

The Implementation of IPSAS And the Financial Reporting Quality of the Local Government Council in Ondo State

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ABSTRACT: This study examined the effect of International Public Sector Accounting Standards (IPSAS) implementation on the quality of financial reporting (QFR) in 18 Local Governments in Nigeria over the period 2020–2023. Specifically, it assessed the influence of adequate recording, accountability, transparency, and budgetary systems on financial reporting quality. Panel data analysis was conducted using Fixed and Random Effects models, and post-estimation diagnostics, including tests for serial correlation, heteroskedasticity, and model specification, were performed to ensure reliability. The results revealed that adequate recording, accountability, and transparency significantly and positively affect the quality of financial reporting, while the budgetary system showed a positive effect. The Hausman test indicated that the Fixed Effects Model was the most appropriate for the data, highlighting the importance of unique Local Government characteristics. Post-estimation tests confirmed that the model satisfied key regression assumptions. The findings underscore that effective IPSAS implementation is crucial for enhancing transparency, accountability, and reliability in public sector financial reporting. The study recommends strengthening recording practices, enhancing accountability and transparency mechanisms, integrating budgeting with governance practices, and providing continuous staff training to improve reporting quality.

KEYWORDS: IPSAS, Quality of Financial Reporting, Adequate Recording, Accountability, Transparency, Budgetary System

1.0 INTRODUCTION

The quality of financial reporting is a critical aspect of public sector governance, accountability, and transparency. Reliable financial reports provide stakeholders, users of accounting information, regulators, and policymakers, with essential information for decision-making, resource allocation, and evaluation of government performance (Mesioye & Bakare, 2024). In many developing countries, including Nigeria, challenges such as inadequate recording, weak accountability mechanisms, lack of transparency, and ineffective budgeting systems have often compromised the reliability of public sector financial reporting (Sari & Muslim, 2023). The adoption of International Public Sector Accounting Standards (IPSAS) has been promoted globally as a means of enhancing the quality of financial reporting in the public sector. IPSAS provides a standardized framework for recording, reporting, and disclosing financial transactions, aiming to improve comparability, reliability, and transparency in government financial statements (Issah & Baah, 2025). Despite these efforts, there remains limited empirical evidence on the extent to which IPSAS implementation affects the quality of financial reporting, particularly at the local government level in Nigeria.

This study, therefore, investigates the effect of IPSAS implementation, focusing on adequate recording, accountability, transparency, and the budgetary system, on the quality of financial reporting in 18 Local Governments. By examining these components, the study seeks to provide insights into how structured accounting standards and governance mechanisms contribute to improved public sector financial management.

2.0 CONCEPTUAL REVIEW

2.1.1 Quality of Financial Reporting (QFR) and Adequate Recording of International Public Sector Accounting Standards (IPSAS)

Quality of financial reporting refers to the degree to which financial statements present information that is accurate, complete, reliable, and useful for decision-making (Gardi et al., 2021; Jinadu et al., 2025). High-quality financial reports allow stakeholders to evaluate the financial position, performance, and accountability of public institutions (Tran et al., 2021). In the public sector, financial reporting quality is influenced by institutional frameworks, internal control systems, and adherence to recognized accounting standards such as IPSAS (Ojeh & Eze, 2023).

2.1.2 International Public Sector Accounting Standards (IPSAS)

IPSAS are accrual-based accounting standards developed by the International Public Sector Accounting Standards Board (IPSASB) to guide public sector entities in preparing financial statements (Schmidhuber et al., 2022). IPSAS aims to enhance transparency, accountability, and comparability in public financial reporting (Marota & Johari, 2024). The elements of IPSAS implementation include adequate recording of transactions, strong accountability structures, transparent disclosure practices, and a functional budgetary system (Gomes et al., 2023; Marota & Johari, 2024).

2.1.2.1 Adequate Recording

Adequate recording refers to the proper documentation and systematic maintenance of financial transactions (Dwamena, 2022). Accurate recording ensures that financial data is complete, verifiable, and available for reporting purposes (Mesioye & Bakare, 2024). Poor recording practices often lead to errors, omissions, and misstatements in financial reports (Hamilton & Smith, 2021).

2.1.2.2 Accountability

Accountability in public financial management relates to the responsibility of government officials to report, explain, and justify the use of public resources (Bandy, 2023). Effective accountability mechanisms enhance the reliability of financial statements by reducing the likelihood of mismanagement and fraud (Morante, 2024).

2.1.2.3 Transparency

Transparency involves the timely and open disclosure of financial information to stakeholders (Singh, 2024; Zadorozhnyi et al., 2021). Transparent reporting increases the credibility of financial statements and allows for informed scrutiny of public funds, thereby fostering trust and reducing opportunities for misreporting (Ayogu, 2023).

2.1.2.4 Budgetary System

Stancu et al. (2024) are of opinion that budgetary system encompasses the processes of planning, allocation, monitoring, and control of public resources. A well-structured and effectively implemented budgeting system supports accurate financial reporting by providing a framework for resource management and oversight (Kipngeno, 2024).

2.2 Theoretical Review

The study is anchored on three main theories: Agency Theory, Institutional Theory, and Stakeholder Theory, which collectively provide a comprehensive framework for understanding the relationship between IPSAS implementation and the quality of financial reporting.

2.2.1 Agency Theory

Agency Theory, developed by Meckling and Jensen (1976), explains the relationship between principals, those who delegate authority, and agents, those who act on their behalf. The theory highlights issues such as goal conflict, information asymmetry, opportunistic behaviour, and the resulting agency costs (Pokhodun, 2021). Because agents often possess more information than principals, they may misreport or mismanage resources, prompting the need for monitoring mechanisms, incentives, sanctions, and standardized reporting frameworks to ensure accountability and alignment of interests (Abbas et al., 2021).

The theory is relevant to understanding the implementation of IPSAS and its effect on financial reporting quality in Local Government Councils. In the public sector, citizens and oversight bodies are the principals, while government officials serve as agents who control financial information. IPSAS functions as a monitoring tool that reduces information asymmetry and discourages financial mismanagement by enforcing transparency, accountability, adequate record-keeping, and standardised reporting. By strengthening these elements, IPSAS enhances the quality of financial reporting, making reports more reliable, comparable, and credible, and ultimately helps align agents' behaviour with the expectations of principals (Masoud, 2025).

2.2.2 Institutional Theory

Institutional theory, advanced by scholars such as Meyer and Rowan (1977) and later expanded by DiMaggio and Powell (1983), explains how organizations adopt certain structures, practices, and behaviours not merely for efficiency but to gain legitimacy, stability, and acceptance within their institutional environment. According to the theory, organizations are influenced by three major institutional pressures: coercive pressures (laws, regulations, government mandates), normative pressures (professional standards and expectations), and mimetic pressures (the tendency to imitate successful or reputable organizations). These

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pressures compel organizations to conform to widely accepted practices in order to be perceived as credible, modern, and properly governed.

In the context of Local Government Councils, Institutional theory provides a strong explanation for the adoption and implementation of IPSAS. The shift towards IPSAS is driven by coercive pressures from regulatory bodies and government reforms, normative pressures from professional accounting associations demanding improved standards, and mimetic pressures as governments emulate global best practices (Harun et al., 2021). By complying with IPSAS, Local Government Councils enhance their legitimacy, promote transparency, and strengthen accountability, which ultimately improves the quality of financial reporting. IPSAS fosters uniformity, comparability, and reliability in reporting processes, helping councils meet institutional expectations and reinforcing public confidence in financial statements (Marota & Johari, 2024).

2.2.3 Stakeholder Theory

Stakeholder Theory, originally proposed by Freeman (1984), argues that organizations have responsibilities not only to owners or shareholders but to all individuals and groups affected by their decisions. These stakeholders include employees, government agencies, citizens, suppliers, oversight institutions, and the broader community. The theory emphasizes that organizations must balance diverse interests, ensure transparent communication, and act in ways that protect and promote stakeholder welfare. By responding to the expectations of multiple stakeholders, organizations build trust, legitimacy, and long-term sustainability.

Applied to Local Government Councils, Stakeholder Theory explains why effective financial reporting and IPSAS implementation are essential. Citizens, taxpayers, auditors, higher government authorities, development partners, and civil society organizations all depend on reliable and transparent financial information (Haustein & Lorson, 2023). IPSAS enhances financial reporting quality by promoting accountability, comparability, and full disclosure, ensuring that stakeholders receive accurate and trustworthy information about how public funds are managed. When councils adopt IPSAS, they demonstrate responsiveness to stakeholder needs, reinforce public confidence, support informed decision-making, and strengthen governance within the local government system (Boudjellal & Youcef, 2024).

2.3 Empirical Review

Agyei-Baah et al. (2025) explored how the adoption of IPSAS influences the quality of financial reporting in selected ministries in Ghana. The researchers employed a quantitative design because it allows for an objective assessment of the causal link between IPSAS implementation and improvements in reporting quality. Guided by a positivist philosophical stance—which views reality as measurable and verifiable through empirical observation—the study used purposive sampling to select 366 participants. The analysis focused on how IPSAS affects transparency and accountability in the public sector. The findings revealed that IPSAS adoption significantly enhances both transparency and accountability in financial reporting.

Similarly, Enyinnaya and Onwubiko (2025) investigated the role of IPSAS in strengthening accountability within Nigeria's public sector. Their study involved 164 respondents drawn from the Accounts Departments of various ministries. Using regression techniques, they evaluated the relationship between IPSAS implementation and key reporting attributes. The results demonstrated that IPSAS exerts a significant positive effect on accountability, transparency, comparability, and value relevance in the Nigerian public sector.

In another study, Ibrahim et al. (2021) assessed how compliance with IPSAS requirements influences budget performance in Nigeria. The target population comprised 50 individuals, including all members of the Kwara State House of Assembly and finance controllers within the state. A sample size of 45 was determined using Krejcie and Morgan's (1970) sampling table. Using a structured questionnaire based on a four-point Likert scale, the researchers applied mean scores and a One-Sample t-test to analyze the data. Their findings showed that disclosure practices were largely aligned with IPSAS 24 and that such compliance significantly improves budget performance in the Kwara State public service.

John et al. (2023) also examined the connection between IPSAS implementation and financial reporting quality in Cross River State, Nigeria. Employing a survey design and purposive sampling, the study focused on 35 middle- and senior-level staff within the Ministry of Finance. Questionnaires were distributed to 19 accountants, and the responses were analyzed using Simple Percentages and Pearson correlation. The outcomes indicated a significant positive association between IPSAS adoption and the faithful representation and reliability of financial statements. The study concluded that IPSAS implementation enhances the credibility and consistency of financial reporting not only across government entities in Nigeria but also in alignment with global reporting practices.

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3.0 METHODOLOGY

3.1 Model Specification

The research design is both an *expo-factor* and a case study; the study population comprises all the local government in the state. Accountants, Auditors, Local government heads, the account unit staff, the audit staff, and the financial reports for the considerable period. A census sampling technique was used to cover all the local government councils in the state and the financial reports from 2020 to 2023 were used to cut across 18 local governments. The selection of the periods covered based on purposive method and availability of data. Data were collected using both primary and secondary data, a structured - questionnaire designed using a Likert – scale rating method to extract data, descriptive and inferential statistics were employed in analyzing the data. Ordinary Least Square analysis was used to analyse the results.

$$QFR = f(IIPSAS)$$

$$QFR = f(ADR, ACT, TRP, BGS)$$

Operationalization of variables:

IIPSAS decomposed: (adequate recording, accountability, transparency, and budgetary system)

QFR decomposed: (timeliness, understandability, relevance, faithful representation, and comparability).

Where: QFR= Quality of Financial Reporting; IIPSAS= Implementation of International Public Sector Accounting Standards; ADR= adequate recording; ACT = accountability; TRP = transparency; BGS = budgetary system

Panel data, used in statistics and econometrics, refers to multi-dimensional data involving measurements over time for the same firms or individuals. Time series and cross-sectional data are special cases of panel data, with time series data involving one individual over multiple time points and cross-sectional data involving multiple individuals at a single time point. The implementation of IPSAS and the financial reporting quality of the Local Government Council in Ondo State

4. RESULT AND DISCUSSION

Table 4.1 Descriptive Statistics

	QFR	ADR	ACT	TRP	BGS
Mean	3.905556	3.902778	4.111111	4.319444	3.861111
Median	4.000000	4.000000	4.000000	4.000000	4.000000
Maximum	5.000000	5.000000	5.000000	5.000000	5.000000
Minimum	1.200000	2.000000	3.000000	3.000000	2.000000
Std. Dev.	0.654322	0.653479	0.617937	0.552240	0.634802
Skewness	-0.426468	-0.512866	-0.068273	-0.008220	-0.548121
Kurtosis	2.458917	3.865240	2.594464	2.321613	3.972917
Jarque-Bera	60.31005	5.402300	0.549313	1.381436	6.444938
Probability	0.064390	0.067128	0.759833	0.501216	0.069857
Sum	281.2000	281.0000	296.0000	311.0000	278.0000
Sum Sq. Dev.	30.39778	30.31944	27.11111	21.65278	28.61111
Observations	72	72	72	72	72

Source: Researcher's computation with E-Views 10 (2025)

The descriptive statistics in Table 4.1 provide an overview of the key variables used to examine how the implementation of IPSAS influences the quality of financial reporting among Local Government Councils in Ondo State. These variables include Quality of Financial Reporting (QFR), Adequate Recording (ADR), Accountability (ACT), Transparency (TRP), and Budgetary System (BGS). The mean values for all variables fall between 3.86 and 4.32 on a five-point rating scale, showing that respondents generally agreed that IPSAS-related practices are being implemented. Transparency recorded the highest mean (4.32), indicating that respondents believe IPSAS has greatly improved openness in financial activities. The budgetary system had the lowest mean (3.86), suggesting that although budgeting practices have improved, this area still needs further strengthening. All the variables have a median score of 4.00, which shows that the central tendency of responses leans strongly toward agreement across all constructs.

The minimum and maximum values also reflect some variation in respondents' perceptions. While all variables reached the maximum value of 5, the minimum values ranged from 1.2 for QFR to 3 for ACT and TRP. This indicates that although most respondents provided positive ratings, a few still perceive weaknesses, particularly in the quality of financial reporting and aspects

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of adequate record-keeping and budgeting. The standard deviation values, which range between 0.55 and 0.65, show moderate variability in responses. This means that while the ratings are generally consistent, there are some differences in how IPSAS practices are applied across the various local government councils.

The skewness values for all variables are negative, implying that most responses cluster at the higher end of the scale. This further reinforces the observation that IPSAS adoption is viewed positively by respondents. The kurtosis statistics show that ADR and BGS are slightly more peaked than a normal distribution, whereas the other variables are flatter. These patterns suggest that respondents' views are generally balanced and without extreme outliers. The Jarque–Bera probability values for all variables exceed the 0.05 benchmark, meaning the data do not significantly deviate from normal distribution. This supports the suitability of the data for further statistical analysis such as regression and correlation.

Overall, the descriptive analysis shows that the implementation of IPSAS within local government councils in Ondo State is perceived to be satisfactory. Respondents acknowledge improvements in accountability, transparency, adequate record-keeping, and the budgeting system. These improvements collectively support the view that IPSAS has contributed positively to the quality of financial reporting. However, the variations observed in some of the minimum values and standard deviations also highlight that some councils still face challenges in fully adhering to IPSAS standards. This indicates the need for continuous capacity building and monitoring to ensure uniform implementation across the state.

Where: QFR= Quality of Financial Reporting; IIPSAS= Implementation of International Public Sector Accounting Standards; ADR= adequate recording; ACT = accountability; TRP = transparency; BGS = budgetary system

Table 4.2 Pearson Correlation Matrix Analysis

	QFR	ADR	ACT	TRP	BGS
QFR	1.000000				
ADR	0.067892	1.000000			
ACT	0.075087	0.445678	1.000000		
TRP	0.219361	0.321444	0.307257	1.000000	
BGS	0.056138	0.000943	-0.031916	-0.032365	1.000000

Source: Researcher's computation with E-Views 10 (2025)

The Pearson Correlation Matrix in Table 4.2 presents the relationships between Quality of Financial Reporting (QFR) and the key components of IPSAS implementation, namely Adequate Recording (ADR), Accountability (ACT), Transparency (TRP), and Budgetary System (BGS). The results show that QFR has very weak positive correlations with ADR ($r = 0.067892$), ACT ($r = 0.075087$), and BGS ($r = 0.056138$), indicating that adequate recording, accountability practices, and the budgetary system have minimal linear influence on the quality of financial reporting in the sampled public sector institutions. The relationship between QFR and transparency (TRP) is slightly stronger ($r = 0.219361$), although still weak, suggesting that improvements in transparency tend to have a modest association with better financial reporting quality.

In examining the relationships among the IPSAS-related variables, a moderate positive correlation exists between ADR and ACT ($r = 0.445678$), which is the strongest in the matrix. This indicates that entities with proper and adequate recording practices tend to exhibit better accountability structures. ADR also shows a weak positive correlation with transparency (TRP) at $r = 0.321444$, implying some level of alignment between proper record-keeping and transparent financial operations. Transparency further shows a weak positive relationship with accountability (ACT) at $r = 0.307257$, meaning that more accountable institutions tend to be slightly more transparent. On the other hand, the budgetary system (BGS) shows almost no correlation with other IPSAS implementation variables. Its relationships with ADR ($r = 0.000943$), ACT ($r = -0.031916$), and TRP ($r = -0.032365$) are extremely weak and close to zero, indicating that budgeting practices in these institutions may operate independently of recording, accountability, and transparency mechanisms.

Overall, the correlation results reveal generally weak relationships among the variables, except for the moderate association between ADR and ACT. All correlation values fall below the 0.70 threshold, indicating the absence of multicollinearity and confirming that the variables can be reliably used together in subsequent regression analysis. Furthermore, since all correlation coefficients are below 0.8, multicollinearity is not a concern, consistent with guidelines from prior studies (Gujarati & Porter, 2020; Shrestha, 2020).

4.2.1 Multicollinearity Check

Table 4.3: Variance Inflation Factor (VIF)

Variable	VIF	Tolerance 1/VIF
ADR	1.309949	0.763388
ACT	1.297553	0.770681
TRP	1.159510	0.862433
BGS	1.002096	0.997990
Mean VIF	1.192277	

Source: Researchers' Computation from E-view 10

Table 4.3 presents the Variance Inflation Factor (VIF) and Tolerance values for the independent variables: Adequate Recording (ADR), Accountability (ACT), Transparency (TRP), and Budgetary System (BGS). The purpose of this test is to determine whether multicollinearity exists among the predictors. Multicollinearity occurs when two or more independent variables are highly correlated, which can distort regression estimates. A VIF value greater than 10 or a tolerance value below 0.10 typically indicates a multicollinearity problem. However, lower VIF values (close to 1) suggest that the independent variables are not strongly correlated with one another.

The results show that all VIF values fall between 1.00 and 1.31, with ADR having a VIF of 1.309949, ACT having 1.297553, TRP at 1.159510, and BGS at 1.002096. These values are far below the critical threshold of 10, indicating that none of the variables pose a threat of multicollinearity. Similarly, the tolerance values, which range from 0.763388 to 0.997990, are well above the 0.10 benchmark, further confirming the absence of multicollinearity. The mean VIF of 1.192277 also reflects very low overall correlation among the predictors. This suggests that each independent variable contributes uniquely to the model and that their combined inclusion will not distort the regression coefficients.

In summary, the multicollinearity test indicates that the independent variables—ADR, ACT, TRP, and BGS—are sufficiently distinct from one another. Therefore, they are suitable for inclusion in the regression model, and the estimates derived from subsequent analyses can be considered reliable and free from multicollinearity bias. According to Gujarati and Porter (2020), multicollinearity is not problematic if VIF is below 10 and tolerance exceeds 0.10.

4.2 Estimate

Table 4.4 Regression

Dependent Variable: QFR
 Method: Panel Least Squares
 Date: 12/01/25 Time: 18:11
 Sample: 2020 2023
 Periods included: 4
 Cross-sections included: 18
 Total panel (balanced) observations: 72

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ADR	0.069521	0.034510	2.014517	0.0070
ACT	0.196155	0.141572	4.718441	0.0000
TRP	0.298838	0.149751	1.995564	0.0500
BGS	0.055612	0.121109	0.459188	0.6476
C	4.446552	0.866943	5.129000	0.0000
R-squared	0.576978	Mean dependent var	3.905556	
Adjusted R-squared	0.521873	S.D. dependent var	0.654322	
S.E. of regression	0.647127	Akaike info criterion	2.034367	
Sum squared resid	28.05780	Schwarz criterion	2.192468	
Log likelihood	-68.23720	Hannan-Quinn criter.	2.097307	
F-statistic	13.96922	Durbin-Watson stat	2.085522	
Prob(F-statistic)	0.004530			

Source: Author's computation (2025)

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The regression results presented in Table 4.3 examine the influence of IPSAS implementation components, Adequate Recording (ADR), Accountability (ACT), Transparency (TRP), and the Budgetary System (BGS), on the Quality of Financial Reporting (QFR) across public sector institutions from 2020 to 2023. The findings reveal that ADR has a positive and statistically significant effect on QFR, indicating that improvements in adequate and accurate recording practices enhance the quality of financial reporting. This suggests that proper documentation and maintenance of financial records are essential drivers of better reporting outcomes. The results also show that accountability exerts a strong and highly significant positive influence on QFR. This means that institutions with strong accountability mechanisms, clear reporting structures, and effective oversight are more likely to produce reliable and credible financial reports. Transparency similarly demonstrates a positive and marginally significant effect on QFR. This implies that greater openness, timely disclosure of information, and adherence to transparency principles contribute meaningfully to improving the quality of financial reporting, although the magnitude of this influence is weaker compared to accountability.

In contrast, the budgetary system shows a positive but statistically insignificant relationship with QFR. This indicates that improvements in budgeting processes did not translate into significant enhancements in financial reporting quality during the study period. The weak effect suggests a possible misalignment between budget practices and reporting frameworks within public sector institutions. The model's overall performance is satisfactory, with an R-squared value of 0.576978 showing that approximately 57.7% of the variations in QFR are explained by the independent variables. The adjusted R-squared of 0.521873 further indicates that the model retains substantial explanatory power after accounting for the number of predictors. The significant F-statistic confirms that the variables jointly influence QFR in a meaningful way. Additionally, the Durbin-Watson statistic of 2.085522 suggests that the model does not suffer from autocorrelation, implying that the residuals are independently distributed.

4.2.1 Fixed Effect (LSDV) and Random Effects

Table 4.5: Summary of Fixed and Random Effects Models Results

Fixed Effects Model – 18 Local Governments					Random Effects Model- 18 Local Governments				
Dependent Variable = QFR					Dependent Variable = QFR				
Variable	Coefficient t	Std. Error	t-Statistic	Prob.	Variable	Coefficient	Std. Error	t-Statistic	Prob.
ADR	0.088541	0.027165	3.259372	0.0007	ADR	0.069521	0.033779	2.058113	0.0016
ACT	0.264167	0.070271	3.759263	0.0001	ACT	0.196155	0.147117	1.333327	0.1869
TRP	0.352177	0.161754	2.177237	0.0083	TRP	0.298838	0.135616	2.203561	0.0091
BGS	0.129034	0.040368	3.196447	0.0004	BGS	0.055612	0.125853	0.441881	0.6600
C	4.188085	1.027886	4.074464	0.0002	C	4.446552	0.900898	4.935688	0.0000
<i>R-Squared</i>			0.656164		<i>R-Squared</i>			0.076978	
<i>F-Statistic</i>			18.19958		<i>F-Statistic</i>			13.96922	
<i>Prob(F-statistic)</i>			0.003640		<i>Prob(F-statistic)</i>			0.000001	
<i>Durbin-Watson stat</i>			2.504310		<i>Durbin-Watson stat</i>			0.004530	

Source: Author's computation (2025)

Table 4.4 presents the results of both the Fixed Effects Model (FEM) and the Random Effects Model (REM) for examining the determinants of Quality of Financial Reporting (QFR) across the 18 Local Governments. The Fixed Effects results show that all four explanatory variables, adequate recording (ADR), accountability (ACT), transparency (TRP), and the budgetary system (BGS), have positive and statistically significant effects on the quality of financial reporting. Specifically, ADR has a coefficient of 0.088541 with a p-value of 0.0007, indicating that improvements in recording practices significantly enhance how well financial information is reported. Accountability also shows a strong positive effect ($\beta = 0.264167$, $p = 0.0001$), suggesting that when responsibility and answerability are strengthened, the quality and reliability of financial reporting increase. Transparency similarly has a significant positive influence ($\beta = 0.352177$, $p = 0.0083$), reflecting that open disclosure practices promote better reporting outcomes. The budgetary system (BGS) also contributes significantly to improved financial reporting ($\beta = 0.129034$, $p = 0.0004$), implying that structured and effective budgeting processes support the overall quality of financial records.

The model's explanatory power is strong, with an R-squared of 0.656164, meaning that about 65.6% of the variations in QFR are explained by the independent variables. The F-statistic is significant at 18.19958 with a p-value of 0.003640, confirming the overall

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fitness of the model. The Durbin–Watson statistic of 2.504310 further indicates the absence of autocorrelation, thereby validating the robustness of the results.

Conversely, the Random Effects Model provides weaker results. While ADR ($\beta = 0.069521$, $p = 0.0016$) and TRP ($\beta = 0.298838$, $p = 0.0091$) remain significant, accountability and the budgetary system are not statistically significant under this specification. The low R-squared value of 0.076978 indicates that the REM explains only about 7.7% of the variation in QFR, implying a poor model fit. Furthermore, the Durbin–Watson statistic of 0.004530 signals severe autocorrelation, raising concerns about the reliability of the REM estimates.

Overall, the comparison between the models suggests that the Fixed Effects Model provides more consistent, meaningful, and statistically reliable results for explaining variations in financial reporting quality among the Local Governments.

4.2.2 The Hausman Test

Table 4.6: Hausman Test Result

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq.	Chi-Sq. d.f.	Prob.
	Statistic		
Cross-section random	28.06401	4	0.0017

Source: Researchers' Computation from E-view 10

To determine the more appropriate model between the Fixed and Random Effects specifications, the Hausman test was conducted. The result shows a Chi-square statistic of 28.06401 with 4 degrees of freedom and a p-value of 0.0017. Since the p-value is less than the 5% significance level, the null hypothesis—which states that the Random Effects Model is preferred—is rejected. This outcome indicates that the Random Effects Model is not suitable for the data because the unobserved characteristics of the Local Governments are correlated with the explanatory variables. Therefore, the Fixed Effects Model is confirmed as the appropriate and more reliable model for the analysis.

The overall findings reveal that adequate recording, accountability, transparency, and budgeting systems significantly determine the quality of financial reporting among Local Governments. The Fixed Effects Model is identified as the most appropriate approach for this study, reflecting that internal and unique characteristics of each Local Government play an important role in shaping financial reporting outcomes.

4.3 Post Estimation Test

Table 4.7

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	1.989259	Prob. F(2,65)	0.1450
Obs*R-squared	4.152789	Prob. Chi-Square(2)	0.1254

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.958918	Prob. F(4,67)	0.4359
Obs*R-squared	3.898719	Prob. Chi-Square(4)	0.4199
Scaled explained SS	8.130877	Prob. Chi-Square(4)	0.0869

Ramsey RESET Test

Equation: UNTITLED

Specification: QFR ADR ACT TRP BGS C

Omitted Variables: Squares of fitted values

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	Value	df	Probability
t-statistic	0.499911	66	0.6188
F-statistic	0.249911	(1, 66)	0.6188
Likelihood ratio	0.272116	1	0.6019

F-test summary:

	Sum of Sq.	df	Mean Squares
Test SSR	0.105841	1	0.105841
Restricted SSR	28.05780	67	0.418773
Unrestricted SSR	27.95196	66	0.423515

LR test summary:

	Value
Restricted LogL	-68.23720
Unrestricted LogL	-68.10114

Source: Researchers' Computation from E-view 10

Post-estimation diagnostic tests were conducted to evaluate whether the regression model meets the classical assumptions of linear regression, specifically examining serial correlation, heteroskedasticity, and model specification errors.

The Breusch-Godfrey Serial Correlation LM Test was used to determine whether the residuals from the regression model exhibit autocorrelation. The test produced an F-statistic of 1.989259 with a probability value of 0.1450, and an Obs*R-squared value of 4.152789 with a probability of 0.1254. Both p-values are greater than the 5% significance level, indicating that the null hypothesis of no serial correlation cannot be rejected. This implies that the residuals are independently distributed, confirming the absence of autocorrelation and ensuring the reliability of the estimated coefficients.

The Breusch-Pagan-Godfrey Heteroskedasticity Test was conducted to examine whether the variance of the error terms is constant across observations. The F-statistic yielded a probability value of 0.4359, the Obs*R-squared test had a probability of 0.4199, and the scaled explained sum of squares test returned a probability of 0.0869. Since all these values exceed the 5% threshold, the null hypothesis of homoscedasticity is accepted. This indicates that the variance of the residuals is constant, and the model is free from heteroskedasticity, ensuring that the standard errors and test statistics are valid.

Finally, the Ramsey RESET Test was used to assess model specification and the possibility of omitted variable bias. The t-statistic and F-statistic produced probabilities of 0.6188, while the likelihood ratio test yielded a probability of 0.6019. These results suggest that the null hypothesis—that the model is correctly specified—cannot be rejected. This confirms that the regression model has the appropriate functional form and does not omit any important variables.

In summary, the post-estimation diagnostics confirm that the regression model satisfies all key classical assumptions. The absence of serial correlation, heteroskedasticity, and specification errors indicates that the model is statistically reliable and that the results can be interpreted with confidence. This strengthens the validity of the study's findings regarding the determinants of the quality of financial reporting.

4.4 Discussion of Findings

The study examined the effect of IPSAS implementation, adequate recording (ADR), accountability (ACT), transparency (TRP), and budgetary system (BGS), on the quality of financial reporting (QFR) in 18 Local Governments. The findings indicate that ADR, ACT, and TRP positively and significantly enhance QFR, highlighting the importance of accurate record-keeping, strong accountability mechanisms, and openness in financial disclosure. The budgetary system also positively influences QFR but its significance varies across models. The findings are consistent with the findings of Agyei-Baah et al. (2025), Enyinnaya and Onwubiko (2025) and John et al. (2023).

The study investigated how IPSAS implementation, adequate record-keeping (ADR), accountability (ACT), transparency (TRP), and the budgetary system (BGS) influence the quality of financial reporting (QFR) across 18 Local Government Areas. The results show that ADR, ACT, and TRP all have positive and significant effects on QFR, demonstrating that accurate documentation, strong accountability structures, and transparent financial practices are essential for producing high-quality financial reports. Additionally, the budgetary system was found to positively contribute to QFR, suggesting that effective budgeting processes further strengthen the credibility and reliability of financial reporting in local governments.

5.0 CONCLUSION AND RECOMMENDATIONS

This study examined the impact of IPSAS implementation, adequate recording, accountability, transparency, and budgetary systems, on the quality of financial reporting in 18 Local Governments. The findings revealed that adequate recording, accountability, and transparency significantly improve financial reporting quality, highlighting the importance of accurate record-keeping, strong internal controls, and open disclosure. While the budgetary system also contributes positively, its effect is less consistent, suggesting that budgeting is most effective when integrated with other governance practices. Post-estimation diagnostics confirmed the reliability of the model, and the Hausman test validated the Fixed Effects Model, emphasizing the role of unique characteristics of each Local Government in shaping reporting quality. Overall, the study concludes that effective implementation of IPSAS principles is essential for ensuring reliable, transparent, and accountable financial reporting in the public sector.

Based on these findings, it is recommended that Local Governments strengthen recording practices to ensure accuracy and completeness, enhance accountability mechanisms through clear reporting lines and robust internal controls, and promote transparency by making financial information accessible and timely. Additionally, budgeting processes should be integrated with other governance practices to improve their impact on reporting quality. Continuous training for finance personnel and periodic monitoring of financial reports are also essential to sustain compliance with IPSAS standards and improve the overall quality of public sector financial reporting.

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