Research Journal of Finance and Accounting
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.6, No.20, 2015

Adoption of IPSAS and the Quality of Public Sector Financial Reporting in Nigeria

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Abstract
The development of any accounting system requires consideration of the underlying purpose of that system. In Nigeria, government accounting processes have been conducted within the general framework of the principles of fund accounting but the application of these principles to financial reporting has been a major challenge. This study examined the implications of adoption of International Public Sector Accounting Standards (IPSAS) on the quality of financial reporting of public sector organisations in Nigeria. Primary source of data was employed. Chi-square test and Kruskal Wallis test were employed. Findings from the study showed that adoption of IPSAS would increase the level of reliance on the financial reporting of public sector organisations in Nigeria. In addition, it was found that applying IPSAS to public sector financial reporting would make the results of financial reporting of public sector organisations comparable. It was concluded that IPSASs have the potential to give a better financial integrity assurance. The study recommended reforms in public financial management and strengthening of Legislative capacity to balance the executive power. Therefore, the adoption of IPSAS is expected to influence the operating procedures and reporting practices of public sector organisations in Nigeria.
Keywords: Accounting System, IPSAS, Financial Integrity, Accountability, Reporting

1. Introduction

The rate of change affecting the world of public sector managers show no sign of slowing down especially with apparent shrink in geographical boundaries among nations of the world. Because of this, governments across the world are constantly searching for ways to improve their public financial management systems. Hence, it is sine qua non for public sector managers to harness the opportunities of globalisation such as access to international finance, collaboration, international markets for domestic products and grants. To harness the above, it is paramount to evolve uniform standards of financial reporting unlike in the previous years when nations of the world had only been concerned in setting financial reporting standards in their own defined territories. The 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 (Alan and Susan, 2007).

Prior to the public financial management reforms, government operations were derived from a cash-based cycle of expenditure control and reporting. In 2010, the Federal Executive Council of Nigeria approved the adoption of the International public Sector Accounting Standards (IPSAS) and business-style accounting throughout the public sector. The roadmap for the adoption of IPSAS is in phases as follows; full adoption of IPSAS cash basis in 2014 and full adoption of IPSAS accrual basis with effect from 2016. The international Public sector Accounting Standards govern the accounting by public sector entities, with the exception of Government Business Enterprises. GBEs apply International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). Heald (2003) noted that International Public Sector Accounting Standards (IPSAS) is at present the focal point of global revolution in government accounting in response to calls for greater government financial accountability and transparency. The Public sector comprises entities or organizations that implement public policy through the provision of services and the redistribution of income and wealth, with both activities supported mainly by compulsory tax or levies on other sectors as noted by Kara (2012). Public sector accounting is a system or process which gathers, records, classifies and summarizes as reports the financial events existing in the public or government sector as financial statements and interprets as required by accountability and financial transparency to provide information to users associated to public institutions(ICA-Ghana, 2010).

Nigeria, a leading African nation with the population of over 150 million people and a foremost Organization of the Petroleum Exporting Countries (OPEC) member, with a public sector dominated economy, has identified the need to consider the value proposition of the IPSAS and implement it in order to remain relevant (Ijeoma & Oghoghomeh, 2014). However, government interventions following the global financial crisis in the private sector have increased many governments' exposures and debt levels. Hence, decision-making is getting harder, especially if the view of what is "sustainable" is difficult to see. The focus on the private sector is huge when failure occurs and therefore accounting, audit, and reporting standards are set at a high level and rigorously enforced (Ijeoma & Oghoghomeh, 2014). Timely, clear, and open annual financial statements play a significant role in the accountability of governments to their citizens and their elected representatives. These financial statements are prepared on a cash basis or some variation of an accrual basis of accounting. The benefits of achieving consistent and comparable financial information across jurisdictions are very important and International Public Sector Accounting Standards (IPSAS) have been established by the IPSAS Board to assist in that endeavour (Stephen et al, 2012). Rose-Ackerman (1999) noted that in the light of the pervasiveness and severity of government corruption in many developing countries, financial integrity assurance is a critically important function of their government accounting systems.

In modern democratic governance, the basic objectives used in assessing the performance of public sector organizations are financial objective, public objective and growth objective. While the financial objective is concerned with the ability of the government to meet the needs and aspirations of taxpayers, public objective focuses on meeting the demands of the citizenry (i.e. those within and outside the tax bracket), and the growth objective is tailored towards improvement in economic performance and international relations (Okoye & Oghaghomeh, 2011). The need for unified standards made the IPSAS Board to develop IPSAS for public sector financial reporting. While the commercial entities world over are moving towards IFRS, governments are harmonizing with IPSAS.

1.1 Statement of Problem

The development of any accounting system requires consideration of the fundamental purpose of that system. The nature of government accounting has the purpose of determining how much money was received and its sources, how much was spent and for what purposes and the financial obligations accrued (Ijeoma & Oghoghomeh, 2014). Profit is not the major focus, unlike the private sector, which has profit as the prime focus and determines the profit of the business over a given period. Hence, many factors influence government accounting such as the role of government in the different fields like the armed forces, health and education and the policies set by government to achieve its aspirations and goals. In Nigeria, government accounting processes have been conducted within the general framework of the principles of fund accounting but the application of these principles to financial reporting has been a major challenge. Government is significantly different from a business, and the purpose of governmental accounting differs significantly. This raised many questions relative to the quality and relevance of the reports prepared and published by public organisations especially the Federal Ministries, Departments and Agencies. Among these questions are; do the financial statements of MDAs in Nigeria reveal the true and fair view of their financial performance and position? How can the quality of financial reporting of MDAs in Nigeria be improved? How transparent and accountable are MDAs with regard to resources allocated to them?

1.2 Research Objectives

Following the Federal Executive Council's approval of the adoption of IPSAS from year 2014, the following objectives are set for this study:

- To examine the implications of adoption of IPSAS on the reliability of IPSAS-based financial reporting with a view to establish the relevance of IPSAS to the financial reporting of public sector organisations in Nigeria.
- To ascertain the extent to which IPSAS-based accrual basis promote efficient and effective financial reporting of public sector organisations compare to cash basis
- To ascertain the contribution of adoption/application of IPSAS in enhancing comparability (Internal & external) of financial statements of public sector organisations in Nigeria.

1.4 Research Hypotheses

To achieve the objective of this study, the following hypotheses are stated in their null form:

$H_0$1: The adoption of IPSAS will not significantly increase the level of reliance on financial reporting of public sector organisations in Nigeria.

$H_0$2: The adoption of IPSAS-based Accrual system will not significantly promote efficient and effective financial reporting of public sector organisations in Nigeria.

$H_0$3: The application of IPSAS in public sector financial reporting will not significantly enhance comparability of financial statements of public sector organisations in Nigeria.

1.6 Scope of Study

This research work on the adoption of IPSAS and the quality of public sector financial reporting focused on adoption of accrual-based IPSASs. The IPSASB develops IPSASs, which apply to the accrual basis of accounting and those that apply to the cash basis of accounting. The IPSASs are designed to apply to the general-purpose financial statements of all public sector entities. This study focused on the application of IPSAS-based accrual basis of accounting to the financial reporting of Federal Ministries, Departments and Agencies in Nigeria. The study comprises all Federal MDAs not classified as Government Business Enterprises (GBE) because IPSAS do not apply to such (IPSAS-Board, 2007).

2. Review of Related Literature

There are two basic accounting methods used to determine when and how to report income and expenses in the books: cash method and accrual method. These methods differ only in the timing of when transactions, including sales and purchases are accounted to accounts (Adriana and Alexandra, 2005). Under the cash method, income is not accounted until cash is actually received, and expenses are not accounted until actually paid. Under the cash basis, revenues and expenses are recognized when payment is made or received (Adriana and Alexandra, 2005). They further asserted that under the accrual method, transactions are accounted when the order is made, the item is delivered, or the services occur, regardless of when the money for them (receivables) is received or paid. In other words, income is accounted when the sale occurs, and expenses are accounted when the goods or services are received. Since in the history of accounting there have been periods when one or the other method dominated clearly. Cletus and Tennyson (2011) reported that, to provide a proper perspective of the two basis of accounting, a comparative analysis based on existing literature is made as follows:

i. ***Recognition of Total Liabilities:*** Liabilities are obligations owed. The basis of government accounting should provide relevant and accurate information about governments' liabilities. Under the cash basis of accounting, no liabilities are recognized. Consequently, the deficit in one period may increase more than the other periods (Langendijik, 1990). For example, Zik (1997) reported that in the late 1980s, Canada's federal and provincial governments had accumulated more than $30 billion unrecorded employee pension liabilities. However, the accrual basis shows hidden liabilities and forces the government entities to show huge deficits in governmental funds.
ii. ***Revenue Recognition***: Under the cash basis of accounting, the revenues will only be recognized in the financial statements in the period in which cash is received. However, the cash receipts do not make distinction between current receipts and capital receipts (Okoye and Oghoghomeh, 2011). However, under accrual basis, the recognition of revenues is required at the time when they are earned, and the receipts occur when revenues are collected. This manner of revenue recognition presents better financial information (Saleh, 2007).
iii. ***Recognition of Total Cost of Goods and Services Provided:*** The use of cash-based accounting system makes no difference between expenditures and disbursements, and generally no distinction between current and capital expenditure. Capital purchases are treated in the same manner as personnel expenses with no recognition that they are productive for years. As a result, there is little incentive to use current capital assets efficiently.
iv. ***Disclosure of Stock Value:*** Cash-based accounting system does not present information regarding the value of stocks consumed during the fiscal year or the closing stocks. This is because the accounts are not concerned with recording the usage; they are rather concerned with the cash outflow paid for purchases. Consequently, there are no stock adjustments, stock valuation, and stock measurement. Hence, the real value of the stock is not known and this is turn gives rise to the appearance of several problems such as carrying cost problem; freezing the public money, opportunity costs of public capital. Therefore, the absence of useful accounting information regarding stocks would result in finding it difficult to take the right decision (Zakiah, 2007).
v. ***Accountability and Transparency***: Information on period revenues and expenses, long-term assets and liabilities, receivables and payables, value of stocks, total cost of series provided are essential for efficient financial reporting. Ozugbo (2009) asserts that accountability and transparency in the use of taxpayers' money is assured in accrual basis of accounting and it is difficult to be achieved in cash accounting system.

2.1 Public Financial Reporting

Government accounting refers to a government's financial information systems and financial disclosure practices. Public sector accounting used to be a mere record keeping of budget execution (Bergmann, 2009). The accounting system is a critical institutional infrastructure but not often visible until it fails. Effective government accounting makes it possible to manage the government's finances smoothly and provides audit trails to prevent and detect financial misconduct (Chan, 2006). As a support function, accounting does not have values of its own, and does not decide the allocation. Nevertheless, once these decisions are made, the accounting system implements the critical function of following the money. By providing information serving internal control, audit, and public revenues and expenses management, the accounting ensures that resources are used for intended purposes (Chan, 2006). According to Omenika (2008), the basis of accounting is a set of rules and principles that determine the recognition of expenses and revenues in exchange transactions. Chan (2006) reported that Government accounting refers to a government's financial information systems and financial disclosure practices. Since it is costly everywhere to produce and disseminate information, governments in all types of political systems lack the economic incentives to do so. However, some political systems exert a greater demand for government accountability and transparency than others do; for example, representative democracies are more demanding than authoritarian and totalitarian political systems.

In the early 1990s, New Zealand's shift to accrual accounting serves as a model for the UK to follow. The United Kingdom has adopted accrual accounting at the agency level and is looking to produce aggregate consolidated financial statements. It plans to prepare consolidated financial statements in a staged manner. By the turn of the millennium, New Zealand had become one of the countries with the most extensive set of accrual accounting disclosures (Piana and Torres, 2003). A few other governments have subsequently agreed to follow this path, but an increasing number are adopting a policy of 'wait and see'. The International Federation of Accountants (*IFAC*) by the Public Sector Committee developed International Public Sector Accounting Standards (IPSAS). The IFAC has been encouraging governments and other public sector entities to adopt the accrual basis of accounting for their general-purpose financial statements. In recent years, the IPSAS Board has made considerable progress in developing a set of standards for public sector financial reporting on the accrual basis of accounting and other guidance for public sector entities but IFAC-PSC has no power to require compliance with IPSAS (Benito, 2007). By February 2011, the IPSAS Board has issued 31 standards). The rising importance of financial accounting in the public sector, as epitomized by the emergence of the IPSAS on the world scene, reflects the belief in the power of objective financial record keeping, which has been credited with inducing business-like behaviour. The promotion of accountability through greater transparency, which accountants traditionally call "foil disclosure," is an explicitly stated goal of IPSAS. In particular, IPSAS emphasizes the accountability of government to citizens, voters, their representatives, and the public (IFAC, 2003).The IPSASB acknowledges the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. Some sovereign governments and national standard-setters have already developed accounting standards that apply to governments and public sector entities within their jurisdiction. IPSAS may assist such standard-setters in the development of new standards or in the revision of existing standards in order to contribute to greater comparability. IPSAS are likely to be of considerable use to jurisdictions that have not yet developed accounting standards for governments and public sector entities. Standing alone, neither the IPSASB nor the accounting profession has the power to require compliance with IPSAS (IPSAS-Board, 2007).

To ensure that Nigeria remains relevant in the comity of nations and operates a uniform system of accounting, the Federal executive Council (FEC) on 28th July 2010 approved that Nigeria adopts the provisions of the International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS) for private and Public Sectors respectively. To successfully draw up the process for the adoption of IPSAS; the Federation Account Allocation Committee (FAAC) at its meeting of 13th June 2011 set up a Technical Sub-Committee on Roadmap for the Adoption of IPSAS in Nigeria, (FAAC, 2013).

3. Material and Methodology

This study focused on all Federal MDAs in Nigeria. The population of this study comprised accounting professionals in all the Federal MDAs in Nigeria. The elements of the population consist of accountants, internal auditors, cash officers, as well as external auditors to MDAs. The study population is considered finite and 152 respondents were selected from fifteen (15) MDAs and two (2) Auditing firms. The sample size used in this study was divided into two: sample size of MDAs and sample size of the respondents for questionnaires administration. Consequently, judgemental sampling technique was used for sample size of MDAs while the sample size of respondents was drawn scientifically at 95% confidence level using Yamane (1967) formula. Hence, primary source of data collection was employed for data generation. It is the only method of data collection employed in this study. SPSS (version 17) application was used to analyse the data that were gathered in the course of this study. The following statistical tools were used; Chi-square test, Krustal Wallis test and descriptive analysis.

4. Analysis and Result

4.1 Kruskal-Wallis Test on the Impact of adoption of IPSAS on the level of reliance on public sector financial reporting in Nigeria.

$H_0$1: The adoption of IPSAS will not significantly increase the level of reliance on financial reporting of public sector organisations in Nigeria.

Decision Rule: Accept H_0 if p-value > significance level, Reject H_0 if p-value < significance level.

Table 1 Ranks

	Option	N	Mean Rank
Responses	NS	5	8.6
	SD	5	3.3
	D	5	12.1
	A	5	20.9
	SA	5	20.1
	Total	**25**	

Key: SA= Strongly Agree, A= Agree, D= Disagree, SD= Strongly Disagree, NS= Not Sure

Table 2 Test Statistics [a,b]

	Response
Chi-Square	21.25
df	4
Asymp. Sig.	0

a. Kruskal-Wallis Test; b. Grouping Variable: Option

4.2 Chi-Square Test on the benefit of adoption of IPSAS-Based Accrual system in promoting efficient and

$H_0$2: The adoption of IPSAS-based Accrual system will not significantly promote efficient and effective financial reporting of public sector organisations in Nigeria.

Decision Rule: Accept H_0 if p-value > significance level, Reject H_0 if p-value < significance level.

Table 3 Chi-Square Test Result

Question Items	Strongly Agree	Agree	Disagree	Strongly Disagree	Not Sure	Total
3a	45	62	2	1	0	110
	41.0	64.4	3.8	0.6	0.2	
	0.39	**0.09**	**0.85**	**0.27**	**0.20**	
3b	47	61	1	1	0	110
	41.0	64.4	3.8	0.6	0.2	
	0.88	**0.18**	**2.06**	**0.27**	**0.20**	
3c	36	70	3	1	0	110
	41.0	64.4	3.8	0.6	0.2	
	0.61	**0.49**	**0.17**	**0.27**	**0.20**	
3d	40	67	3	0	0	110
	41.0	64.4	3.8	0.6	0.2	
	0.02	**0.10**	**0.17**	**0.60**	**0.20**	
3e	37	62	10	0	1	110
	41.0	64.4	3.8	0.6	0.2	
	0.39	**0.09**	**10.12**	**0.60**	**3.20**	
Total	**205**	**322**	**19**	**3**	**1**	**550**

Chi-square = 0.39 + 0.09 + 0.85 + 0.27 + 0.20 + 0.88 + 0.18 + 2.06 + 0.27 + 0.20 + 0.61 + 0.49 + 0.17 + 0.27 + 0.20 + 0.02 + 0.10 + 0.17 + 0.60 + 0.20 + 0.39 + 0.09 + 10.12 + 0.60 + 3.20 = 22.61, DF = 16, P-value = 0.00

4.3 Kruskal-Wallis Test on the Impact of application of IPSAS in enhancing comparability of financial statements of public sector organisations in Nigeria.

$H_0$3: The application of IPSAS in public sector financial reporting will not significantly enhance comparability of financial statements of public sector organisations in Nigeria.

Decision Rule: Accept H_0 if p-value > significance level, Reject H_0 if p-value < significance level.

Table 4 Ranks

	Option	N	Mean Rank
Responses	NS	5	8.50
	SD	5	5.00
	D	5	10.50
	A	5	23.00
	SA	5	18.00
	Total	**25**	

Key: SA= Strongly Agree, A= Agree, D= Disagree, SD= Strongly Disagree, NS= Not Sure

Table 5 Test Statistics [a,b]

	Response
Chi-Square	20.078
df	4
Asymp. Sig.	0

a. Kruskal-Wallis Test; b.Grouping Variable: Option

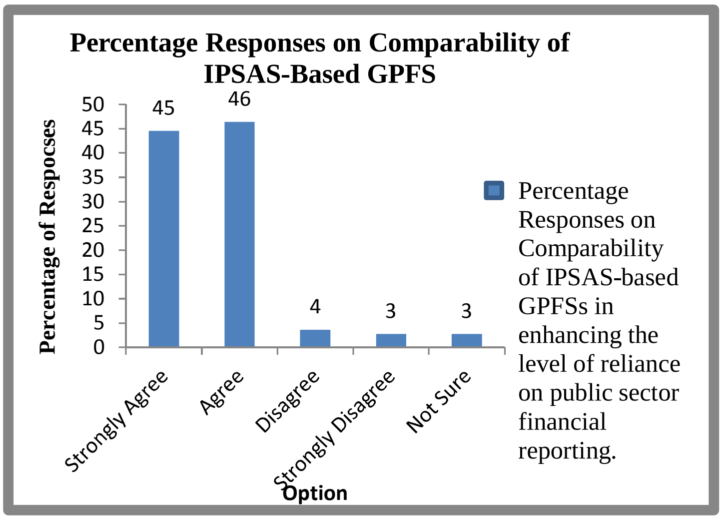

Figure 1. Percentage Distribution of Responses on Comparability of IPSAS-Based GPFS

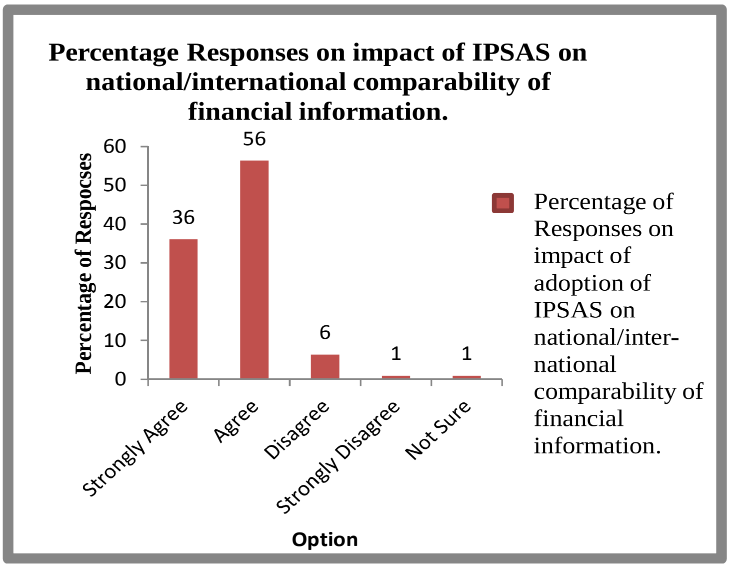

Figure 2. Percentage Distribution of Responses on National/International Comparability of IPSAS-Based Financial Information

5. Discussion

Table 3 showed the frequency distribution of questions 1a to 1e used for testing hypothesis one. The result of analysis displayed in Table 4 revealed that most of the respondents agreed that the adoption of IPSAS would increase the level of reliance on public sector financial reporting in Nigeria since the highest mean Rank of 21.0 was obtained for Agreed. In addition, the Chi-Square measure obtained was 20.58 and a corresponding p-value of 0.0003, which falls on the rejection region of the hypothesis. Hence, the null hypothesis was rejected and the alternative accepted since the p-value= 0.0003< α = 0.05, at 95% confidence interval. Result of analysis in Table 6 showed that most of the respondents agreed that the adoption of IPSAS-Based Accrual system would benefit public sector organisations in Nigeria since the column total weight of 322 for option “Agree” was observed to be the highest weight followed by weight of 205 for option “Strongly Agree.” In addition, it was observed that the adoption of IPSAS would greatly benefit public sector organisations in Nigeria since the Chi-Square measure obtained at 5% (0.05) significance level is given as 22.61 and a p-value of less than 0.001, which falls on the rejection region of the hypothesis. Therefore, the null hypothesis, which says that the adoption of IPSAS-Based Accrual system will not benefit public sector organisations in Nigeria, was rejected since the p-value is less than the 0.05 level of significance employed in the analysis that is equivalent to 95% confidence interval. Table 7 showed the frequency distribution of questions 4a to 4e used for testing hypothesis three. The result of analysis displayed in Table 8 revealed that most of the respondents agreed that the application of IPSAS in public sector financial reporting would enhance both internal and external comparability of financial statements of public sector organisations in Nigeria since the highest mean Rank of 23.0 was obtained for Agree. In addition, from the result displayed in Table 9, the Chi-Square measure obtained was 20.078 and a corresponding p-value of 0.000, which falls on the rejection region of the hypothesis. Hence, the null hypothesis was rejected since the p-value = 0.000< α = 0.05, assuming a 95% confidence interval. This result implies that applying IPSAS to public sector financial reporting will make the results of financial transactions over a particular period prior to and after IPSAS adoption of a particular public sector organisation as well as other similar organisations comparable.
Figure 1 showed that majority (91% i.e. addition of strongly agree and agree) of the respondents believe that adoption of IPSAS-based standards will enable the comparability of GPFSs and this will in turn enhance the level of reliance on public sector financial reporting system in Nigeria. In addition, Figure 2 showed that almost all the respondents claim that adoption of IPSAS would enhance national/international comparability of financial information, while only some respondents claimed otherwise. This implies that largest percentage (91.9%) of the study population accepted that adopting business-style reporting in public sector would enhance comparability of financial information internationally.

5. Conclusions

This study examined the implications of adoption of International Public Sector Accounting Standards (IPSAS) on the quality of financial reporting of public sector organisations in Nigeria. From the findings of the study, it was observed that adoption of IPSAS is expected to increase the level of reliance on public sector financial reporting in Nigeria. It was established that IPSA based standards will enable the provision of more meaningful information for decision makers and improve the quality of financial reporting system in Nigeria. In addition, it was found that the accrual-based IPSAS has the potential to give a better financial integrity assurance compared to cash or modified cash based accounting. Therefore, the study affirmed that with IPSAS, budget and accounting categories at the national level could have a common set of classifications that conform to international standards that facilitate policy analysis and promote accountability.

From the result and findings of the present study, we recommend that Nigerian government should implement practical and adequate reforms in public sector management to transfer to the accrual basis of accounting feasibly. Therefore, Nigerian government needs to improve the existing financial management mechanism and policy to enable the implementation of accrual-based accounting. In addition, there is need to train high qualified and professional accountants as well as building and developing accounting information system together with information technology. Finally, since the financial reporting system in Nigeria will improve with the adoption of accrual based IPSA standards and the implementation of IPSAS in the operation and procedures of public sector organisation will be beneficial in terms of accountability and transparency, the researcher recommends the adoption of International Public Sector Accounting Standards.

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