, S., (1997) *Theory of Accounting and Control* Cincinnati: Southwest Publishing.

Wikipedia, (2016). [https://en.wikipedia.org/wiki/Grant_\(money\)](https://en.wikipedia.org/wiki/Grant_(money))

Appendix 1

Nigerian Local Governments' Expenditures, Grants and Internally Generated Revenues (1193 - 2012)

YEARS	EXP (₦' m)	GRT (₦' m)	IGR (₦' m)	GRT/EXP%	IGR/EXP%
1993	19,475.30	269.4	1,035.60	1	5
1994	18,967.10	229.5	1,205.90	1	6
1995	22,443.30	242.9	2,110.80	1	9
1996	22,665.60	0	2,211.10	0	10
1997	29,939.90	139.2	2,506.90	0	8
1998	44,056.90	94.5	3,331.60	0	8
1999	60,441.20	2,266.90	4,683.80	4	8
2000	153,864.80	10,303.20	7,152.90	7	5
YEARS	EXP (₦' m)	GRT (₦' m)	IGR (₦' m)	GRT/EXP%	IGR/EXP%
2001	171,374.50	15,300.90	6,020.40	9	4
2002	169,820.20	12,434.10	10,420.80	7	6
2003	361,713.20	16,820.30	20,175.50	5	6
2004	461,050.60	20,620.20	22,407.80	4	5
2005	587,977.80	21,138.80	24,042.50	4	4
2006	665,838.00	20,879.50	23,225.10	3	3
2007	827,400.00	134,600.00	21,300.00	2	3
2008	1,381,967.50	490,858.30	23,114.00	4	2
2009	1,067,613.70	336,871.70	26,064.20	3	2
2010	1,378,350.00	408,522.30	27,200.00	3	2
2011	1,601,200.00	404,196.70	27,300.00	3	2
2012	1,646,751.70	397,031.10	26,615.50	2	2

Sources: Federal Ministry of Finance & Central Bank of Nigeria, 2014