

International Public Sector Accounting Framework, Regulatory Agencies And Standard Setting Procedures: A Critique

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ABSTRACT

The objective of this paper is to critique public sector accounting framework, regulating agencies and standard setting procedure. This is done within the contexts of examining and critiquing (i) the conceptual and institutional framework issues (ii) the International Public Sector Accounting Standards (IPSAS), the product of the conceptual framework, and expectedly intended to address accounting issues. Such accounting issues relate to the measurement, presentation and preparation of annual general purpose financial reports in the public sector entities other than government business entities. Against the back drop of weaknesses observed in the review of extant literature, we suggest some reforms, including effective principles-based standards to address the multi-faceted activities of government, including the restructuring of IPSAS board (IPSASB.). This, it is expected, will bring about a balance of political, economic, cultural and legal system of countries that constitute IFAC, and a more representative IPSASB, among others.

Keywords: Public sector accounting, conceptual and institutional framework.

INTRODUCTION

Public discourse on public sector accountability and financial probability in government and government-related entities has continued to dominate attractions of government to be more involved in responsible governance. Chan (2008) solicits for greater government financial accountability and transparency through an articulate public sector accounting framework and public sector standards. While the near global financial crises in recent times called for a review of public sector framework and other issues of measurements in financial reporting in the public sector accounting, others have called for an overhaul of the procedures involved in standard setting. International Public Sector Accounting Standards (IPSASs) is a centerpiece of the global revolution in government accounting and recommendations made by the International Public Sector Accounting Standard Board (IPSASB) are accepted for accounting for funds provided under the World Bank program, International Monetary Funds and other global financial institutions.

Today, institutions and governments watch with keen interest the framework, institutional or conceptual, as well as the international standards which constitute the underpinnings of financial reporting in the public sector. While convergence of IPSASs with national standards is being settled by countries, institutions like, the World Bank and the International Monetary Fund (IMF) have accepted IPSAS – based financial report as minimum standards for accounting for funds. Besides, other international organizations which provide funds to developing countries specify as a conditionality compliance with IPSASs and other global public sector frameworks. Creditor countries are beginning to spell out the compliance to global framework in public sector accounting to assure them that the funds and grants given to such countries are being used in public interest. This message and other concerns, including the convergence, blazed by the International Financial Reporting Standard Board in collaboration with International Federation of Accountants, simply explain the position of IPSAS and other international standards. The framework for public sector accounting, the IPSAS as well as the International Standards of Supreme Audit Institutions (ISSAIs) is critical and germane to a credible and responsible financial reporting in the public sector. According to Chan (2008),

IPSAS in the public sector accounting has become a defacto benchmark. for evaluating government accounting processes and practices worldwide.

In Nigeria, though operations of government business and accounts have been conducted within the general framework of the principles of fund accounting, the major problem is that financial reporting and public sector accounting is far from the principles in absolute terms (Obazee, 2008). On account of this and other preceding submissions, we examine the public sector accounting framework as well as the processes or procedures of setting IPSAS, to:

- Re-affirm the propriety or otherwise of such framework and procedures of standard setting
- Suggest for a re-adjustment of the framework and procedures of standard setting to reflect best practices.

To this end, this paper is 'sectioned' into five: the next section 2 addresses Issues of International Public Sector Accounting Framework, including Conceptual and Institutional Framework. The IPSAS is further discussed, highly highlighting both the Conceptual and Institutional Issues. This sector is ended by a Regulatory Agencies and Standard-Setting Procedures. Section 3 takes a look at the Criticisms of Standard Setting Procedures by the International Public Sector Accounting Standard Board (IPSASB). This is followed by section 4 which addresses the Reforms in Standard-Setting Procedures. Section 5 concludes the paper.

2.0 LITERATURE REVIEW

2.1 Conceptual Framework

Sound public sector accounting rests on an articulate framework which has been defined to reflect best practices in the world. To this end, a conceptual framework for public sector accounting is structured to reflect objectives and scope, recognition and measurement criteria, definition and qualitative characteristics of financial information shown in financial and accounting reports of public sector accounting entities

Conceptual frameworks for public sector entities strike the heart and the whole gamut of financial reports. It centres on government accounting principles; it forms the basis of the preparation and publication of budgets, maintenance of complete financial records, provision of full disclosures and submission to full audit. More to the point, this framework helps in monitoring incomes, expenses, assets and liabilities. It goes further to help assess government's financial consequences of transactions and events. Finally, a well-defined conceptual framework leads to the issue of user-friendly financial reports on a periodic basis. Such conceptual framework defines the period or time frame of financial reporting of government levels. For government at various levels in the world, Nigeria inclusive, the fiscal year and the financial year is between January 1st and December 31st.

2.2 Institutional Frameworks

The institutional framework focuses on the legal and institutional as well as the professional constraints that regulate the public sector accounting; these include the IPSASs issued by the International Federation of Accountants International Public Sector Accounting Standard Board (IPSASB), the responsibility for the issue of IPSASs rests with the IPSASB (IPSASB,2004). Nigeria's Institute of Chartered Accountants is a signatory to IFAC and adopts the relevant IPSASs issued by IPSASB, an arm of IFAC. Another institutional framework is the International Standards of Supreme Audit Institutions (ISSAIs); the ISSAIs are intended to oversee the management of public sector transparency and accountability within the wider context of good public governance. ISSAIs are issued within the context or Supreme Audit Institutions and International Organization of Supreme Audit Institutions (INTOSAI).However, the activities of Nigeria SAI are yet to be felt and it has been argued, thus, that the Nation Audit Office lacks the constitutional independence to be effective.

The Institutional frameworks in Nigeria, do include statutory framework, as the 1999 Constitution, the Finance (Control and Management) Act of 1958 as well as the Audit Act of 1956.Others include the Financial Regulations, Treasury and Financial Circulars and Circular Letters intended not just to guide the day-to-day operations of government Departments and to aid the achievement of probity and accountability.

The 1999 Constitution, as amended, provides, among others, the various types of funds as the Consolidated Revenue Fund (Sec. 80-84) for the Federation and for States (Sec 120-124) and the various charges (Sec. 84) at the federal level and Sec. 124 (at the state level). Besides, the Constitution through the relevant sections, either at the federal and state level (Sec 81, at the federal and Sec. 121, at the state level), details the authorization of expenditure from the Consolidated Revenue Fund. The responsibilities of the Minister of Finance and those of the Accountant- or Auditor- General of the Federation and the similar Offices at the state level are delineated by the Constitution. While it

is one of the responsibilities and functions of the Minister of Finance to issue warrant (or authority) to incur expenditure from any of the Funds types, the Accountant-General ensures actual payment, and then the preparation of CRF and other funds as required by regulations or by the Minister of Finance.

The Finance (Control and Management) Act of 1958, the Audit Act of 1956, among others are all intended to bring about effective management and operations of government funds, including the regulation of accounting format for the preparation of government accounts, the audit and accountability in respect of the Federal Government, and by extension the State Government.

The professional accounting bodies, the Nigerian Accounting Standard Board as well as the Codes of Conduct of the professional bodies, such as those of ICAN and ANAN, to mention just two, constitute a regulatory framework. The ICAN or the ANAN Code of Conduct for member relate to members of the Institute who are both in the public and private sectors. Incidentally, ICAN relies on the IFAC's IPSASB for accounting issues and items in the public sector. Public sector entities in Nigeria are encouraged to adopt the relevant IPSASs in their financial reporting. NASB issues standards which are predominantly private-sector related while public sector accounting standards applied in Nigeria are drawn from the relevant standards. Issued by IPSASB, an arm of IFAC.

Given the wide-spread acceptance of IPSAS issued by IFAC's IPSASB and the adoption of IPSAS by the public sector accounting in Nigeria it is an imperative to address the conceptual and institutional issues in IPSAS

2.2.1 Conceptual Issues in IPSASs

IPSASs address accounting issues related to the measurement, presentation and preparation of annual general purpose financial reports in the public sector entities other than government business entities. General Purpose Financial Reports mean financial reports or statements which are intended to meet the needs of users who are not in a position to demand reports that meet their specific needs. Specifically, IPSASs define the form and contents of the General Purpose Financial Statements and related disclosures in a governments annual reports. Such reports are inclusive of the statement of financial position and a statement of financial performance which are accrual-based. A statement of cash-flow is expected to be cash-based. From the foregoing, it is seen that IPSASB issues both the cash basis and accrual basis standards. The IPSASB issues a comprehensive cash-basis standard for countries especially in the third world, including Nigeria, which is not ready to adopt the accrual basis. It is instructive to note that IPSASB has a flair for accrual-based and so it is not surprising that other IPSASs adhere to the accrual basis.

To this end, conceptual issues in IPSAS relate to unsettled issues or issues of debate in the standards. These issues could affect "substance and underlying ideas", such as following:

- **Lack of IPSASs-related infrastructure**

IPSASs-related infrastructural issues relate to the infrastructure for collecting, recording and summarizing financial data. It is expected that in the consolidated financial statements on the accrual basis, there should be an accounting system that approximates the sophistication that will give rise to such consolidated financial statements. In addition, a detailed chart of all elements of assets, liabilities, incomes and expenses, a double entry accounting, ability to translate IPSAS into specific policies in government, incorporation of policies into machine-readable language, among others, are a part of the infrastructure that is near absence. IPSASs does, however, avoid the necessity of the infrastructure to support a financial reporting based on accrual basis of accounting. Beside the construct of, not having the infrastructure to support the system capability of financial reporting of government, there is also the absence of structure in IPSASs to support the accrual annual financial reporting of other reports required by Department Managers, Political Executives and National Assembly members and Committees, among others. All these sub-reports, so to write, are not captured by IPSASs. In essence, IPSASs emphasize a section of government accounting system and pays little attention to the other reports or sections of the government accounting system.

- **Detailed rules about specific elements but few principles**

Another conceptual issue in IPSASs is the emphasis of IPSASs in relation to the statements of financial information. IPSASs is characterized by detailed rules about specific elements of financial statements but with only few principles. In other words, given the realities of today's global reach, principle-based IPSASs that will address government accounting reporting will be the most appropriate variety of stakeholder having vested interest in government financial reports which were recognized some years ago. Simeon (1945) underscores the broader theory of government accountability which forms the basis of government accounting. Sunder (1997) argues that the variety of stakeholders are motivated to use government financial statement as a source of common knowledge about the government to know the amount timing and degrees of uncertainty of the benefits they expect to receive from the government. The measurement basis of cash-basis and accrual-basis of accounting by IPSASB is unclear. This position

by IPSASB is a wrong signal to its commitment to accrual basis. One comprehensive cash-basis of accounting reflects a double standard. The cash-basis of accounting, though seemingly an imperative for developing countries not yet prepared for accrual-bases of accounting, is also justified on the basis of the time and effort required for some governments to transit to the accrual-basis of accounting. Meanwhile, the IPSASB has not articulated a clear alternative to full accrual of revenue recognition in business; it is not feasible for government activities that produce collective services to use the service results or accomplishments as the basis for recognizing tax revenues IPSAS. No 23 provides the Board with an opportunity to state an alternative to the business-type accrual basis. However the IPSAS 23 falls short in failing to explicitly identify the government assertion of a claim as the basis of recognizing such revenues and related receivables.

- **Consolidated format of financial statements**

IPSAS does favour consolidated format of financial statements. This presentation format pre-supposes an existence or display of a government as a whole and its presentation to users. IPSAS 22 seeks to delineate the relationship between government as an entity for which financial statements are prepared and the general government sector for which government finance statistics are reported. It is instructive to note however that similarities of government notwithstanding, economic and political systems in countries may differ. Even where one column for the whole government, is feasible, the format cannot show internal borrowing and transfer of funds beyond those also shown by some categories of fund in fund accounting.

2.2.2 Institutional Issues in IPSAS

Beside the foregoing conceptual issues which border on the elements of financial information, other institutional issues are discussed below. These include:

- **Neglect of national diversity**

There is the tendency of IPSASs to ignore national diversity in political, legal, cultural and economic systems. IPSASs tend to uphold professional authoritarianism at the expenses of the aforementioned diversities. IPSASs, an Anglo-American offshoot, foisted on other alien models existing in Luco-Phone, Franco-Phone or Anglo-phone African countries. Nigeria as an Anglo-phone country with great diversity is compelled to adopt IPSASs which are of Anglo- American origin.

It is instructive to know that the ISSAIs, though weak in their implementation, especially in Nigeria, mutatis mutandis, are faulted in terms of the aforementioned conceptual and institutional issues.

2.3 REGULATORY AGENCIES AND STANDARD SETTING PROCEDURES

2.3.1 Regulatory Agencies in Public Sector Accounting

The IPSASB of IFAC is the main agency that regulates the public sector accounting through the issue of IPSAS. IFAC's standard setting board (IPSASB) follow a due process that supports the development of high quality standards in the public interest in a transparent, efficient and effective manner. Presently INTOSAI, a standard-setter, places the role of an observer at IPSASB meetings. Therefore, the willingness of INTOSAI to recommend IPSASs to the Auditor-General of its member states would not only be a major vote of confidence for the enforceability of IPSAS but also makes the body (INTOSAI) an effective regulatory agency of public sector accounting in Nigeria .ICAN's endorsement of IPSASs, reflects her membership of IFAC, and by extension, Nigeria.

In Nigeria, beside the international regulatory agencies, the public sector accounting draws its regulation from the Ministry of Finance and the NASB. The Ministry by Finance is constitutionally empowered to regulate government financial reporting. The NASB, though essentially committed to the private sector organizations, is statutorily empowered by the NASB Act of 2003 to issue standards for accounting issues. To this end, public sector organizations are encouraged to adopt IPSASs issued by IFAC's IPSASB. The Institute of Chartered Accountant of Nigeria which is a signatory to IFAC was one of the founding members of NASB in 1982.

2.3.2 Standard Setting Procedures

Standard setting procedures for IPSASs on any accounting issue are undertaken by the IPSASB. The IPSASB, preceded by the Public Sector Committee as it then was until 2004, is a Senior Technical Committee of IFAC. IFAC is made up of 157 professional bodies, including Nigeria, in 123 countries as at 2008. IPSASB is selected by IFAC Governing Board whose nominations are drawn from the institutional members. Presently, IPSASB is composed of 15 members nominated by the nationals of professional bodies and three (3) public members.

Development of IPSASs is assisted on technical issues by broad-based consultative group observers that have provided financial support. This group includes the IMF, the World Bank, the U.N Development Program, and the Asian Development Bank. However, there are observers that have not contributed to the financial support. These include INTOSAI, the Organization for Economic Cooperation and Development (OECD), the International Financial Reporting Standards (formerly IAS) and the European Commission.

Any accounting issues arising from the industry, members of the public or members of the board, as the case may be, are debated extensively with inputs from various stakeholders. The issues discussed and extensively debated by the board, with technical input from the technical and other members of the Committee, now constitute an Exposure Draft(ED).The ED is further ‘exposed’ to all stakeholders and members of the public through the country’s professional body. This will allow the interests of the countries to be captured with wider reach in order to exhaust all the nitty-gritty issues. It is only after all these and after a good period that the standard is issued. So far the following standards have been issued:

General: Standards on Accounting Recognition and Measurement.

There are only three standards in this category, namely:

- No 4: The Effects of Changes in Foreign Currency Exchange Rate
- No 9: Revenue from Exchange Transactions
- No 23: Revenue from Non-exchange Transactions (Taxes and Transfers)

General standards on Reporting

There are eleven standards in this category, namely:

- No 1: Presentation of Financial Statements
- No 2: Cash Flow Statements
- No 3: Fundamental Errors and Changes in Accounting Policies
- No 6: Consolidated Financial Statement and Accounting for Controlled Entities
- No 8: Interest in Joint Ventures
- No 10: Financial Reporting in Hyperinflationary Economies
- No 14: Events after the Reporting Date
- No 18: Segment Reporting
- No 20: Related Party Disclosures
- No 22: Disclosure about General Government Sector
- No 24: Budget Information

Standards on Specific Elements of Financial Statements.

There are 13 standards in this category, namely:

- No 3: Net Surplus or Deficit for the period
- No 5: Borrowing Costs
- No 7: Investments in Associates
- No 11: Construction Contracts
- No 12: Inventories
- No 13: Leases
- No 15: Financial Instruments
- No 16: Investment Property
- No 17: Property, Plant, and Equipment
- No 19: Provisions, Contingent Liabilities and Contingent Assets
- No 21: Impairment of Non-Cash-Generating Assets
- No 25: Employee Benefits
- No 26: Impairment of Cash-Generating Assets

Exposure draft, as of early July 2008, two Exposure Drafts awaited public comment, namely:

- Service Concession Arrangements
- Social Benefits: Disclosure of Cash Transfers to Individuals and Households

Current projects: At the same time, there were five current projects, namely;

- Conceptual Framework for general purpose financial reports of public sector entities.
- Review of Cash-Basis IPSAS
- Financial Instruments

- Fiscal sustainability of government programs and their financing
- Heritage Assets

Source: IPSASB (2008), Handbook on International Public Sector Accounting Pronouncements, New York: IFAC.

In summary, the IPSASB has produced a small number of public-sector, specific standards, but more is in progress. There are many more standards on specific topics than on general criteria. Finally, the board recently initiated a project to articulate a formal conceptual framework on government financial reporting.

3.0 WEAKNESSES IN PUBLIC SECTOR ACCOUNTING FRAMEWORK, REGULATORY AGENCIES AND STANDARD SETTING PROCEDURES

It is instructive to note that the weaknesses discussed below merely emanate from the issues discussed earlier

3.1 Weakness of conceptual framework

The conceptual framework does not sufficiently form the basis for government accounting principles. The kind of conceptual framework being formulated at the IPSASB does not and cannot support government accounting principles. While IPSASs reflect rules about specific elements of financial information, such IPSASs have only few general principles in the face of extensive government activities. Besides, the government accounting needs a broader theory of government accountability which the current IPSASs do not support.

3.2. Ambiguous stance of IPSASB

In addition to the foregoing weakness, the issue of both cash-basis and accrual-basis of accounting standard in a reflection of ambiguous stance by IPSASB. IPSASB is not clear yet on its stance on both cash basis and accrual-basis of accounting. It is seemingly obvious that the relationship between these two bases of accounting cannot be explained.

3.3 Unclear consolidated format for government sector entities

The presentation of consolidated format for government sector entities portrays that the government sector gives a hazy picture of what government consists of. IPSAS 22 tends to obliterate the cultural, political economic and legal dimensions of countries which this standard may apply.

3.4 IPSAS as an imposition

At the institutional level, IPSAS is seen as an enterprise to be applied in other countries without the socio-economic, authoritarian and legal backgrounds of the Saxon-American model at the expense of other countries. IPSASB tends to assert its authority at the expense of the different external environments across countries.

3.5 The unrepresentativeness of IPSASB

Looking at the structure of IFAC and IPSASB that emanates from it, the standard setting procedures tend to reflect a tiny section of the 157 members, as membership of 15 countries and 3 public members, about 11%, cannot be said to be a good representatives of 157 members or professional association in 123 nation (as at 2008).

3.6 Lack of financial assistance

Additionally, the funding arrangement for IPSASB or financial assistance by a broad-based consultative group observers and lack of financial assistance by a few others may be unhealthy for IPSASB.

3.6 Lack of independence for SAI

The INTOSAI is not encouraged even as an Observer on the IPSASB where the independence of its members are not guaranteed in line with the Lima declaration on auditing percepts

4.0 REFORMS EXPECTED IN PUBLIC SECTOR ACCOUNTING FRAMEWORK, REGULATORY AGENCIES AND STANDARD SETTING PROCEDURES

The aforementioned weaknesses suggest an overhaul of the public sector accounting system in order to ensure high quality standards that will impact positively on financial reports of government and government entities. To this end, the starting point of the proposed reform will be at:

4.1 Conceptual framework needs an overhaul

The few general principles in IPSAS derive from the definition of conceptual framework. Government accounting principles derived from the multifaceted nature of government activities cannot be supported by the conceptual framework. To this end, there should be a commitment to an explicit theory of government accountability so that accounting standards are derived from accountability requirements.

4.2 IPSASB's affirmation of accrual-basis of accounting advocated

The issue of cash-basis and accrual-basis of accounting principle be discarded, leaving each country to implement the principle to the extent possible. The assumption that the IPSASB is favourably disposed to the accrual basis and still goes ahead to published one comprehensive cash-basis and accrual-basis of accounting is a show of confusion and indecision. In addition, the contexts for accrual should be redefined by IPSASB. This can be done by segregating the contexts for accrual into the accrual basis of revenue recognition, accrual accounting and accrual-based financial statements. IPSAS No 23 on “Revenue from Non-Exchange Transactions (Taxes and Transfer) specifies an alternative to the business-like accrual bases .To this end, and recognizing that accrued accounting is broader than accrual basis of accounting, governments can still practice accrual accounting without the full accrual basis of revenue recognitions because revenue is an increase in net assets, and the amount of net assets depend on the criteria used in recognizing some resources as assets and some obligation as liabilities. A wider range of assets and liabilities could be reported on the balance sheet with higher degrees of accruals. The amounts of net assets measure liquidity and solvency. Revenues and expenses are increases and decreases respectively on net assets.

4.2. IPSAS’s position on presentation of accounts in consolidated format can be redefined

IPSAS’S position on presentation of accounts in consolidated format can be redefined. The whole government could be reported in other ways. There could be columns organized by principal types of activities, inclusive of government business, fiduciary and a total and the government. The government-wide may have to be augmented by another column displaying legally- independent units with significant financial interdependency with the government. The accounting system has to maintain data at a sufficiently disaggregated level to permit ways of presenting the government.

4.3 Institutional framework needs an overhaul

The current size and composition of IPSASB need to be broadened to enhance its representativeness of the various diverse authorities, economic, legal and political systems of member associations and nations. In addition such representative members should reflect among others professional experiences in government or in the private sector, and membership should be drawn from different regions of the world, reflecting the developed and developing nations. In addition, members should be versed in democratic and other political systems. The broad-based consultative group members should be co-joiners by virtue of their financial assistance and support to IPSASB.

4.4 Monopoly of IFAC as the sole oversight body for IPSASB be broken

It is also advocated that the monopoly of IFAC as the sole oversight body for IPSASB be broken while the organization that provide funding and other services be encouraged. In addition, given the adoption and implementation of IPSASs in Nigeria and other countries a pluralistic oversight mechanism by government finance officers and government auditors may be advocated. It is reasoned, just as changes to government accounting systems suggest, that control elements, by way of administrative rule or legislation or one firm of endorsement or the other, could constitute an oversight body for IPSASs. Beside, the observer status of INTOSAI on IPSASB is changed to collaboration between the two international bodies and the national body of NASB (in the case of Nigeria) or other bodies of countries that subscribe to IPSASs. After all, INTOSAI has re-commended the use of IPSASs to Auditor-General in its member states.

5.0 CONCLUSION

The objective of this paper, among others, is to critically evaluate the public sector accounting framework, regulatory agencies and standard setting procedures. This objective has been met within the context of the conceptual and institutional framework of public sector accounting in Nigeria. The institutional framework of public sector accounting was addressed in the context of IFAC’s IPSASB and INTOSAI’s ISSAI. In Nigeria, the 1999 Constitutional provisions, the Finance (Control and Management) Act of 1958, the Audit Ordinance Act of 1956, among others, subsist and suffice in the regulation of public sector account in Nigeria. Though the NASB has not issued standards for the public sector, public sector accounting has been driven by IFAC whose IPSASB represent in the issue of standards, for the public sector organization.

Suffice it to say that the some of the regulatory agencies in Nigeria, such as ICAN, ANAN the Ministry of Finance, the Accountant-General Office (by the provisions of the Constitution) the NASB, constitute the regulatory agencies; and their activities, either directly or indirectly impact on the public sector organization in Nigeria. However, the weaknesses of the public sector accounting framework, regulatory agencies and standard selling procedure suggest inappropriate conceptual and institutional definition of framework, including the International Public Sector Accounting Standards and the procedures and processes that throw up there standards.

Therefore, against the backdrop of the weaknesses, sweeping reforms are advocated, including principle-based standards that will accommodate the multi-faceted activities of government; restructuring of the IPSASB to make it more representative and proactively responsive to the over 157 professional association world wide. Besides it is advocated that the IPSASB must reflect the balance of politics, economy, culture and such like; and in the area of technical assistance, the consultative observer group should be co joiners in terms of financial assistance to IPSASB. Finally, collaboration among the standard setters whether nationally or internationally and the current transformation of government accounting is to be taken to a global revolution staged by accountants. It remains to be seen whether this global revolution in government accounting is premature.

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