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GCBER 2017
August 14-15, UPM, Malaysia
Global Conference on Business and Economics Research

Governance and Sustainability of Global Business Economics

Global Conference on Business and Economics Research (GCBER) 2017
14-15 August 2017, Universiti Putra Malaysia, Malaysia

Contingency for Financial Reporting Quality in the Public Sector under Cash-Basis IPSAS: a Conceptual Approach

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Abstract

Incidence of corporate financial scandals over the years have generated increased concern and comments by observers on the efficacy and quality of financial reports produced by corporate organizations. This has result to doubt as to whether the financial reports emanating from organizations, possesses the evaluative benefits and quality to reveal the actual financial status of organizations and to support the information needs of diverse users. Moreover, the introduction of International Public Sector Accounting Standards (IPSAS) is expected to serve as corrective measure, though within relevant contingencies. The objective of this paper is to conceptually come up with a framework that explains key contingent factors that influences financial reporting quality (FRQ) under an accounting system that applies the cash-basis IPSAS. Based on archival survey and theoretical justifications, the conceptual framework of the paper posits that, internal audit quality and staff competence are potential organizational factors that could accentuate higher quality financial reporting practice in the public sector, despite the adoption of accounting standards. This paper serves as useful direction for future research towards testing and understanding the significance of organizational contingencies on FRQ during cash-basis IPSAS application.

Keywords: Organizational contingencies, financial reporting quality, theory

1. INTRODUCTION

The global initiatives brought by the New Public Management (NPM) adds to improvement in the operation of public sector organization and achievement of efficient and effective financial performance including promotion of culture of transparency and accountability (Benito, Brusca, & Montesinos, 2007). At the center of this initiatives is the call towards improving the quality of financial information through institution of accounting reforms involving harmonization and convergence of international and national accounting system (standards) in order to enhance quality and standardization of financial reporting practices among different constituencies (Benito et al., 2007; Iuliana, 2010; Legenzova, 2016; Muller & Berger, 2009; Wang, 2011). Consequently, this results to the introduction of International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standard Board (IPSASB). The IPSASB is an independent board established by the International Federation of Accountants (IFAC) (Muller & Berger, 2009). The introduction of IPSAS in the public sector demonstrates fundamentally, a shift from the traditional cash basis to accrual basis accounting system which is aligned with the practice in private sector (Brusca & Martınez, 2015).

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Thus, the alignment of IPSAS with the International Financial Reporting Standard (IFRS) has been largely criticized on grounds of the fundamental differences between the public and private sector (Anessi-Pessina, Nasi, & Steccolini, 2008; Broadbent & Guthrie, 2008; Carlin, 2005; Toudas, Poutos, & Balios, 2013). Therefore, in recognition of this contention, the IFAC in 2002 promulgated specific standards to address the public-sector accounting issues. This leads to the introduction of a standard based on comprehensive cash basis accounting, named as cash-basis IPSAS (IASB, Draft, & Entity, 2010; IFAC, 2009b; IPSASB, 2010). As envisaged by the IPSASB, the cash-basis IPSAS represent the agreed minimum benchmark of international best practice in accounting and reporting, that seek improvement in accounting reporting of new adopters of IPSAS prior to their transition to the full accrual-basis IPSAS (Adhikari & Mellemvik, 2010b; Hung & Subramanyam, 2007; Parry & Wynne, 2009).

However, extant studies on the imperatives of accounting standards reveals that, FRQ under any given accounting standard is contingent and sensitive to some organizational factors which also influences the result of financial reporting outcomes (Barth, Landsman, & Lang, 2008; Bushman & Piotroski, 2006; Hope, 2003). Ball, Robin, and Wu (2003), established that, high quality standards do not necessarily translate to high quality accounting information. They argued that other variables such as economic and political factors also significantly affect reporting quality. Nonetheless, plethora of studies that examines the performance of accounting reporting following the introduction of IPSAS in the public sector, have ignored the investigation of FRQ under the cash-basis IPSAS. This is despite the fact that the cash-basis IPSAS is one standard within the IPSAS provision that are mostly adopted as an initial step for countries that intend to transit to the adoption of the full accrual-basis IPSAS (IFAC, 2009a). Again, limited studies have attempts to understand the potential organizational factors that could influences FRQ among countries that have adopted the cash-basis IPSAS (these countries are more in the developing countries e.g. Nigeria, Ghana, Burkina Faso etc.). Scores of existing studies on the subject, have only been evaluative of the cost-benefit of the reform (Ayobami, 2014; Herbert, Ene, & Tsegba, 2014) without recourse to examining the influence of organizational factors that serves as contingencies that may affect FRQ outcomes. This limitation may prevent clear understanding of effective implementation of the standard and consequently affect smooth transition to full application of the IPSAS provisions by regulators and practitioners.

The main thrust of this paper is to conceptually describe the potential organizational factors that most often than not, influences FRQ notwithstanding the adoption and application of accounting standards. By this, the foregoing paper argued that internal audit quality and competency of accounting staff are critical organizational factors that influences FRQ in the public sector. This conceptual framework has been borne out of the theoretical exigencies of contingency model as exemplified by Lüder, (1992). Luder (1992) explored the application of contingency theory to develop the contingency model on government accounting innovation in order to specify the social-political administrative environment and its impact on governmental accounting system (Mbelwa, 2014). According to Chan (1994), the contingency model seeks to explain what and how environmental factors influences the diffusion of more innovation in the information system of accounting in public sector.

The remaining sections of this paper is structured as follows: the second section comprises the literature review regarding underlaying variables of the paper. The third section reviews studies on relations between constructs underlying the framework. A brief description of accounting system based on cash-basis IPSAS is discussed in section four. The fifth section is devoted to the conceptual framework, while section six ends with a conclusion.

2. LITERATURE REVIEW

2.1 Financial Reporting Quality

Financial Reporting Quality (FRQ) is a concept derived from financial reporting system of economic an entity. It's a term widely used in financial accounting research (Bageva, 2010). Jonas and Blanchet (2000), states that "quality financial reporting is full and transparent financial information that is not designed to obfuscate or mislead users. In terms of its measurements, methods such as, accrual accounting model (Healy & Wahlen, 1999; Van Tendeloo & Vanstraelen, 2005), value relevance models (Barth et al., 2001, 2008, Maines & Wahlen, 2006), method focusing on specific elements of the annual report (Hirst, Hopkins, & Wahlen, 2004) have often been used to measure FRQ in the private sector. While in public sector, FRQ is measured largely through the operationalization of the qualitative characteristics of the financial statement (Braam & Van Beest, 2013; van Beest & Braam, 2006; Van Beest, Braam, & Boelens, 2009).

Conceptual measurement of the qualitative characteristics of financial reports have been developed by international accounting bodies such as the International Accounting Standard Board (IASB), International Federation of Accountants (IFAC) and the Financial Accounting Standard Board (FASB). This measurement primarily offers a comprehensive perspective for assessing the entire range of qualitative characteristics of the financial report (IASB, 2010). By this, different dimensions have been adopted to describe the qualitative attributes according to the literature. Accordingly, qualitative attributes/characteristics such as concept of relevance, faithful representation, understandability, comparability and timeliness are considered as potential qualitative factors that describes FRQ (D. A. Cohen, 2003; S. Cohen, Kaimenakis, & Venieris, 2013; IFAC, 2009a; IFAC, 2015; Jonas & Blanchet, 2000; Van Beest et al., 2009). Exposure Draft (ED) by the International Federation of Accountant (IFAC, 2009, 2015) indicates that information would be relevant when it makes difference in the user's decisions making concerning an economic phenomenon. For an accounting information to be faithfully represented, financial report must have reflective feature of the annual report which is complete, neutral and free from material error. While understandability is achieved when the presentation of information is done in such a way that allow users comprehend the meanings of the items contains in a report. Comparability belongs to a qualitative attribute which make users of accounting information to identify similarities in and differences between two sets of economic phenomena (IASB, 2009: 39). Timeliness refers to the amount of time an economic entity takes to make information known to other users, and it is related to decision usefulness in general (IASB, 2010).

2.2 Internal Audit Quality

Auditing is a statutory requirement that gives credibility and reliability to the financial statement produced as a stewardship undertaking by managers to ownership of an organization (Eze, 2016). Audit function in the public sector is viewed as an integral part of government financial management activities, and in the recent time, an instrument for improving financial performance of the public sector (Diamond, 2002). The objectives of audit in government from a broad perspective, involves mechanisms for assuring the government or its ministries, agencies, and the legislatures, that public funds appropriated to public managers are spent in compliance with appropriate and relevant laws, and that the financial reports on the use of funds fairly and accurately represent its financial position (Diamond, 2002).

As it is found in many cooperate organizations, public or private, audit activities take the form of internal and external activities. While much attention has been paid to external auditing over the years, recent studies have increased emphasis and interest on Internal Audit Function (IAF) as an organizational factor that promotes and improves accountability and transparency within government program and operations (Asare, 2009). Stewart and Subramaniam (2010) argues that, the evolving expansion in research attention on the role of internal audit (IA) is motivated by its essence as a key mechanism of corporate governance (CG) and management consultancy services. By this, organizational objectives are achieved through the operation of IAF, by the assurance and advise offered to management regarding better management of risks and improving internal control activities. Within organizational setting, Asare (2009) describes the broad scope of initial internal audit activities as relating to the review of the effectiveness and efficiency of operations, the reliability of financial reporting, fraud investigation, risk management, safe guide of assets and compliance with laws and regulations. The current perspective of IAF, as revealed by the Institute of Internal Auditors (IIA, 1999) submit that:

"Internal audit is an independent, objective assurance and consulting activities designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance"

However, despite the recent attention focused on branches of IAF, little is known about the determinants of its quality as an important organizational mechanism (Abbott, Daugherty, Parker, & Peters, 2016; Barac & Van Staden, 2009). Trotman (2013) notes the pervasive external audit perspective of the quality of IAF, has limit the direct measurement of the quality of IAF. Major studies on IAF adopts indirect proxies to determine the quality of IAF. For instance, Abbott, Parker, and Peters (2012), Messier, Reynolds, Simon, and Wood (2011), Prawitt, Sharp, and Wood (2012) measures internal audit quality through external auditor's reliance on the IAF for financial statement audit assistance. While Mihret and Yismaw (2007) used staff expertise and scope of services to determine. In addition, the stream of extant researches on quality of IAF have also considers the features of competence and independence of the internal auditor's capability (Abbott et al., 2016) and work performance (Trotman, 2013).

Inference from the International Auditing and Assurance Standard Board (IAASB) and the works of Abbott et al. (2016) submits that, competency of an auditor refers to the ability to perform tasks diligently and in accordance with professional standards. The Institute of Internal Auditors (IIA) defines competence as "the ability of an individual to perform a job or task properly, involving defined knowledge, skills and behaviours" (IIA, 2013). Similarly, the IAASB (2013), defines independence as "the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner" In other words, independence refers to the state of being objective in judgements or a means to protect against bias, conflict of interest, or undue influence of others that would override professional judgments.

However, studies conducted on the measurement of competence and independence as determinants of quality of IAF, have either examines the concepts as single antecedent to measure scenarios of IAF (Goodwin, 2003; Marx & Voogt, 2010; Sale, 2005; Stewart & Subramaniam, 2010), or as additive or interactive concepts causing a joint/mutually exclusive effect on IAF phenomena (Abbott et al., 2016; Barac & Van Staden, 2009; Prawitt et al., 2012). Moreover, Desai, Gerard, and Tripathy (2011) identifies four scenario of IAF determinants, including competence, independence, level of work performance and external auditor opinion of the overall IAF quality. In their study, different surrogates and proxies have been used as measurement such as, competence proxied by experience, certification, training and audit planning and supervision. On the other, independence proxied by reporting relationship, breadth and depth of investigatory scope and recommendation implementation. While work performance is measured by efforts, execution of plans, thoroughness and quality of reporting of IAF.

Barac and Van Staden (2009), conducted a study on correlation between perceived quality of IAF and soundness of corporate governance structure adopts measurement of quality of IAF using competence characteristics (satisfaction with competence attribute, value addition to corporate governance activities, implementation of IA recommendation, highest level of qualification) and formality of reporting line for independence characteristics. In addition, Abbott et al. (2016) measures quality of IAF based on competence proxied by average hourly rate of budgeted IAF resources and Independence proxied by audit committee influence on IA reporting, IAF as a management training ground and the use of outside sourcing of IA. The section that follows reviews related literature on the relation between organizational contingency and financial reporting quality.

3. ORGANIZATIONAL CONTINGENCY AND FRQ UNDER ACCOUNTING STANDARD

3.1 Internal Audit Quality and FRQ Relation

Deis and Giroux (1992) comments that the probability of detecting a breach depends on auditor’s technical ability (competence) while the probability of reporting to clients on error detected depends on auditor’s level of independence. The determinants of what constitute audit quality in analyzing its relevance on FRQ has featured in the literature through adopting approaches relating to direct measure of audit quality, measurement through agency quality review and through attributes of perceived audit quality (Carcello, Hermanson, & McGrath, 1992; Carslaw, Pippin, & Mason, 2012). Based on regulatory agency requirement, internal audit function (IAF) is a statutory requirement by organization towards their auditing assignment. By this, Barac and Van Staden (2009) investigate the correlation between quality of internal audit function (IAF) and soundness of organization’s corporate governance structures through a survey research. Based on questionnaires administered on chief audit executives, chief executives and audit committee chairpersons of participating companies, the result of the analysis reveals that that no correlation was found to exist between the internal audit quality and the audit committee chairs on their companies’ IAF. The implication of this result cast doubt on the internal audit's role as a corporate governance mechanism in an organization.

Further, Carslaw, Pippin, and Mason (2012) based on sample of 601 audit information generated from nine States of US (Arizona, Georgia, Iowa, Michigan, Mississippi, Oklahoma, Tennessee, Utah, and Washington) investigate the difference between a State mandated audit agency and a private firm audit outfit in relation to FRQ. The findings from t-test and regression analysis indicates that State auditors are more likely to find more reportable conditions in the audit of government entity and no significant difference in reporting lag between State and private sector auditing was found. Thus, the observable scenario shows that, State audit is characterized by different oversight rules, such as regulations concerning audit procurement which is a key determinants of audit quality and timeliness. This however suggest that, the institutional arrangement on audit function in the public sector play a significant role in the quality of audit responsibility imposed on public auditors. Most studies that adopts quality attributes to examine the relationship between audit quality and FRQ, have rather been based on perceived judgements. For instance, Carcello et al. (1992), examines the perception of high-ranking auditors, preparers, and users as it relate to components of audit quality proxied by audit team and firm experience with the client, industry expertise, responsiveness to client needs, and compliance with the general accepted audit standards. The result of the factor analysis indicates that significant differences in the importance assigned to each factor. But compliance with audit standards is found to be significantly important to both preparers and users. That is, preparers place more relevance to auditor responsiveness to client needs than by audit partners.

Among the early studies that link the quality of IA with FRQ is Prawitt et al. (2012). The IAF quality measure adopted in Messier et al. (2011) is a single, additive composite, involving experience, certification, training, IAF reporting structure, time spent on financial activities, and relative IAF size represented in equally weighted metrics. Using data from 2000 to 2005, the authors find that, the composite measure of IAF quality has a positive relationship between financial reporting quality and the IAF's professional certifications and IAF size relative to industry. Conversely, the study finds no significant association between the IAF independence characteristic (whether the IAF reports to the audit committee) and financial reporting quality. Based on this, Abbott et al. (2016) indicates that, while the composite measure of IAF quality includes facets of competence and independence, it is unclear when both of these characteristics are present for a given firm and whether their relationship is interactive or additive.

Nonetheless, a recent study conducted by Abbott et al. (2016) tested the interactive model of quality of IAF taking competence and independence as surrogate in order to gain better insight into IA as a FRQ monitor. Based on questionnaire survey targeted at chief internal auditors, the study supports the hypothesis that joint presence of competence and independence is a necessary antecedent to effective IAF financial reporting monitoring. That is, the competence of the internal auditor and independence significantly enhance FRQ. In addition, Abbott et al. (2016) argued that, factor of competence and independence are two prevalent IAF characteristics which serves has extant audit standard guide in external auditing consideration. However, prior research has provided only limited evidence on the impact of IAF quality on FRQ particularly under an accounting system superintended by a given accounting standards. This is more noticeable, particularly in the case of developing countries that largely adopts the cash-basis IPSAS guidance e.g. Nigeria. Therefore, subjecting the present conceptual framework into an empirical study, and in adherence to suggestion of prior studies such as, Abbott et al. (2016) would extend the literature on this subject.

3.2 Staff Competence and FRQ Relation

The significant requirement for proper performance of a given task has been associated with the level of competence possessed by the worker. Competence is demonstrated by a set of defined knowledge, skills and behaviour (Armstrong, Guay, & Weber, 2010; Kaplan & Reckers, 1995). The theoretical exigencies of competency as an organizational contingent factor, finds relevance in the theory of the institution. Thus, the normative isomorphic institutional theory involves the collective value that bring about conformity of thought and deeds within institutional environments (DiMaggio & Powell, 2000). Normative isomorphic theory reveals that, educational attainment which is fundamental consideration in the development of all competency attributes. Large area of these studies have established significant positive link between competence and performance outcomes (Espositi, Francesca, & Bosco, 2015; Korutaro et al., 2013; Nguyen & Leclerc, 2011). Increased support and development in staff competency (i.e. improved account preparers' capacity) in terms of knowledge, skills and ability (KSA) have been tested to be positively related with effective accounting performance (Abbott et al., 2016; Darwanis, Saputra, & Kartini, 2016; Indriasih, 2014; Iskandar & Setiyawati, 2015). For instance, Iskandar and Setiyawati (2015) examine the influence of internal accountant competence (IAC) on quality of financial report and impact on accountability. Based on survey research design, the finding reveals that IAC has significant effect on FRQ and consequently on accountability.

Similarly, Abbott et al. (2016) adopts the measure of competence of the internal auditor function (IAF) to test the quality of internal audit then financial reporting quality. The finding shows that competence is a necessary antecedent to effective IAF and financial reporting quality. In other words, the effect of internal audit competence on financial reporting quality depends on the competence of the internal auditor. Therefore, for accounting standards to have significant impact on the production of quality financial reports, there must be competent accounting staff with the requisite knowledge and skills to apply the standards toward producing quality financial reports. This suggests that, staff competence is an important determining factor that influence FRQ, despite the adoption and application of accounting standards. This conversely means that accounting standards will on its own, make no significant impact on enhancing the quality of financial report in the absence of competent staff to interpret and apply the issued standard.

4. ACCOUNTING SYSTEM UNDER CASH-BASIS IPSAS

Development in accounting practice over time has been characterized by the use of different accounting bases. Bergmann (2012), argued that the quality and usefulness of accounting reports is a function of the accounting basis under which it is prepared. Pollitt (2007) describes the chronological pattern that exists in the use of the accounting bases over time, starting with the traditional cash-basis at the beginning and at the end of the continuum, is the full accrual accounting system. In between the two extremes is the modified cash basis and modified accrual basis, constituting the interim steps in the transitional process. The International Federation of Accountant (IFAC) in 2002 promulgated specific standards to address the public-sector accounting issues. This leads to the introduction of a standard based on comprehensive cash basis accounting, named as cash-basis IPSAS (IASB et al., 2010; IFAC, 2009b; IPSASB, 2010).

Compliance with the requirements of cash-basis IPSAS is indicated to enhance comprehensive and transparent financial reporting practices by governments, particularly in the areas of cash receipts, cash payments and cash balances. Thus, it is expected that, the new public accounting reform will infuse in the governmental reporting system a more comprehensive mode and higher quality financial reporting system beyond the cash based system as formally used. Again, due to its standardized framework, cash-basis IPSAS surpassed the traditional cash basis and the modified-cash basis accounting system, which lacks standardized defined mode as a general accepted accounting system. The cash-basis IPSAS, which seek to prescribe the manner in which general purpose financial statements (GPFS) should be presented under the cash basis of accounting (Adhikari & Mellemvik, 2010a; IFAC, 2009a; Parry & Wynne, 2009). The GPFS are prepared to meet the information needs of users who are not able to demand for financial statement prepared to meet their specific information needs.

Moreover, the cash-basis IPSAS presents information concerning the cash position of an entity involving cash receipts, cash payments and cash balances. Again, it sets out two parts requirements concerning mandatory and optional financial reporting procedures, by which entities designated as complying with cash-basis IPSAS are to adopt for their reporting practices. The documented report by the IFAC (2006) describe the structure of the financial reporting under the cash-basis IPSAS as thus:

> *"Part 1 is mandatory. It sets out the requirements which are applicable to all entities preparing general purpose financial statements under the cash basis of accounting. It defines the cash basis of accounting, establishes requirements for the disclosure of information in the financial statements and supporting notes, and deals with several specific reporting issues"*

The document also indicates that the requirements in the part one of the Standard must be complied with by entities which claim to be reporting in accordance with the cash-basis IPSAS. While the part 2 which is non-mandatory also involves:

> *"additional accounting policies and disclosures that an entity is encouraged to adopt to enhance its financial accountability and the transparency of its financial statements. It includes explanations of alternative methods of presenting certain information"*

The first part represents the mandatory requirements which must be complied with. The second part refers to the optional/non-mandatory provisions that stipulates additional accounting policies and disclosure an entity is encouraged to adopt to enhance its financial accountability and transparency.

Consequently, Gaffney (1986) argue that, the mode in which financial statement is presented defines its level of understandability and subsequent usefulness to users. This however, enhances the qualitative attributes of financial reports. Conversely, Gaffney adds that, one factor which inhibits users' understandability of the annual reports lies in the difficulties and complexities in the mode of presentation of information. Thus, the IFAC (2009) reports documents that, quality of information provided in general purpose financial statements defines relative usefulness of that statement to users. Accordingly, the pronouncement issued by the document in Paragraph 1.3.32 requires the development of accounting policies to ensure that the financial statements provide information that meets several qualitative characteristics of timely, relevance, reliability and maintenance of complete and accurate accounting records to produce in the general purpose financial statement.

5. CONCEPTUAL FRAMEWORK

The research framework presents the relationships between identified constructs for a study. The major components of these constructs include FRQ as the dependent variable and organizational factors involving internal audit quality and staff competence as the explanatory variables. It is consequential expectation that the introduction and adoption of international accounting standards may improve financial reporting quality among governmental organizations. But survey on extant literature on the subject established that, other than accounting standards other organizational contingencies may influence the performance of financial reporting outcomes.

This perspective however, is consistent with the exigencies of contingency theory which stipulates the effectiveness in fitting organizational characteristics, such as its structure and contingencies to reflects the situation of the organization (Burns & Stalkers, 1961; Woodward, 1965). Important to the contingent theory of organization is the study of Lüder (1992). In the realm of public sector accounting, Luder (1992) invoked the application of contingency model to explain government accounting innovation in the light of both contextual and behavioural variables involving, stimuli, structural variables, political administrative system and implementation barriers to explain reforms in government accounting (Chan, 1994; Chan, Jones, & Lüder, 1996; Lüder, 1992; Upping & Oliver, 2011). Therefore, the contingency model however, seek to explain what and how environmental factors influences the diffusion of more innovation in the information system of accounting in public sector. In other words, development and support for increased quality information in the public sector through innovative arrangement, is influenced (stimulated) by some organizational contingencies which must be enhanced to allow for the successful implementation of the innovative reforms. Thus, it is inferred that, increased quality of internal audit function(IAF) and staff competence are veritable organizational factors which stimulate and accentuate the production of quality financial information and report under the application of accounting system of IPSAS. Therefore, based on the problematic identified in this paper including literature exposition and the theoretical inferences as presented above, the paper present a framework as thus:

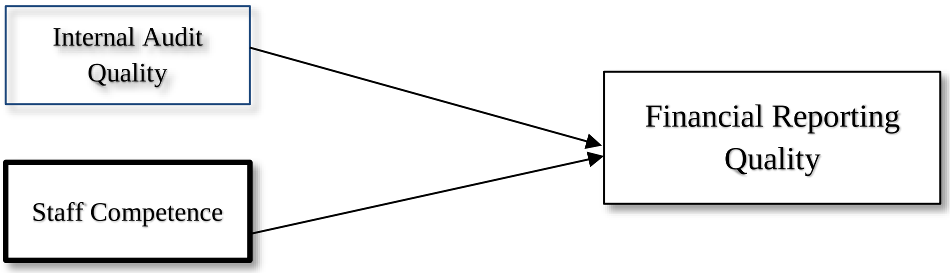

Figure 1*: Conceptual Framework*

Thus, quality of internal auditing function is a critical determinant of the quality of financial reports, notwithstanding the quality of accounting standards in operation. That is, the significance of the adoption and application of IPSAS has a direct relationship with the quality of audit functions instituted to examine and investigate the prepared financial statements. Therefore, it can be conceived that internal audit quality is a direct explanatory variable to have significant positive influence on FRQ during the application of IPSAS.

Furthermore, the significant requirement for proper performance of a given task has been associated with the level of competence possessed by the worker. Test on competence have been adopted in diverse areas to evaluate relationships between assigned role and performance outcome including on accounting (Espositi et al., 2015; Korutaro et al., 2013; Nguyen & Leclerc, 2011). Report of these studies however, have justification from theoretical point of view.

6. CONCLUSION

The aim of this study is to examine conceptually the key factors influencing financial reporting quality under cash-basis IPSAS adoption in the Nigerian public sector. The paper identifies determinants involving internal audit quality and staff competence as key organizational factors that influences FRQ. Based on the review of extant literature and theoretical justifications, the paper conceptually established that internal audit quality and staff competence are potential organizational factors that could accentuate higher quality reporting practice in the public sector within the context of accounting reform. The conceptual framework from this paper may contribute to accounting literature by making inferences on developed countries to support the increased emergence of the adoption and application of International Accounting Standards (IASs) for public governmental sector in developing countries. Furthermore, this paper provides direction for future empirical investigation to test the conceptual exposition of the influence of internal audit quality and staff competence on FRQ under the application of the cash-basis IPSAS. This would further add to the improvement in policy formulation that will contribute to the successful implementation of the cash-basis IPSAS regulations among public sector organizations and the subsequent transition to the full accrual-basis IPSAS.

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