PROFESSIONALISM, STAFF COMPETENCY AND FINANCIAL REPORTING QUALITY IN THE PUBLIC SECTOR

MAARUF MUSTAPHA  
Department of Local Government & Development Studies  
Ahmadu Bello University, Zaria, Nigeria  
mmustaphaphd@gmail.com

Abstract

The financial reporting quality (FRQ) refers to better information dissemination across different users. It is a critical phenomenon for organizations' performance and survival. The public sector in many countries have witnessed considerable changes in the past decades. The prominent one being the international public sector accounting standards (IPSAS) for the public sector entities. Drawing on contingency and institutional theories, this study tests the effects of professionalism on the relationship between staff competency and FRQ under the new accounting standards. Using a survey research approach and self-administered questionnaire, data were gathered from 118 directors of finance representing local governments of four states in the north-west geopolitical zone of Nigeria. The Partial Least Squares Structural Equation Modeling (PLS-SEM) estimate revealed a significant positive relationship between staff competence and FRQ. Conversely, no significant effect was found in the interaction of professionalism on the model. The study implication is discussed in the context of Nigeria.

Keywords: Financial reporting quality, Competency, Professionalism, Public sector accounting.

Introduction

Financial reporting quality (FRQ) has been described as a pervasive phenomenon and is costly to organizations (Achim, 2014; Gjorgieva-Trajkovska et al., 2017). Better financial reporting quality (FRQ) can translate to lower cost of capital (Armstrong et al. 2010; Legenzova, 2016), increased profitability (Al-tahat, 2015; Hirst, Hopkins, & Wahlen, 2004) and is a demonstration of accountability and transparency (Muñoz et al., 2013; Pina et al., 2010). On the other hand, deficiency in FRQ causes substantial losses to organizations and may bring negative and adverse effects on their going concern and consequential liquidation (Martínez-Ferrero, et al., 2013; Tarus et al., 2015). Generally acceptable conceptualization of what FRQ involves has been a subject of wide debate and an elusive phenomenon among scholars. However, general inferences from accounting theories depict that the value of financial reports lie in the ability of financial statements to provide accurate and fair information about the underlying financial position and economic performance of an entity (Herath & Albarqi, 2017). In addition, the significance of quality financial reporting lies in the effectiveness of information dissemination across different users (Bukenya, 2014; Ştefănescu, 2013), its decision usefulness (Cuong & Ly, 2017) and the essence of reporting what it purports to reveal (Hope, 2003).
However, the realization of the essence of FRQ among public sector organizations has witnessed dramatic changes among countries worldwide in the last 30 years or so (Laswad & Redmayne, 2015). One significant change in the recent time is the introduction of the international public sector accounting standards (IPSAS). IPSAS is a global initiative brought by the New Public Management (NPM) phenomena (Massey, 1999; Nobe, 2015). It is the public sector version of the International Financial Reporting Standards (IFRS) which uses accrual accounting as opposed to cash accounting basis. The shift towards using IPSAS in the public sector has the potential to radically change the practice of accounting and financial reporting in the public sector towards enhancing high quality financial reporting (ACCA, 2017).

Following the global financial crisis, governments around the world have heightened the need for greater transparency and accountability in their operations (ACCA, 2017; Akhidime, 2012). Thus, the adoption of IPSAS is gaining momentum across the world, because the traditional cash-based financial statements were less able to predict and prevent sovereign liquidity crises (Lin et al., 2015; Linsmeier, 2011). In order to attract foreign direct investments, countries have initiated financial management reform programs, including the adoption of IPSAS as part of a broader reform programs of the public sector.

However, despite the elaborate progress made so far regarding the adoption of IPSAS, the results of its implementation to accentuate FRQ among constituencies still leaves much to be desired (ACCA, 2017). Accordingly, the Association of Chartered Certified Accountants (ACCA, 2017) reveals that, specific, complex and consistent implementation challenges facing the IPSAS adopting countries is a cause for concern. For instance, the report of ACCA (2017) among others revealed that, staff competence has been a challenging factor hindering the achievement of effective implementation of IPSAS in many countries.

Nonetheless, within the context of developing countries, the cash-basis IPSAS has been widely adopted. Chan (2008) argued that the cash-basis IPSAS would likely become de facto IPSAS and preferred reporting style for public organizations in developing countries in the future, due to its simplicity and lesser cost implication. Specifically, Nigeria is one of the developing countries which adopted the cash-basis IPSAS since 2014 across its three tiers of government, as an initial step prior to transition to the accrual-based IPSAS.

In this regard, extant studies that have researched into the adoption of the accounting standard relating to Nigeria have identified some challenges which impede successful implementation of the reform in the public sector. These include lack of developed legal and regulatory framework (Maigoshi, 2014), low level of awareness among participants (e.g. preparers, users, investors etc.) (Madawaki, 2014), shortage of skilled and competent staff (Garuba & Donwa, 2011; Musa, 2015), and absence of institutions for education and professional capacity building for practitioners and managers (Herbert et al., 2014).

However, despite the noteworthiness of these studies, the analysis of the identified challenges have been only descriptive of the issues without empirical evidence. In addition, while there have been no clear inferences made by previous studies to evaluate specific or compound effect of these challenges to FRQ, the dearth of empirical research that investigates how these factors affect the elaboration of quality financial reporting is obvious.

Therefore, the objective of this paper is to carry out a study on local governments, which examines the perceived role of staff competency on FRQ after the adoption of the cash-basis IPSAS in Nigeria. A comprehensive literature review relating to other contexts have shown that, the relationship between staff competence and FRQ has been somewhat mixed. Hence, the
need for more studies becomes imperative. In addition, this study incorporates professionalism as a moderator variable.

Although the term competence is most frequently cited as a synonym for professionalism, inferences from extant literature had drawn a thin divide between the concepts (e.g. Muzio et al., 2013; Svenssson, 2006). While professionalism involves a specialized capabilities and training by designated institutions, competence involves the acquisition of basic capabilities to perform a job (Kasim, 2015).

Moreover, prior studies have established that the term professionalism is a noteworthy explanatory construct which associate positively with FRQ under accounting reforms environment (Darwanis et al., 2016; Khumawala, Marlowe, & Neely, 2014; Ninlahay & Ussahawanitchakit, 2011). Thus, this paper theorizes to understand whether professionalism matters in strengthening the relationship between competency and FRQ after the adoption of international accounting standard. To achieve the above objectives, a questionnaire survey was administered on directors of finance of local governments, based on the understanding that they are competent stakeholders with the required knowledge and experience on local government accounting system and operations.

**Financial Reporting Quality**

FRQ is a concept derived from financial reporting system of economic entities. The term is widely used in financial accounting literature (Bageva, 2010) and different definitions have been suggested. For instance, Jonas and Blanchet (2000), states “quality financial reporting involves full and transparent financial information that is not designed to obfuscate or mislead users”. Lin et al. (2015) defines FRQ as the degree to which financial statements reveal true and fair information about performance of the financial position of an entity. Methods such as accrual accounting models (Van Tendeloo & Vannstraelen, 2005), value relevance models (Barth et al., 2001, Maines & Wahlen, 2006), and those focusing on specific elements of the annual report (Hirst et al., 2004) have often been used to measure FRQ in the private sector. While in the public sector, FRQ is measured largely through the operationalization of the qualitative characteristics of the financial statements (Braam & Beest, 2013; McDaniel et al., 2002). Concepts such as relevance, faithful representation, understandability, comparability and timeliness are considered as potential qualitative factors that describes FRQ (Cohen, Kaimenakis, & Venieris, 2013; IFAC International Federation of Accountants & IFAC, 2015; Jonas & Blanchet, 2000).

In the public sector, the evolution and development of the international public sector accounting standards (IPSAS) has necessitated the establishment of a conceptual framework that are public sector specific. Though, the structure of the conceptual framework (CF) is similar with that of the private sector (Rutherford, 1992). For instance, a common feature of frameworks is, first, the proposition that information provided to users of financial reports should be useful. Thus, the public sector frame concentrates on what is called general purpose financial reporting (GPFR). The qualitative characteristics of information included in GPFRs of public sector entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability. The framework of IASB (2010), IFAC (2009), refers to the qualitative attributes of relevance and faithful representation as the fundamental qualitative characteristics underlying usefulness of information for users’ decision making. Thus, this paper focuses on two sets of qualitative characteristics, namely, relevance and faithful representation.

Exposure Draft (ED) by the International Federation of Accountant (IFAC, 2009) indicates that information would be relevant
makes a 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.

Based on the above, the present paper adopts relevance and faithful representation as dimensions to measure FRQ. Relevance is measured on items that determines (1) the entity’s ability to generate information about future operation and/or economic activities and (2) whether the annual reports provide information about past operations and/or economic activities about the entity. On the other hand, items measuring faithful representation determine (3) the ability of financial reports to be presented in a comprehensive and transparent manner and (4) whether the annual reports present information regarding positive and/or negative financial events of the entity. However, the four items used to operationalized the two dimension of relevance and faithful representation have been adapted from the study of Barth et al. (2001), Deans (2007), Jonas and Blanchet (2000), McDaniel et al. (2002).

**Hypothesis Development**

**Staff Competence**

Competence is a term usually utilized in the realm of human resource management and its exact conceptualization has been widely debated in the literature. Kasim (2015) states: “competence is what people need to know and be able to do to perform their job effectively”. According to Dingle (1995), competence is a combination of knowledge, skills and awareness. To avoid ambiguity, Dingle (1995) clarifies that knowledge refers to the understanding of fundamental principles required to accomplish the task at hand, while skills involve the application of this understanding. Meanwhile, awareness refers to the proper application of skills (for example in accordance with professional and corporate “good practice”).

Theoretically, the significant exigencies of contingency theory implicitly reveals competency as an endogenous organizational factor that influences organizational performance outcome. Lüder (1992), explored the application of contingency theory to explain the underlying organizational contingencies and their effect on organization’s performance. The imperative of the theory examined the diffusion of more innovation in the information system of public sector accounting and the resultant effect on reporting outcome (Chan, Jones, & Lüder, 1996; Lüder, 1992). The contextual frame of Luder’s contingency model, adopts four variables including implementation barriers which significantly affects organizational performance. Within the framework, implementation barrier involves the militating organizational factors which if not ameliorated may impede effective organizational performance (Chan et al., 1996). Based on this theoretical stand, poor competence of staff is described as ‘implementation barrier’ that may impede the achievement of implementation of accounting standards and subsequently, quality of accounting reporting (Ball et al., 2003).

Scores of research on accounting have adopted the concept of competency as a factor to test accounting reporting outcomes. Findings from these studies are inconclusive as they revealed mixed findings. For instance, Dwyer and Wilson (1989) examines managers competency and financial reporting quality in terms of timely accounting reporting. The findings reveal that managers with the required educational qualification produces timely financial report in terms of reduced time lag between fiscal year end and the auditor’s report date. Next, Nur Afiah and Rahmatika (2014) investigate the influence of competence and internal control on
the quality of financial reporting and its implications on good governance. The study finds that staff competency has a significant effect on the quality of financial reporting. Similarly, Setiyawati (2013) shows internal accountants’ competence has a significant effect on the quality of financial reporting. This result was reinforced by Saputra and Hutahaean (2016), who show that competence of accountants had a positive influence on the quality of the evaluation report formed.

Consistent with the above, Abbott et al. (2016) test the quality of internal audit on financial reporting quality, and finds competence to be a necessary antecedent of effective internal audit functions and financial reporting quality. In a recent study, Puncreobutr et al. (2017) show that accountants’ competence of SMEs has a significant positive association with quality of financial reports of SMEs in Indonesia.

Conversely, an inverse association between competence and FRQ was also documented. For example, Kasim (2015) finds that characteristics of competence possessed by the staff has no significant effect on financial reporting quality. The insignificance effect of the relationship was blamed on the lack of sound accounting knowledge by the staff handling the preparation of the financial reports. This finding supports earlier studies by Cheng et al. (2002), and Xu et al. (2003). Similarly, Darwanis et al. (2016), in their study in Indonesia find that staff competency is not significant in influencing FRQ.

Overall, the review of literature above on the influence of staff competence on financial reporting quality reveals mixed findings. However, consequential expectation posits that higher staff competency should lead to increased quality of financial reporting. In view of this argument, the following hypothesis is advanced:

**Hypothesis 1:** Staff competency is positively associated with financial reporting quality.

**Professionalism as a Moderator**

Professionalism is a multidimensional concept. It means different things in different situations and to different people (Evetts, 2013). Professionalism involves a specialized technical skills and good judgment expected from a person who is trained to do a job (Evetts, 2011). According to the Association of professional Engineer, geologists and geophysicists (APEGGA, 2004), a professional is a calling, requiring specialized knowledge, skills and methods underlie by scientific and scholarly principles. This suggest that professionalism has an edge over competence required to perform a specific task (skill, ability and knowledge). While the former requires a specialized capabilities and training by designated institution the later involves the acquisition of basic capabilities to perform a job.

In the realm of accounting, professionalism is the role of accounting that demonstrates responsibility for the performance of the business professional (Staubus, 2004). In other words, accounting professionalism is the performance of accounting with knowledge, understanding, virtue and ethics, and follows the rule and regulations. Based on its nature, the concept of professionalism in previous studies was referred to as involving accountability, transparency, ethical practice, communication, or specialized skills (Darwanis et al., 2016).

The essence of professionalism in the application of accounting principles and practices has a direct relationship with the quality of financial reporting in terms of reliability (Mataira & Van Peursem, 2010), business reputation (Ninlaphay & Ussahawanitchakit, 2011) and support future data accuracy leading to information useful for decision-making (Moehrle et al., 2009). Research have established that professionalism is positively related to FRQ. For example, professionalism has been linked with disclosure quality in governmental financial report (Robbins & Austin, 1986), and accounting standards (Christiaens, 1999). Ninlaphay
and Ussahawanitchakit (2011) show that accounting professionalism have a significant positive effect on financial reporting quality, and financial reporting quality has a significant positive association with information usefulness. Similarly, Bakhtiar and Azimifar (2013) finds that professional ethics in accounting profession lead to quality of financial reporting.

Based on the discussion, the following hypothesis is advanced:

**Hypothesis 2:** Professionalism is positively associated with financial reporting quality.

Furthermore, given the inconsistent findings in the literature regarding the staff competency/FRQ relations, this paper incorporates professionalism as a moderating variable to strengthen the relationship between staff competence and FRQ. This paper argues that professionalism could increase the competence of staff to implement improved accounting practices (e.g. adoption of cash-basis IPSAS) to produce quality financial reports. This argument is drawn from both empirical and theoretical evidence.

First, Khumawala et al. (2014) finds the level of professional technical attainment has a predictive influence on improved support to enhance the competence of staff. This suggests a significant positive relationship between the complementary role of professional support in the work place and improved staff competence. This is demonstrated through development and support for professional proficiency in skills and ethics, including engagement in norms of best practice of professional institutions.

Second, theoretical lessons drawn from institutional normative isomorphic theory (DiMaggio & Powell, 1991) is relevant to the current global accounting reform towards the standardization of accounting reporting and practices. This theory posits that professionalism has a predictive influence and stimulation for adoption of international accounting standards and consequent improvement in FRQ. Based on this, theorists have argued that, educational attainment which is fundamental to development of competence (Espositi et al., 2015; Kasim, 2015) positively relates to professionalism as a fundamental requirement leading to specialized capabilities (Judge et al., 2010). This professional capability is induced by the requirement and motivations of the fundamentals of normative institutional pressure which is instilled in organizations. This means, due to internationalization and standardization of accounting practice, normative institutional pressure on organizations allows for the institution of professional competencies to accentuate better application of the reform.

Consequently, based on the review of extant literature and theoretical justifications, professionalism being an explanatory and equally antecedent variable to both factors of organizational contingency (accountant competency) and FRQ, could serve as a viable institutional factor to strengthen the relationship between accountant competency and FRQ. Therefore, the following hypothesis is tested.

**Hypothesis 3:** Professionalism strengthens the relationship between staff competence and FRQ.

**Methods**

**Population and Sample Size**

The population of the study is all local governments located in the seven northwestern part of Nigeria, which amounts to 185 local governments as shown on Table.

This region is selected because of the existence of relative peace and security in the zone which allow the researcher to safely access data. Out of the seven states, this study focuses on only four states (Kaduna, Kano, Katsina & Sokoto) which brought the sample size to 124 local governments. The states are chosen because they are the older ones within the zone and it is expected that they have a well-established system and structure of
local government administration compared to
the others. Generalization may be inferred from
the results of the findings because accounting
principles in the Nigerian local government
system are homogenous among the councils
(Bello-Imam, 2007).

Accordingly, the subjects consist of 124 directors
of finance of the respective local governments
under study. Directors of finance were selected
as subjects based on the understanding that
they possess the required knowledge and
experience about local government accounting
and operations. This understanding is consistent
with the views of Larcker and Lessig (1980)
that argues that managers (preparers) possess
sufficient insight based on their decision process
to specify information they consider useful. This
size is sufficient and consistent with Krejcie and
Morgan (1970) population-sample determining
table and Roscoe’s (1975) rule of thumb.

Table 1

State and Local Government in the Northwestern Zones of Nigeria

<table>
<thead>
<tr>
<th>State</th>
<th>Jigawa</th>
<th>Kaduna</th>
<th>Kano</th>
<th>Katsina</th>
<th>Kebbi</th>
<th>Sokoto</th>
<th>Zamfara</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>LG</td>
<td>26</td>
<td>23</td>
<td>44</td>
<td>34</td>
<td>21</td>
<td>23</td>
<td>14</td>
<td>185</td>
</tr>
</tbody>
</table>

Data Collection

This study adopted a structured self-administered questionnaire consisting of close-ended questions. A multi-scale choice questions involving seven-point Likert, dichotomous, categorical and numeric scale were used for scaling. Prior to the administration of the actual survey, an initial draft of the questionnaire was pre-tested to forestall any ambiguities that have not been observed by the researcher. As such, five experts were identified and engaged to examine the draft questionnaire for its face validity in terms of wording, applicability, clarity, simplicity and ambiguity of the items (Dillman, 1991; Yaghmale, 2009) and content validity (Lawshe, 1975). Out of 16 original items in the questionnaire, 13 were retained as shown on Table 2.

Table 2

Results of Retained Items for Content Validity Test

<table>
<thead>
<tr>
<th>S/N</th>
<th>Variable</th>
<th>Code</th>
<th>Original No. of Item</th>
<th>Items Retained</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Financial Reporting Quality</td>
<td>FRQ</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>Staff Competence</td>
<td>COM</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>3</td>
<td>Professionalism</td>
<td>PFR</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

Consequently, out of the total 124 questionnaires distributed, 118 (95%) were completed and returned. Table 3 outlines the demographic profile of the finance directors. Of the 118 respondents, 78 (66%) were male. Most of the participants’ age ranged between 41 to 50 years. Regarding
job experience, about 70% of the respondents have well above 10 years experience with almost 90% having educational qualification of at least a Bachelor degree or its equivalent (higher national diploma). Only 20% of them has a professional qualification.

Table 3

Profile of Respondents

<table>
<thead>
<tr>
<th></th>
<th>No. of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>78</td>
<td>66.1</td>
</tr>
<tr>
<td>Female</td>
<td>40</td>
<td>33.9</td>
</tr>
<tr>
<td><strong>Age group</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>41-50 years</td>
<td>97</td>
<td>82.2</td>
</tr>
<tr>
<td>51-60 years</td>
<td>21</td>
<td>17.8</td>
</tr>
<tr>
<td><strong>Experience</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5-10 years</td>
<td>40</td>
<td>33.9</td>
</tr>
<tr>
<td>10 years and above</td>
<td>78</td>
<td>66.1</td>
</tr>
<tr>
<td><strong>Educational qualification</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Master’s</td>
<td>16</td>
<td>13.6</td>
</tr>
<tr>
<td>Bachelor/HND</td>
<td>102</td>
<td>86.4</td>
</tr>
<tr>
<td><strong>Professional qualification</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>24</td>
<td>20.3</td>
</tr>
<tr>
<td>No</td>
<td>94</td>
<td>79.7</td>
</tr>
</tbody>
</table>

**Measurements**

Details of the questions that measure FRQ (4 items), competency (COM) (4 items) and professionalism (PRF) (5 items) are depicted in the appendix. The measurement for FRQ were adopted from the study of Bartov et al. (2005), Jonas and Blanchet (2000), and McDaniel et al. (2002). In measuring FRQ, respondents were asked to state their perception on a 7-point scale statements, ranging from “1” (very low) to “7” (very high) on statements such as “The annual financial report concerning your local government discloses information about future operation and/or future economic activities of the council”. Four items were adopted from the study of Kak et al. (2001) to measure accountants’ competency (COM) based on a 7-point scale ranging from “1” “strongly disagree” to “7” “strongly agree”. Professionalism was measured based on the studies of Christiaens (1999), Khumawala et al. (2014), Robbins and Austin (1986). Items used were rated on a 7-point scale ranging from “1” “strongly disagree” to “7” “strongly agree”. A sample of the items which participants were asked regarding PRF include: “The membership of the professional accounting institutes helps in the implementation of the cash-basis IPSAS in your local government”.

74
Partial least square structural equation modeling (PLS-SEM) was used to analyse the data. The analysis was performed using smart PLS 3.0 software. The PLS path modeling is considered the most suitable technique in this study for important reasons. First, PLS path modeling allows for the simultaneous estimation of the relationship between constructs (structural model) and the relationship between indicators including their corresponding latent constructs (measurement model) (Willaby et al., 2015). Second, PLS is suitable and ideal for measuring predictive models (Hair et al., 2014). Before conducting the analysis, the raw data were screened to ensure that key assumption guiding multivariate analysis and PLS SEM statistical tool such as test of linearity and normality were not violated (Hair et al., 2014).

Result of PLS-SEM Path Model

Testing the PLS-SEM path model involves two processes (Jörg Henseler, Ringle, & Sarstedt, 2015), that is, testing the measurement model and the structural model. The measurement model, also known as the outer model, explains the relationships between indicators and their respective latent variables (Hair et al., 2014). Therefore, to assess the reliability and validity of the scales adopted in this study, individual item reliability, internal consistency reliability, and discriminant validity were ascertained. Results of the factor loading and reliability are presented in Table 4. According to Hair et al. (2014), the reliability of individual item is confirmed when its standardized loading is 0.707 and above. One item (PFR 02) whose loading was lower than 0.7 was deleted, reducing the items from 13 to 12.

Table 4

<table>
<thead>
<tr>
<th>Latent variables</th>
<th>Items</th>
<th>Standardized Loadings</th>
<th>Alpha</th>
<th>Composite Reliability</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial reporting quality</td>
<td>FRQ01</td>
<td>0.847</td>
<td>0.928</td>
<td>0.931</td>
<td>0.823</td>
</tr>
<tr>
<td></td>
<td>FRQ02</td>
<td>0.902</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>FRQ03</td>
<td>0.936</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>FRQ04</td>
<td>0.940</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff competence</td>
<td>COM01</td>
<td>0.921</td>
<td>0.904</td>
<td>0.933</td>
<td>0.779</td>
</tr>
<tr>
<td></td>
<td>COM02</td>
<td>0.896</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>COM03</td>
<td>0.902</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>COM04</td>
<td>0.806</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professionalism</td>
<td>PRF01</td>
<td>0.896</td>
<td>0.925</td>
<td>0.765</td>
<td>0.762</td>
</tr>
<tr>
<td></td>
<td>PRF03</td>
<td>0.711</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>PRF04</td>
<td>0.951</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>PRF05</td>
<td>0.913</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The internal consistency was estimated using composite reliability coefficient of the measure. It is deemed adequate because the score is greater than 0.7 (Hair et al., 2011). Next, the convergent validity was ascertained using the average variance extracted (AVE) (Fornell & Larcker, 1981; Henseler et al., 2016). The AVE result shows that the convergent validity is satisfied because they are greater than 0.5 (Fornell & Larcker, 1981). Fourthly, to ascertain the discriminant validity, the approach suggested by Fornell and Larcker (1981) was adopted. Based on the recommendation by Fornell and Larcker (1981), this study reports adequate discriminant validity, because as shown in Table 5, the values of the square root of AVEs (values appear in bold) were greater than the correlations between the constructs.

Table 5

Result of Discriminant Validity

<table>
<thead>
<tr>
<th>Latent Constructs</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Staff Competence</td>
<td>0.882</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Financial Reporting Quality</td>
<td>0.801</td>
<td>0.907</td>
<td></td>
</tr>
<tr>
<td>3. Professionalism</td>
<td>0.055</td>
<td>-0.07</td>
<td>0.873</td>
</tr>
</tbody>
</table>

The following Table 6 and Figure 1 present the significant path coefficient for this study.

Table 6

Path Coefficient Result

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Relations</th>
<th>Beta</th>
<th>Sd. Error</th>
<th>t-value</th>
<th>p-value</th>
<th>Finding</th>
<th>R^2</th>
<th>Q^2</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>COM      —&gt; FRQ</td>
<td>0.812</td>
<td>0.039</td>
<td>20.903</td>
<td>0.000**</td>
<td>Supported</td>
<td></td>
<td></td>
</tr>
<tr>
<td>H2</td>
<td>PRF      —&gt; FRQ</td>
<td>-0.108</td>
<td>0.072</td>
<td>1.661</td>
<td>0.097***</td>
<td>Not supported</td>
<td></td>
<td></td>
</tr>
<tr>
<td>H3</td>
<td>COM x PRF  —&gt; FRQ</td>
<td>0.054</td>
<td>0.065</td>
<td>0.847</td>
<td>0.397***</td>
<td>Not supported</td>
<td>0.649</td>
<td>0.498</td>
</tr>
</tbody>
</table>

Note: Dependent variable: Financial Reporting Quality
*Significant at 0.05 (two-tailed), **Significant at 0.01 (two-tailed), ***Significant at 0.1 (two-tailed)

As shown in Figure 1, the values shown near the arrows represent the t-values. These suggest that the relationship was significant at one-tailed test 0.05 level with critical t-value of ±1.645. However, based on the hypotheses stated in this paper, H1 predicts that staff competency relates to perceived FRQ. The result in Table 4 reveals that staff competence had a significant positive relationship with financial reporting quality after the application of international accounting standards (β = 0.812, t-value= 20.903 and p-value <0.01). Thus, H1 is supported. Similarly, the direct effect of professionalism was examined on FRQ. Based on the result in Table 6, professionalism shows insignificant relationship with FRQ (β = -0.108, t-value = 1.661, P-value < 0.1) suggesting that H2 is not supported.
After ascertaining the significance of the path coefficient for the main model, next, this study assesses the structural model based on two criteria, including the R-squared values and predictive relevance of the study model. The R-squared presents the combined effect of exogenous variables on endogenous variable(s). As shown in Table 4, the value of the R-squared stood at 0.649, suggesting that the two exogenous latent variables (i.e. competence and professionalism) collectively explained 64.9% of the variance in financial reporting quality after the adoption of the international accounting standards.

As proposed by Falk and Miller (1992), an R-squared value of 0.10 is an acceptable minimum value of predictive accuracy of determination score between exogenous and the endogenous variable(s). Therefore, it can be substantiated that the endogenous latent variable (FRQ) possesses the acceptable level of R-squared. Lastly, the predictive relevance (Q²) of this study was calculated through blindfolding procedure in PLS 3.0 and assessed using the recommendation by Geisser (1974) and Stone (1974). The Q² is a criterion to measure how well a model predicts the data of omitted cases (Hair et al., 2014). According to Hensele, Ringle and Sinkovics (2009), a research model with Q² value greater than zero is considered to have predictive relevance. The result of this study shows a Q² of 0.498 for the endogenous latent variable, suggesting that the model possesses a good predictive relevance.

**Moderating Effect**

The moderating effect hypothesis (H3) was tested using Henseler and Chin (2010) product indicator approach. This approach allows the PLS-SEM procedure to detect and estimate the strength of the moderating effect of professionalism on the relationship between staff competence and financial reporting quality (Henseler & Chin, 2010). Based on the interaction analysis of the moderating variable and the other latent variable, the results in Table 6 and Figure 1 indicate that the items representing professionalism and staff
competence towards predicting FRQ outcome ($\beta = 0.054$, t-value $= 0.847$, P-value $> 0.1$) was statistically insignificant. This therefore indicates that, the moderating effect of professionalism on the relationship between staff competence and FRQ was not supported.

Discussion

The primary objective of this study was to examine the interaction effect of professionalism on the relationship between staff competence and FRQ following application of the cash-basis IPSAS. This study finds a significant and positive relationship between staff competence and FRQ, and thus supports Hypothesis 1. This suggests that, staff competence in terms knowledge, skills and experience has a significant positive effect on the quality of accounting reports. The educational profile of respondents for the survey testify to the result. According to the demographic profile of respondents (Table 1), over 85% of the respondents possessed first degree and a considerable number possessed a Master degree. This result is consistent with the study of Dwyer and Wilson (1989) who reported a significant and positive relationship between managers’ level of education and financial reporting quality. Similar result was also reported by Nur Afiah and Rahmatika (2014) and Saputra and Hutahaean (2016).

Next, this study hypothesizes that professionalism is significantly related to perceived FRQ. The result of the path model shows that there is no significant relationship between professionalism and FRQ. This indicates that, there is insignificant consideration for application of issues of professionalism in the financial reporting practices among the local governments. Moreover, the statistical result of the proposed hypothesis (H2) based on two-tailed test explain the result of weak/poor motivation for the institution of professionalism in the accounting practice of the local government under study.

This result is contrary to previous studies such as Christiaens (1999), Khumawala et al (2014), Ninlaphay and Ussahawanitchakit (2011) that revealed a significant positive relationship between professionalism and FRQ.

The plausible explanation for the above result suggests there exist a low level of staff development in professional capabilities (e.g. engagement of external professional consultancy, membership of professional institutions, conformity with professional ethics etc.). To illustrate, out of the 118 directors of finance surveyed, only about 20% possess professional qualification in accounting institutions (e.g. The Institute of Chartered Accountants of Nigeria (ICAN) and The Association of National Accountants of Nigeria (ANAN)). In addition, with regards to engaging the services of external professional consultants in the implementation of the new accounting standards (IPSAS), the mean score indicates a weak performance of the local governments in this direction (mean score $= 3.667$, min score $= 1$ and max $= 7$).

In addition, studies on local governments in Nigeria have shown there exist poor staff welfare and remuneration package across the local governments (Emerole & Enyioko, 2015; Okereke & Daniel, 2010; Okey & Okechukwu, 2013). This causes brain drain in the civil service of the local governments where the existing professionals mostly transfer their services to some more lucrative sectors to acquire better condition of service. According to Onyishi, Eme and Emeh (2012), the dearth of experienced, technical and professional staff (including accountants) witnessed in the Nigerian local governments is caused by the low image of the local governments in the minds of the professionals, who cannot withstand the poor working condition. Again, due to poor financial incentives and working condition, collaborations between professional external consultants and the local governments through personnel training and consultancy services hardly work.
Furthermore, Hypothesis 3 is based on the conjecture that professionalism would strengthen the relationship between staff competence and FRQ. As shown in Table 4, professionalism does not interact significantly with the relationship between staff competence and FRQ ($\beta = 0.054$, t-value = 0.847, P-value >0.1). Thus, the possible explanation for the insignificant moderating effects in the model, reveals the poor consideration for professionalism necessary to influence the competency of staff to have significant effect for quality financial reporting in the context of the study.

Conclusion

Overall, the findings of this study bring significant implications for theory and practice. First, additional empirical evidence has been provided in this study, particularly in the area of organizational contingency and financial reporting quality (Chan, 1994; Lüder, 1992; Upping & Oliver, 2011), which indicates that, despite the application of accounting standards, there are other organization factors that also interact to affect the quality of reporting outcomes. This area adds to extend the literature on financial reporting, that staff competence is an important organizational contingency that needs to be considered to enhance FRQ while adopting international accounting standards in the public sector.

Second, instead of focusing on the direct relationship, which had shown inconclusive results by previous studies, this study introduced a moderating variable (professionalism) to test the relationship between the explanatory variable (competence) and the explained variable (FRQ). The insignificant moderating effect of professionalism signals the need to adopt caution in the use of institutional factors (e.g. professionalism), particularly in the context that shares similar demographic profile in respect of staff professional support, as evidenced in this study.

Furthermore, the insignificant moderating effect of professionalism on the relationship between staff competence and financial reporting quality, may suggest the need for another moderating variable. Future studies may adopt other institutional factors such the influence of political factors. According to Burns and Scapens (2000), politics play a key role in driving and shaping change processes, and they argued that the exigencies of politics is a critical tool for organizational participants or constituencies (governments, firms, preparer, investors, voters etc.) to adopt as an advantages to satisfy some vested interest over others. This is imperative, particularly as the global initiative in the public sector drives towards changes to internationalization of accounting practice and reporting. The imperatives and consequences of political pressure in the organizational settings have been observed to influence financial reporting outcomes (Bushman & Piotroski, 2006; Giroux, 1989; Zimmerman, 1977).

Moreover, this study may need to be replicated in different settings and context, using different sample and methods to further validate the revealed findings. Again, a longitudinal research design approach may be explored in future research, to detect and provide insights into changes over time. This may serve as an advantage over the present study that adopted a cross-sectional design, with causal inferences could not be made to the population. Further, FRQ has been measured in the present study through a self-reported measure. While the use of self-report measures as been accused of the problem of common method variance (CMV) and social desirability bias (Podsakoff & Organ, 1986), these challenges have been ameliorated in this study through several procedural remedies suggested by Podsakoff and Organ (1986). Notwithstanding these, previous studies have supported the validity of the use of self-reported measure to test qualitative attributes of FRQ (e.g. Braam & Beest, 2013; Jonas & Blanchet, 2000; Mbobo & Ekpo, 2016).
Despite its limitations, this study is able to reveal that staff competency significantly and positively influences perceived FRQ, while the moderating effect of professionalism between the relationships was inconsequential. These results however, underscore the importance of staff competence as an important organizational factor to be considered in ensuring quality financial reporting while applying international accounting standards. The findings also demonstrate the paucity of institution of professionalism in the area under consideration. Furthermore, this study provides some useful understanding into perceptions of preparers of financial reports among local governments in Nigeria, particularly during the on-going adoption of the cash-basis IPSAS.

References


APEGGA. (2004). *Concept of professionalism*.


Fornell, C., & Larcker, D. (1981). Structural equation models with unobservable variables and measurement error: Algebra and statistics. *Journal of Marketing Research, 18*(3), 382–388.


