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Highlights

An Examination by Industry

Internally Generated Revenue

Discovering Thoughts, Inventing Future

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Financial Analyst Accuracy: An Examination by Industry

By Ronald A. Stunda
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Abstract- Prior research into the accuracy of analyst forecasts has spanned several decades. Obrien (1990) conducted a comprehensive analysis of forecast accuracy among financial analysts in nine industries during the period 1975-1982. Sinha, Brown, and Das (1997) re-examined this issue of forecast accuracy among financial analysts during the period 1984-1990, consistent of the fourteen largest industries at the time. These studies reported no or minimal significant differences in forecast accuracy across industries.

This study extends the above research and assesses forecast accuracy for eight distinct industries during the period 2010-2015 from the perspectives of:

1. Comparison over forecast horizon
2. Comparison by industry
3. Comparison within industry

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This study extends the above research and assesses forecast accuracy for eight distinct industries during the period 2010-2015 from the perspectives of:

1. Comparison over forecast horizon
2. Comparison by industry
3. Comparison within industry

Results indicate than when analyst forecasts are assessed over distinct forecast horizons of 5, 60 and 120 days, greatest forecast accuracy is achieved during the 5 day forecast horizon, and the 5 day forecast horizon is significantly different from the other forecast horizons observed.

With respect to comparison of forecast accuracy by industry, firms in the Technology, Healthcare, Banking/ Finance, and Oil/Gas industries have an absolute forecast error less than those in the other industries sampled.

When attention turns to comparison of forecast accuracy within industries, the same industries, namely, Technology, Healthcare, Banking/Finance, and Oil/Gas, were observed to contain analysts who were significantly above their specific industry average, while the remaining industries of Utilities, Real Estate, Transportation, and Industrials were observed to contain analysts who were significantly below their specific industry average.

I. Introduction

The issue of differential earnings forecast accuracy among financial analysts is an important one from the perspectives of market-based accounting research, and also the investor. Most prior studies utilizing analyst forecasts as proxies for the market's earnings expectation are based on averages of all available forecasts. Logically, it would seem that if some analysts are more accurate than others, and if the market is aware of this, the earnings expectation should assign higher weights to forecasts of those analysts who are deemed to be better forecasters.

Financial news coverage suggests that there are above average financial analysts. For example, *Institutional Investor's* annual "All American Research Team," and the *Wall Street Journal*, reference financial analysts who are rated above average by money managers on a variety of criteria, including forecast accuracy. Analyst services (i.e. IBES) are known to have useful aggregate characteristics. Dimson and Marsh (1984), Elton, Gruber and Grossman (1986), and Brown, Richardson, and Trzcinka (1988) find that investment strategies constructed from aggregate analyst earnings forecasts can be used to the investor's benefit. The primary use of analyst earnings forecasts in academic studies is to provide a proxy for the market expectation of future earnings. Forecast aggregations, such as a mean or median of multiple analysts, are often used for this purpose. These proxies assume that analysts have approximately the same forecasting ability, so the identity of the individual forecaster is ignored in deriving the consensus forecast.

If some analysts are consistently superior (or inferior) forecasters, then the market's knowledge of those forecasters' ability can be used to improve accuracy of the consensus measure. Improvements in consensus forecasts are therefore possible if the market can assess superior (or inferior) forecasters by their related forecast accuracy over time. Because most analysts identify themselves with certain firms in specific industries, it may be possible that those superior (or inferior) forecasters may have the potential of residing in specific industries. Obrien (1990) assessed a sample of financial analysts across nine industries during the period 1975-1982. The study finds that no significant differences in financial analyst accuracy exists. This view is opposite that of Sinha, Brown and Das (1997) which finds significant differences in financial analyst' accuracy, primarily in the Utilities industry.

As previously noted, academic research, along with some investors, utilize proxies for future earnings. These proxies consist of aggregate forecasts by analysts. If it could be substantiated that there exists superior (or inferior) analysts, in terms of accuracy, greater weight may be assigned to the forecasts of these analysts in order to produce a more accurate consensus forecast. By the same token, if it can be shown that analysts in certain industries possess these qualities, the perception, along with the quality of the consensus forecast for that industry might change as well. The purpose of this paper is to examine the forecast accuracy of analysts over time and by industry group in an effort to measure forecast accuracy and assess its impact on the aggregate forecast by industry type.

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II. Literature Review

Obrien (1990) conducted a comprehensive analysis of forecast accuracy among financial analysts in nine industries during the period 1975-1982. The conclusion of this study is that significant differences in the earnings forecast accuracy of financial analysts do not exist. This runs contrary to literature published in such notable investment periodicals such as the *Institutional Investor* and the *Wall Street Journal*, which have over the years not only asserted that there are differences in financial analysts, but have recognized those who are considered superior analysts. Other extant studies such as Richards (1976), Brown and Rozeff (1980), Obrien (1987), Coggin and Hunter (1989), Butler and Lang (1991), and Stickel (1992) also support the Obrien (1990) finding that supports the absence of analysts who possess the ability to generate more accurate forecasts over time.

Sinha, Brown, and Das (1997) re-examine this issue of forecast accuracy among financial analysts during the period 1984-1990, consistent of the fourteen largest industries at the time. Contrary to previous research, the authors find that significant differences do exist in financial analysts' forecasts, primarily centered in the Utilities industry. They show that previous research failed to find differences due to inadequate control for recency in the forecast issued by the analyst. Prior studies such as Crich field, Dyckman, and Lakonishok (1978), Obrien (1988), and Brown (1991) have documented that forecast recency has a positive relationship to forecast accuracy. Failure to control for forecast recency may alter the results of the tests, making it difficult to account for any differences in forecast accuracy.

Sinha, Brown and Das (1997) define a superior (inferior) analyst as one having a smaller (larger) forecast error in earnings per share forecast. This association is contingent on the firm, year, and forecast recency of the analyst. The authors replicate the analysis of Obrien (1990) but control for forecast recency using two approaches: an estimated general least squares estimation procedure, and a matched-pair design.

Both the Obrien (1990) study and the Sinha, Brown, and Das (1997) study assess the characteristics of analyst forecasts during decades when the U.S. economy was structured slightly differently (i.e. 1970s through the 1990s). Deutsch (2016) finds that since the since the 2008 recession, the industries that drive growth in the U.S. are not necessarily the ones which drove it to the same extent prior to the recession. For instance, since 2010, four primary industries have led the way in job growth, investment and revenue in America. Those industries are; Healthcare, Technological Services, Banking/Finance, and Oil/Gas. At the same time, there are industries which have shown a precipitous drop in the same categories. Those industries are; Industrials, Utilities, Transportation, and Real Estate. Previous studies which undertake to study the accuracy of analyst forecast do so during time periods which may be described as less relevant to the current economy and investor mind set. Also, these prior studies, which include multiple industries do not distinguish which industries (if any) might possess superior (or inferior) analysts.

This study will attempt to extend the Sinha, Brown and Das (1997) study by assessing the more current time frame of 2010-2015 and by analyzing any significant differences in forecast accuracy across industry. In doing so, it is hoped that the study will provide a more relevant and contemporary look at an issue that has been the focus of academic research for more than four decades.

III. Hypotheses Development

In their analysis of forecast accuracy, Sinha, Brown, and Das (1997) utilize a matched-pair design in which the forecast accuracy of the same analyst is measured over varying forecast horizons. For example, an analyst would make a forecast 120 days from the firm's earnings release and this would be regarded as a 120 day horizon. The same analyst makes another forecast for the same firm 60 days from the earnings release date and this is a 60 day horizon. Then the analyst provides a third forecast of the same firm 30 days prior to earnings release. This is a 30 day horizon. Mean forecast errors are then summed for the analysts by industry and year in order to determine if accuracy varies across horizon. The Sinha, Brown, and Das (1997) study utilizes 14 industries from the period 1984-1990 to assess accuracy by forecast horizon. This study will attempt to extend this analysis by answering three specific questions:

1. Does the accuracy of the individual analysts change as the forecast horizon changes?
2. Do analysts in some industries possess greater accuracy than those in other industries?
3. Are there any differences in the accuracy of the analysts within an individual industry?

The first research question gives rise to the first hypothesis, stated in the null form:

H1: There is no significant difference in analyst forecast accuracy over forecast horizon.

The second research question gives rise to the second hypothesis, also stated in the null form:

H2: There is no significant difference in forecast accuracy of analysts across industries.

Lastly, the third research question is addressed by the third hypothesis, stated in the null form:

H3: There is no significant difference in the forecast accuracy of the analysts within an individual industry.

a) Sample

The sample selection consists of analysts' point forecasts of annual earnings per share (EPS) for a given firm and time period. Forecasts are derived from the Institutional Brokers Estimate System (IBES) for the period 2010-2015. Consistent with Obrien (1990) and Sinha, Brown, and Das (1997), three samples are derived with forecast horizons of 5, 60 and 120 trading days. The selected analyst forecast is the one closest to one of the above forecast horizons. Only analysts who forecast in three of the six year test period are included in the sample. The source for the firms' actual reported EPS is COMPUSTAT. The samples in the study represent firms in eight predominant industries; Utilities, Real Estate, Transportation, Industrials, Technology, Healthcare, Oil/Gas, Banking/Finance.

Table 1 provides each sample representation by: 1. Industry. 2. Number of forecasts. 3. Number of analysts generating the forecasts. 4. Number of firms represented.

Table 1 : Sample Summary

Forecast Period 2010-2015

Industry	Descriptor	5 Day Horizon	60 Day Horizon	120DayHorizon
Utilities	Forecasts	2,750	1,080	410
	Analysts	27	24	18
	Firms	18	18	17
Real Estate	Forecasts	602	518	399
	Analysts	19	17	15
	Firms	15	15	14
Transportation	Forecasts	1,802	1,501	1,287
	Analysts	30	27	22
	Firms	21	21	20
Industrials	Forecasts	1,419	1,197	1,019
	Analysts	74	74	74
	Firms	65	65	65
Technology	Forecasts	3,041	2,996	2,847
	Analysts	102	98	84
	Firms	86	85	79
Healthcare	Forecasts	1,977	1,842	1,701
	Analysts	69	58	50
	Firms	57	55	49
Oil/Gas	Forecasts	1,208	1,199	1,044
	Analysts	62	62	61
	Firms	46	46	44
Banking/Finance	Forecasts	1,381	1,299	1,201
	Analysts	57	57	57
	Firms	48	47	46
TOTAL	Forecasts	14,180	11,632	9,908
	Analysts	440	417	381
	Firms	356	352	334

As indicated in Table 1, the sample for the 5 day forecast horizon consists of 14,180 total forecasts, representing 440 analysts and 356 firms. For the 60 day forecast horizon, there are 11,632 forecasts, representing 417 analysts and 352 firms. The 120 day forecast horizon consists of 9,908 forecasts, representing 381 analysts and 334 firms. Consistent with prior studies, as the forecast horizon increases, the number of forecasts diminish.

b) Test of Hypotheses and Results

Test of Hypothesis 1-test of forecast accuracy over forecast horizon

In assessing forecast accuracy by horizon, the model consistent with Obrien (1990) is used:

$$|eijt| = |Rjt - Fijt| \qquad (1)$$

Where: subscripts i, j, t denote analyst, firm and year, respectively

R_{jt} is the j firm's reported EPS in year t

F_{ijt} is the forecast of EPS by analyst i for firm j in year t

|eijt| is the absolute error of the analyst given the firm and year

Utilizing a pooled, cross-sectional analysis over the study period of 2010-2015 and incorporating all analyst forecasts, Table 2 presents results of forecast accuracy by all industries for forecast horizons of 5, 60, and 120 days.

Table 2 : Absolute forecast error by forecast horizon, 2010-2015

Model: |eijt| = |Rjt – Fijt|

	5 day Horizon			60 Day Horizon			120 day Horizon		
Forecasts	|eijt|	F	Prob.	|eijt|	F	Prob.	|eijt|	F	Prob.
14,180	.21	1.78	0.00						
11,632				.81	0.42	1.00			
9,908							.90	0.69	0.88

As can be seen from the table, as the forecast horizon grows, so does the absolute forecast error for all combined industries. Table 2 presents F statistics for each horizon group incorporating all analyst forecasts across all eight industries for the years 2010-2015. Results indicate significance for the 5 day horizon alone, indicating that absolute forecast errors are significant for that forecast horizon alone. Greatest forecast accuracy is achieved during the 5 day forecast horizon, and the 5 day forecast horizon is significantly different from the other forecast horizons observed.

Based upon these findings, hypothesis 1, which states that there is no significant difference in analyst forecast accuracy over forecast horizon, must be rejected.

Test of Hypothesis 2- test of forecast accuracy across industries

The above analysis is now extended by incorporating the effects of specific industries in the model. Obrien (1990) and Sinha, Brown and Das (1997) fail to find significant differences in analyst forecasts when analysis includes varying industries. This study incorporates more forecasts with specific focus on industries which have led the way in growth in recent years (i.e., Healthcare, Technological Services, Banking/Finance, and Oil/Gas.), and also industries which have historically been growth leaders but have recently declined in growth (i.e., Industrials, Utilities, Transportation, and Real Estate).

Again, utilizing a pooled, cross-sectional analysis over the study period of 2010-2015 and incorporating all analyst forecasts, Table 3 presents results of forecast accuracy by selected industries for forecast horizons of 5, 60, and 120 days.

Table 3 : Absolute forecast error by industry, 2010-2015

Model: |eijt| = |Rjt – Fijt|

	5 day Horizon			60 Day Horizon			120 day Horizon		
Industry	|eijt|	F	Prob.	|eijt|	F	Prob.	|eijt|	F	Prob.
Utilities	.85	0.52	1.19	1.01	0.63	1.01	1.28	0.69	1.21
Real Estate	.77	0.37	1.00	.81	0.42	1.00	.99	0.44	1.00
Transport.	.54	0.98	0.76	.62	0.68	0.80	.91	0.69	0.88
Industrials	.98	0.57	0.91	1.21	0.57	0.90	1.39	0.57	0.90
Technology	.15	1.45	0.00	.17	1.45	0.00	.18	1.45	0.00
Healthcare	.21	1.78	0.00	.23	1.79	0.00	.25	1.80	0.00
Bank/Fin.	.38	0.59	0.34	.44	0.62	0.33	.59	0.61	0.39
Oil/Gas	.20	1.66	0.00	.22	1.68	0.00	.25	1.68	0.00

As can be seen from the table, as the forecast horizon grows, so does the absolute forecast error for every industry. Greatest forecast accuracy is again achieved during the 5 day forecast horizon. Firms in the Technology, Healthcare, Banking and Finance, and Oil and Gas industries have an absolute forecast error less than those in the other industries sampled. Also, F statistics are significant for forecast errors associated with Technology, Healthcare, and Oil/Gas firms, across forecast horizon. These are results that are not manifested in prior studies and results could indicate that firms in these industry are more closely followed by analysts.

Based upon these findings, hypothesis 2, which states that there is no significant difference in analyst forecast accuracy across industry, must be rejected.

Test of Hypothesis 3-Test for forecast accuracy within individual industries

Control for recency

Analysts make their annual earnings forecast on different calendar dates. These forecasts are updated as additional information becomes available (Stickel, 1990). Therefore, a more recent forecast will contain additional earnings-relevant information (Jennings, 1987). The enhanced information set associated with the more recent forecast suggests that forecasts made closer to the forthcoming earnings announcement dates will be more accurate than forecasts made further from the announcement dates. Failure to adequately control for recency may lead to erroneous dependency on the particular forecast (Brown, Foster and Noreen, 1985). In addressing the methodology of this study, control for forecast recency becomes an important issue.

Data on individual analysts' EPS forecasts were obtained from IBES. Actual reported EPS were obtained from COMPUSTAT. The COMPUSTAT quarterly industrial file is utilized as the source for earnings announcement dates in order to determine forecast recency, relative to the earnings release. An analysis is then made to identify above average and below average analysts by industry and forecast horizon. In each forecast horizon sample, recency is controlled by including only those analysts who made forecasts between 5 and 180 calendar days prior to the annual earnings announcement date. If an analyst made more than one forecast for a given firm/year during this period, the most recent forecast was selected. Similar to Sinha, Brown, and Das (1997), an additional requirement is imposed of at least four unique analyst forecasts to ensure proper categorization of the analysts into above/below average groups.

An analyst is classified as above average if his/her pooled forecast error over the study period is less than the 25th percentile on the firm's absolute forecast error distribution. The analyst is classified as below average if his/her forecast error over the study period is greater than the 75th percentile on the firm's absolute forecast error distribution. Those analysts falling between these two percentiles are designated as average.

Test metrics

Consistent with the methodology of Sinha, Brown, and Das (1997), the following model is used to assess forecast accuracy among analysts:

$$rapfe_{ijt} = |R_{jt} - F_{mjt})/R_{jt}|*100 - |R_{jt} - F_{ijt})/R_{jt}|*100 \quad (2)$$

Where: subscripts i, j, t denote analyst, firm and year, respectively

R_{jt} is the j firm's reported EPS in year t

F_{ijt} is the forecast of EPS by analyst i for firm j in year t

F_{mjt} is the forecast of the average analyst for the firm in question

$rapfe_{ijt}$ is each analyst's relative absolute percentage forecast error, which is calculated as the absolute percentage forecast error of the average analyst minus that of the above average analyst. For below average analysts, the order of the two terms on the right hand side are reversed.

A pooled, cross-sectional analysis is performed over the study period 2010-2015 and incorporating all analyst forecasts, and all three time horizons, by industry. Table 4 indicates the results of the analysis.

Table 4 : Analyst accuracy by industry, 2010-2015

Model: $rapfe_{ijt} = |R_{jt} - F_{mjt})/R_{jt}|*100 - |R_{jt} - F_{ijt})/R_{jt}|*100$

Panel A- Above Average Analysts

Industry	Avg. Mean	t-test	Prob.
Utilities	1.43	0.59	-
Real Estate	1.98	0.34	-
Transportation	1.22	0.22	-
Industrials	2.03	2.19	0.10
Technology	0.55	1.67	0.01
Healthcare	0.98	1.71	0.01
Bank/Finance	1.01	1.89	0.05
Oil/Gas	0.41	1.66	0.01

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Panel B- Below Average Analysts

Industry	Avg. Mean	t-test	Prob.
Utilities	0.77	2.06	0.10
Real Estate	1.12	1.72	0.01
Transportation	0.98	1.66	0.01
Industrials	1.35	2.12	0.10
Technology	0.44	0.76	-
Healthcare	0.62	0.29	-
Bank/Finance	0.58	0.41	-
Oil/Gas	0.39	0.12	-

Panel A of Table 4 provides results for above average analysts. The average mean absolute forecast error for this group of analysts is smaller for the following industries: Technology; Healthcare; Banking/Finance; and Oil/Gas. Using a t-test, one-tailed significance at conventional levels is attained for the above industries. The only other industry significant at conventional levels in the "above average" group is the industry group Industrials, with a p-value of .10. These results indicate that the above industries possess analysts who are significantly above average from the others in the same industry. With respect to the industries comprising Utilities, Real Estate, and Transportation, there is no significant difference between above average analysts and the average analysts within those industries.

Panel B of Table 4 provides results for below average analysts. The average mean absolute forecast error for this group is larger for the following industries: Utilities; Real Estate; Transportation; and Industrials. Using a t-test, one-tailed significance at conventional levels is attained for the above industries. Significance at conventional levels was not noted for the remaining industries analyzed. These results indicate that the above industries possess analysts who are significantly below average from others in the same industry.

Based upon the above findings, hypothesis 3, which states that there is no significant difference in analyst forecast accuracy within industry, must be rejected. These are results not found in prior studies of analyst forecast accuracy. It is not known why certain industries might contain analysts who forecast above or below average for their particular industry. One factor, as it relates to above average forecasts, may be the exposure and/or dominance of the industry. Above average forecasters appear to be contained in industries that are currently spurring growth. As a result, those industries may be attracting superior analysts. Conversely, with respect to below average forecasts, these seem to be contained in industries which have had significant growth in past years but have recently diminished in growth and prominence. It would be easy to conclude that the best analysts are leaving these industries for those on the rise, but this connection cannot be affirmed in this study.

IV. Conclusions

Prior research into the accuracy of analyst forecasts has spanned several decades. Obrien (1990) conducted a comprehensive analysis of forecast accuracy among financial analysts in nine industries during the period 1975-1982. The conclusion of this study was that significant differences in the earnings forecast accuracy of financial analysts do not exist. Sinha, Brown, and Das (1997) re-examine this issue of forecast accuracy among financial analysts during the period 1984-1990, consistent of the fourteen largest industries at the time. Contrary to previous research, the authors find that significant differences do exist in financial analysts' forecasts, primarily centered in the Utilities industry.

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Results indicate than when analyst forecasts are assessed over distinct forecast horizons of 5, 60 and 120 days, greatest forecast accuracy is achieved during the 5 day forecast horizon, and the 5 day forecast horizon is significantly different from the other forecast horizons observed.

With respect to comparison of forecast accuracy by industry, firms in the Technology, Healthcare, Banking and Finance, and Oil and Gas industries have an absolute forecast error less than those in the other industries sampled. These results could indicate that firms in these industry are more closely followed by analysts.

When attention turns to comparison of forecast accuracy within industries, the same industries, namely, Technology, Healthcare, Banking and Finance, and Oil and Gas, were observed to contain analysts which were significantly above their specific industry average, while the remaining industries of Utilities, Real Estate, Transportation, and Industrials were observed to contain analysts which were significantly below their specific industry average.

These are results not found in prior studies of analyst forecast accuracy. It is not known why certain industries might contain analysts who forecast above or below average for their particular industry. One factor may be the exposure and/or dominance of the industry. All four industry possessing above average analysts are industries which are currently leading the way in growth, while the other four industries in the study have significantly declined in growth rate over recent years. For this reason, growth industries may be attracting more of a following by perhaps superior analysts, although that dimension was not explored in this study.

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Empirical Analysis of the Nexus between Budget Implementation and Economic Development in Nigeria

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Abstract- The study evaluated the effect of budget implementation on Nigeria's economic growth. Gross Domestic Product (GDP) was used as the explained variable while Public Recurrent Expenditure (PRE), Public Capital expenditure, (PCE) and Public Debt Service (PDS) were used as the explanatory variables of the study. Data on these variables were sourced from the Central Bank of Nigeria statistical bulletin from 1986 to 2014. The study adopted Ordinary Least Square (OLS), Co-integration and Error Correction Model (ECM) in analyzing respectively the short and long-run effect of budget implementation on Nigeria's economic growth. The findings from the study revealed that in the short run, PRE will have a positive relationship with GDP while PCE and PDS will have a negative relationship with GDP. In the long run, there was a complete turn of relationship as to what was obtained in the short run. In both the long run and short run, only PRE is statistically significant at 5% level of significance. The F-test revealed that the overall model is statistically significant in the explanation of the subject matter. The Durbin Watson graph shows that there is absence of serial correlation in the model adopted for the study.

Keywords: budget, debt service, capital expenditure, recurrent expenditure, economic growth.

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Empirical Analysis of the Nexus between Budget Implementation and Economic Development in Nigeria

Olaoye, Festus Oladipupo

Abstract- The study evaluated the effect of budget implementation on Nigeria's economic growth. Gross Domestic Product (GDP) was used as the explained variable while Public Recurrent Expenditure (PRE), Public Capital expenditure, (PCE) and Public Debt Service (PDS) were used as the explanatory variables of the study. Data on these variables were sourced from the Central Bank of Nigeria statistical bulletin from 1986 to 2014. The study adopted Ordinary Least Square (OLS), Co-integration and Error Correction Model (ECM) in analyzing respectively the short and long-run effect of budget implementation on Nigeria's economic growth. The findings from the study revealed that in the short run, PRE will have a positive relationship with GDP while PCE and PDS will have a negative relationship with GDP. In the long run, there was a complete turn of relationship as to what was obtained in the short run. In both the long run and short run, only PRE is statistically significant at 5% level of significance. The F-test revealed that the overall model is statistically significant in the explanation of the subject matter. The Durbin Watson graph shows that there is absence of serial correlation in the model adopted for the study. Judging by the fact that the only statistically significant explanatory variable in the study is PRE, it was therefore used as a basis for the conclusion as well as recommendation in the study. Thus, it is generally concluded that as the Nigerian government keeps implementing recurrent expenditure, its positive effect on the economy can only be felt for a short period of time afterwards, a negative effect will emerge. The study recommended that the Nigerian government should concentrate more on the implementation of other items in the budget other than the public recurrent expenditure as a strategy for achieving a long term economic development.

Keywords: budget, debt service, capital expenditure, recurrent expenditure, economic growth.

I. Introduction

The word budget was derived from the word 'bourgettees' in 1633. The need to map out a national financial plan led to the development of budget. The importance of budget to the government and the nation at large cannot be overemphasized as all futuristic financial activities of each level of government (local, state and federal) depends largely on the budget. In other words, budget is an important instrument of governance in any modern state. It has the potential of aiding planning and contributing to development in an economy. Being a comprehensive income statement of the government, it is regarded as an indispensable tool capable of inducing economic growth and development. Ogujiuba and Ehigiamusoe (2013) posited that the national budget is the most important economic policy instrument for a government and it reflects the government's priorities regarding social and economic policy more than any other document. In other words, the budget is the principal instrument of fiscal policy. Supporting the foregoing notion is Ohanele (2010) who further stressed that a well-functioning budget system is vital for the formulation of sustainable fiscal policy and the facilitation of economic growth. Moreover, the effectiveness of a budget irrespective of any country depends on the executive as well as the legislative arm of government.

Basically in Nigeria, budget process includes budget preparation by the executive, legislative approval and implementation by the different ministry, department and parastatal of the government. During the phase of budget implementation, there are many possibilities for interventions and manipulations in view of the fact that officials have a great amount of discretionary power to decide which spending ministry or agency will be granted spending authorization. In Nigeria, before ministries and spending agencies of the government can incur an obligation to make expenditures, they must secure spending authorization from the Ministry of Finance through the use of warrants. This warrant will authorize officers controlling votes to incur expenditure in accordance with the approved estimates subject to any reserved items. In spite of the specific nature of appropriation laws, the commitment phase of the expenditure process is a fertile ground for corrupt activities. If the Appropriation Act has not come into operation at the beginning of the year, a provisional general warrant may be issued to ensure continuity of the services of government at a level not exceeding those of the previous year. The length of period of spending authorization is determined in functional cash flow forecast for the period when payments are anticipated.

Nigerian economy is faced with series of imbalances in economic policy formulation and implementation respectively. The root of most problems in Nigeria is imbalances in budget formulation and implementation. As noted by Ogujiuba and

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Ehigiamusoe (2013), it is supposed to be the most important economic policy instrument; unfortunately, it is shrouded with a lot of myths and illusions which is still not contributing to the economic growth and development of the country. It is important to stress that, Budgeting and its process in Nigeria remains problematic both in the areas of preparation and implementation, hence, the need for adequate control aimed at improving effective resources utilization at the budget implementation stage. A budget is designed to arrest the declining growth in the production sector, check inflationary pressure, correct balance of payment deficit and maintaining a reasonable foreign exchange reserve but these purposes has remained largely unachieved. There are several factors that has brought about the issue of the budget not fully implemented in Nigeria. These unfortunate delays and imbalances have become recurring events since 1999 and have painfully slowed Nigeria's democratic journey to economic prosperity. Moreover, it must be noted that delays over the past years have resulted in a low national budget performance and have limited the executive arm's ability to effectively execute projects that would improve the living conditions of the citizenry (Ibrahim, 2011). Hence, the low level of budget implementation has been a consistent problem in Nigeria. Recently, the controversy of fall in world oil price benchmark has been identified as one of those factors that brought about menace in the implementation of budgeting policy in Nigeria.

None or partial implementation of the national budget is also traceable to the nation's debt properties. Nigeria is a developing country which relies on external source of finance (debt financing). Unfortunately for the nation, the amount of this debt has now become a burden. Nigeria's debt is obligated to be serviced back at an agreed period of time Due to the implementation of the national budget, a sizeable chunk of the nation's hard earned revenue (foreign earnings) has been appended on debt servicing which has caused some setbacks in the development of the Nigerian economy. Going by the reason that debt service constitute an important item in the national budget, it should be included as one of the variables which can significantly affect the nation's growth in this study. It is therefore important to ascertain if the implementation of debt servicing has a significant impact on Nigeria's economy. Previous researches on the subject matter "the evaluation of the impact of budget implementation on the growth of the Nigerian economy" such as the one carried out by Oke (2013) excluded debt servicing as one of the key variable and proxy for budget implementation. This study will include debt service as one of the variables to be used in this study.

Moreover, the implementation of the national budget means a corresponding implementation of debt servicing, capital expenditure, recurrent expenditure, tax, subsidies among others in Nigeria since they are important component of the national budget. Exclusively, three and half decades away from the first republic, there has never been a year in which the capital budget attained 75% implementation (Ogujiuba & Ehigiamusoe, 2013). Capital expenditure has been projected to significantly drop by 30.7% (about N487billion) from 2013. As a percentage of aggregate expenditure, capital expenditure accounts for only 23.7%. This huge decrease is a major setback in adequately funding ongoing infrastructure projects under the "Transformation Agenda" of the government. Currently, there are several projects that are abandoned due to paucity of funds. Government would then be faced with the alternative of more borrowing or reconsideration of fuel subsidy removal in order to carry out infrastructure projects. It remains a fact that enormous investment is required for capital development especially in the areas of infrastructure such as electricity, roads and so on, which are necessary for economic growth and development. Though, it has been proved that capital expenditure contribute immensely to economic growth. The more the government wish to implement capital expenditure results in the government borrowing heavily which can adversely affect the country and if there is a shortage in capital expenditure, there would be reduced infrastructure. It is therefore needed to subject capital expenditure to analytical test against economic development. In light of this, ascertaining the impact of capital expenditure on Nigeria's economy becomes imperative in this research.

The effect of budget implementation on economic growth- a synergistic effect has previously been studied and findings are personified. However, there are many research work conducted on the effect of budget implementation on economic growth in Nigeria. To a proportional extent, the public sector is attributed to the fiscal and monetary actions of government. These actions pressure purpose the need for effective allocation of resources, sense of identity and fulfillment, social cohesion and fairness dealings with structural development at all unit of the society. (Aregbeyen, 2007) Over the last decade, the growth impact of fiscal policy has generated large volume of both theoretical and empirical literature. However, most of these studies paid more attention to developed economies and the inclusion of developing countries in case of cross-country studies were mainly to generate enough degrees of freedom in the course of statistical analysis. Unfortunately, the case of public to achieve efficiency and equity for the best interest of her citizens remains dismay. More also, previous studies and findings carryout by various researcher to explore the relationship between the proxy of economic growth and that of budget using the time-series annual data method (Ordinary Least Squares) which has only but reveal the short-run relationship of the variables.

The impact of budget implementation on economic growth has generated large volume of empirical studies with mixed findings using either ordinary least square, Pooled Least Square, simple percentage or chi square. Oke (2013) conducted a study to theoretically and empirically explore the effect of budget implementation on the Nigerian economic growth and provides a panacea to the problem of budget allocation and its implementation. The study adopted the econometric model of ordinary least square (OLS) regression test for analysis and time series data which spans from 1993 to 2010 was considered to capture the short run relationship between the proxies of budget implementation and economic growth. However, few research work has been conducted to explore the long run relationship between the variables of economic growth and that of budget. Hence, this study however seeks to fill the above knowledge gap by adopting the co-integration and error correction mechanism (ECM) to explore the long run effect between each of the economic variable as well as taking a cursory look at loopholes that have been responsible for rendering the budget implementation ineffective, thereby not achieving the desired objectives.

Furthermore, the 2014 budget is a relatively tight budget compared to 2013. The delay in the presentation of the budget was avoidable and expectation is that the legislative arm will promptly pass the budget. As always, the major task remains the implementation of the budget given that the 2013 budget was only 64% implemented as at when the 2014 budget was presented. We hope that a better implementation of the 2014 budget will be achieved (Pwc, 2014). So far, there has not been any research on the subject matter that is able to establish if the 2014 has been better implemented which necessitate carrying out this research using an up-to- date in its analysis using 2014. Specifically, the coefficient of multiple determinants will be employed as the germane statistical technique in establishing the percentage at which the national budget has been established. In other words, the study set out to achieve the current implication of budget implementation of Nigeria's economic growth.

The broad objective of this study is to evaluate the impact of budget implementation on the economic growth of Nigeria, while the specific objectives are to:

i. identify the major factors hindering budget implementation in Nigeria.
ii. determine the impact of the implementation of capital expenditure on the growth of the Nigerian economy.
iii. investigate the impact of the implementation of recurrent expenditure on the growth of the Nigerian economy.
iv. examine the impact of the implementation of debt servicing on the growth of the Nigerian economy.

II. Empirical Literature

Empirical literature on the evaluation of the impact of budget implementation on economic growth will be reviewed based on researches conducted in other countries across the globe. Also, it is pertinent to state that the cluster of this study will not go beyond the confines of the Nigerian economy in data usage which will be used when carrying out analysis on the subject matter. The study will employ the use of secondary data that spans from 1986 to 2014 for analytical purpose. The study carried out an up-to-date analysis which necessitate the use of 2014 data in order to produce objective conclusion and recommendations based on the findings of the study.

This research work will help the following set of people such as the government, researchers, and readers etc. The study will provide a clear insight for macroeconomic policy makers to know the implication of several policies that pertains specifically to debt service, capital budget and recurrent budget on the nation's economy through its findings. In other words, the study will provide policy recommendations based on its findings which will serve as a reliable basis for the government to know the precise policies that is favorable to the country. Thus, this study will be of great importance to government legislator and executive in their budget formulation and implementation respectively defining the threshold at which to intervene in the management of the economy,

The study intends to serve as a knowledge widener which will be as a result of bridging the research gap left out by the recent researches on the subject matter. In view of this, readers and students become exposed to a broader knowledge on budget and the effect of its implementation on the economic growth of Nigeria.

III. Literature Review

a) Concept of Government Budget

The concept of government budget from layman's perspective can be seen as an estimate of government income and expenditure for a set period of time. It could also be regarded as a regular estimate of expenditure put forward by a finance minister. This view seems narrow in explaining the concept of government budgeting. Samuel and Wilfred (2009) provided a broader concept. They opined that budget is a comprehensive document that outlines what economic and non-economic activities a government wants to undertake with special focus on policies, objectives and strategies for accomplishment that are substantiated with revenue and expenditure projections. From this definition, they put forward that government budgeting cut across both the economic and non-economic activities of government spending.

Smith and Thomas (2004) also defined budget to be a plan for the accomplishment of program related to objectives and goals within a definite time period including an estimate of the resources required together with an estimate of resources available usually compared with one or more past periods showing future requirements. In another related definition as given by Omolehinwa (1989), it is a plan dominant individual in an organization expressed in monetary terms and subject to the constraints imposed by the participants and the environments indicating how the available resources may be utilized to achieve whatever the dominant individual agreed to be on the organization's priorities. The impressive thing about this definition is that, it recognizes the constraint imposed on budget by other particulars that are to ensure that the objectives and targets enunciated in the budget are achieved.

Budgeting as a concept of authorization explains the original purpose of budgeting as a financial plan to provide money for government institution. Consequent upon this, the government institution carries out their activities usually a year as expected in quantitative terms ensuring effective and efficient mobilization of resources.

b) Budget Cycle

Budget cycle is used as an instrument for implementing development plans in regulating economics and therefore influencing the market in predetermined manner. Planning and control systems operate in a circle of which budgeting is an important point. The budgeting acts as a link between planning and control. The important component of the circle is shown in this chart.

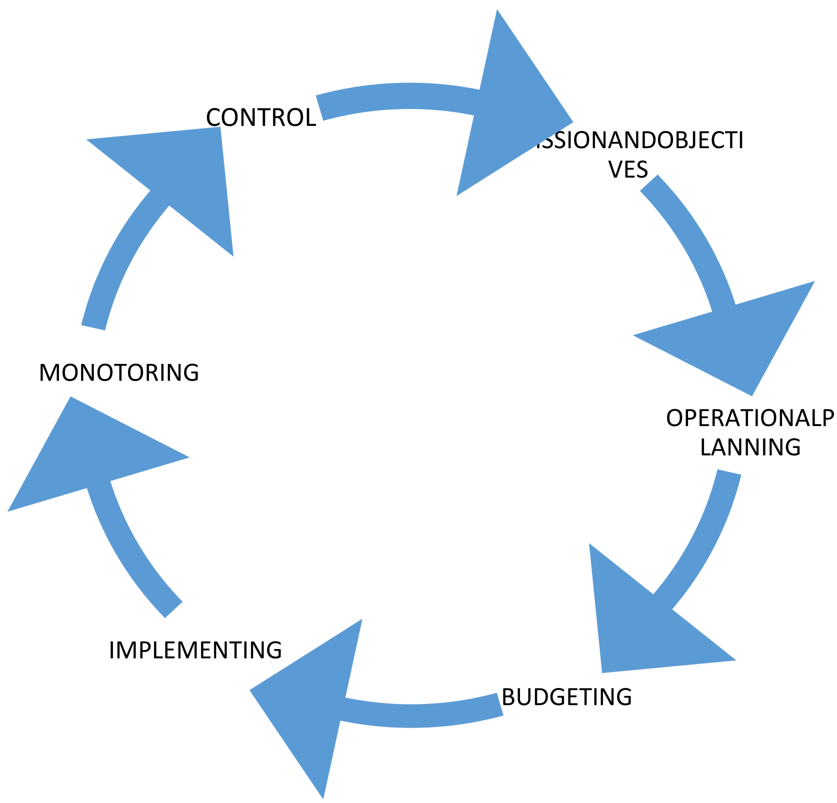

Fig 1 : The Budget Cycle

Source: Nwabundo (2010)

i. *Mission and Objective:* This gives the direction and aspiration of the government in the next three to five years.
ii. *Planning:* What to do, how and when to do them is mapped out within the framework of the national development plan. The values of revenue obtainable from all sources have to be stated for each year of the planned period.
iii. *Budgeting:* When decisions about what to accomplish in each year had been taken and expressed in monetary terms in the budget, planned expenditure for each year must be matched with expected income.
iv. *Implementation:* When budget is finally approved, it authorizes expenditure and communicates the plan to all ministries, states and all budget holders.
v. *Monitoring:* As the budget is implemented, periodic records are kept and forwarded to the ministry of finance.
vi. *Control:* With report emanating from the monitoring process, achievements are consistently compared with the budget.

c) Classification of Budget

Budget also is an important tool in governance and most relevant to the economic policy. It is the second most important document after the constitution in any country of the world (Samuel & Wilfred, 2009). It signifies that the budget is an expression of the constitution and statutes of a government which endow the executive and legislature with designated financial and managerial responsibilities. Budget has been classified into different types. They are:

i. *Surplus Budget:* It refers to as a situation where the expected revenue surpasses the expenditure. This has been the dream of every government.
ii. *Balanced Budget:* This occurs the moment the proposed expenditure is equaled to the expected revenue. This situation, however, is always difficult to attain. In fact, it requires a high financial prudence and acumen to accomplish.
iii. *Deficit Budget:* The expenditure is higher than the projected revenue in this type of budget. This is where government spent more than it earned. It came with the need to finance government projects despite the non-availability of funds.
iv. *Supplementary Budget:* As the name implies, it means the budget made or initiated after the main budget is passed. This type of budget is necessary if it is discovered that the earlier amount appropriated by the by the Appropriation Act for any purpose is insufficient; or there is need for expenditure on a purpose for which no amount has been earlier appropriated.
v. *Development Budget:* It refers to a budget plan over a long period of time. It is usually incorporated as part of development plan.

d) Factors that Hinders Budgeting in Nigeria

According to Eze and Ani (1999) Budgeting is a great management tool. Its effectiveness will however depend on how these limiting factors are handled in relation to the various sectional budgets and the master budgets usually when plans are being formulated, there are variations. Onaolapo and Olaoye, (2013) were of the opinion that practical problems of budget implementation include: first, corruption, this is one of the setbacks of fruitful budgeting process. Evidences are bound in records of Economic and Financial Crime Commission. Corruption is quite endemic. Second, fluctuating revenue and over-dependence on oil revenue. Third. unstable economic parameters such as price level, unemployment etc affect budgetary effectiveness. Fouth, poor conception of people toward budget. What definition does the people in the ministries, departments and legislative arm give to budget? May be: national cake, annual rituals or paddble document and the like. Fifth, Unstable government policies from one fiscal year to another. Sixth, inadequate finance. Seventh, lack of qualified manpower. Others incude: lack of qualified manpower; paucity of data, lack of effective budget monitoring i.e. the execution of the budget, delay in approval of project proposal by the ministry and the legislature and lack of specialization or skill on the part of the budget officers who are saddled with the responsibility of implementing budget.

e) Budget Implementation and Economic Growth

The impact of budget implementation and economic growth has generated large volume of empirical studies with mixed findings using cross sectional, time series and panel data. Appropriate budget implementation is generally believed to be associated with growth, or more precisely, it is held that appropriate fiscal measures in particular circumstances can be used to stimulate economic growth and development (Onaolapo & Olaoye, 2013).

The role of economic policy in the achievement of macroeconomic objectives has been extensively dealt with in Keynesian analysis of an activist macroeconomic policy. The Keynesian analysis leads to the conclusion that demand management policies can and should be used to improve macroeconomic performance. A basic premise of Keynesian economics is that the private sector is inherently unstable. It is subject to frequent and quantitatively important disturbances in the components of aggregate demand. It is the task of counter cyclical or stabilization policies to offset these private sector disturbances and so keep real output close to its market – clearing equilibrium time path (Omitogun & Ayinla, 2007).

IV. Theoretical Framework

This section highlights some basic theories that have been used to support the effects of budget implementation on economic growth. Such theories amongst others are:

a) Musgrave Theory of Public Expenditure Growth

This theory was propounded by Musgrave as he found changes in the income elasticity of demand for public services in three ranges of per capita income. He posits that at low levels of per capita income, demand for public services tends to be very low, this is so because according to him such income is devoted to satisfying primary needs and that when per capita income starts to rise above these levels of low income, the demand for services supplied by the public sector such as health, education and transport starts to rise, thereby forcing government to increase expenditure on them. He observes that at the high levels of per capita income, typical of developed economics, the rate of public sector growth tends to fall as the more basic wants are being satisfied.

b) The Wagner's Law/ Theory of increasing State Activities

Wagner's law is a principle named after the German economist Adolph Wagner (1835-1917). Wagner advanced his 'law of rising public expenditures' by analyzing trends in the growth of public expenditure and in the size of public sector. Wagner's law postulates that: (i) the extension of the functions of the states leads to an increase in public expenditure on administration and regulation of the economy; (ii) the development of modern industrial society would give rise to increasing political pressure for social progress and call for increased allowance for social consideration in the conduct of industry (iii) the rise in public expenditure will be more than proportional increase in the national income (income elastic wants) and will thus result in a relative expansion of the public sector. Musgrave and Musgrave (1988), in support of Wagner's law, opined that as progressive nations industrialize, the share of the public sector in the national economy grows continually.

c) The Solow's Theory

Robert Solow and T.W. Swan introduced the Solow's model in 1956. Their model is also known as Solow-Swan model or simply Solow model. In Solow's model, other things being equal, saving/investment and population growth rates are important determinants of economic growth. Higher saving/investment rates lead to accumulation of more capital per worker and hence more output per worker. On the other hand, high population growth has a negative effect on economic growth simply because a higher fraction of saving in economies with high population growth has to go to keep the capital-labour ratio constant. In the absence of technological change & innovation, an increase in capital per worker would not be matched by a proportional increase in output per worker because of diminishing returns. Hence capital deepening would lower the rate of return on capital.

d) Theoretical Underpinning

Keynes theory on public expenditure and economic growth was among the most noted with his apparently contrasting view point on this relation. Keynes regards public expenditures as an exogenous factor which can be utilized as a policy instruments promote economic growth. From the Keynesian's point of view, public expenditure can contribute positively to economic growth. Hence, an increase in the government consumption is likely to lead to an increase in employment, profitability and investment through multiplier effects on aggregate demand. As a result, government expenditure augments the aggregate demand, which provokes an increased output depending on expenditure multipliers.

e) Review of Related Empirical Studies

Various empirical studies have been conducted to validate whether budget implementation has a favorable impact or otherwise. Evidences from various researchers are thoroughly reviewed in this sub-chapter in order to get an adequate knowledge of the effect of budget implementation globally.

f) Evidences from Developed Countries

Loizides and Vamvouks (2005) employed the causality test to examine the relationship between public expenditure and economic growth, using data set on Greece, United Kingdom, and Ireland. The authors found that government size Granger causes economic growth in all the countries they studied. The results also indicated that economic growth Granger causes public expenditure for Greece and United KingdoVerma and Arora (2010) examined the validity of Wagner's law in India over the period from 1951 to 2008. Empirical evidences regarding short-run dynamics refuted the existence of any relationship between Developing Country Studies www.iiste.org economic growth and the size of the government expenditure. Afzal and Abbas (2012) reinvestigated the application of the Wagner's hypothesis to Pakistan over the period from 1960 to 2007 using time series econometrics techniques. The study found that Wagner's hypothesis does not hold for aggregate public spending and income for three periods (1961–2007, 1973–1990, and 1991–2007) while it holds only for the period from 1981 to 1991. However, when fiscal deficit is included, the results supported the existence of Keynesian views about public spending and growth.

Zheng (2010) studied the empirical analysis on the relationship between the sizes of Chinese government, as measured by its annual spending, and the growth rate of the economy. More specifically, it designed to examine the applicability of Wagner's law to the Chinese economy. The statistics used in this research is annual time series data on total government spending and gross domestic product covering the period from 1952 to 2007. Empirical results showed no strong evidence in support of the validity of Wagner's law for Chinese economy. Olomola (2004) confirmed the Wagner's hypothesis both in short run and in the long run inNigeria for the period from 1970 to 2001.

g) Evidences from Developing Countries

Dogan (2006) investigated the relationship between national income and public expenditures for Indonesia, Malaysia, Philippines, Singapore, and Thailand. Granger causality tests were used to investigate the causal links between the two variables. The result of Granger causality revealed that causality runs from public expenditures to national income only in the case of Philippines, and there was no evidence for other countries.

Komain and Brahmasrene (2007) examined the relationship between public expenditure and economic growth in Thailand, by employing the Granger causality test. The results revealed that public expenditure and economic growth are not co-integrated, but there exists a significant positive effect of public expenditure on economic growth.

Bingxin, Fan and Saurkar, (2009) assessed the impact of the composition of public expenditure on economic growth in developing countries. They used a dynamic generalized method of moment (GMM) model and a panel data set for 44 developing countries between 1980 and 2004. The results indicated that the various types of government spending had different impact on economic growth. In Africa, human capital expenditure contributes to economic growth whereas, in Asia, capital formation, agriculture, and education expenditure had strong growth promoting effect.

h) Evidences from Nigeria

Abu and Abdullah (2010) investigates the relationship between government expenditure and economic growth in Nigeria from the period ranging from 1970 to 2008.They used disaggregated analysis in an attempt to unravel the impact of government expenditure on economic growth. Their results reveal that government total capital expenditure, total recurrent expenditure and Education have negative effect on economic growth. On the contrary, government expenditure on transport, communication and health result in an increase in economic growth. They recommend that government should increase both capital expenditure and recurrent expenditure including expenditure on education as well as ensure that funds meant for development on these sectors are properly utilized. They also recommend that government should encourage and increase the funding of anti-corruption agencies in order to tackle the high level of corruption found in public offices in Nigeria.

Nurudeen and Usman (2010) investigated the effect of government expenditure on economic growth with disaggregated expenditure data from 1979 to 2007. The results reveal that government total capital expenditure, total recurrent expenditures, and government expenditure on education have negative effect on economic growth. While the foregoing studies focused on the Keynesian model which stipulates that expansion of government expenditure accelerates economic growth.

Ighodaro, Clement and Dickson (2010). In addition to total government expenditure they used a disaggregated government expenditure data from 1961-2007, specifically; expenditure on general administration and that of community and social services to determine the specific government expenditure that economic growth may have significant impact on. Other variables reflecting fiscal policy changes and political freedom were also included in the model to augment the functional form of Wagner's law. All the variables used were found to be I(1) and long run relationship exist between the dependent and the independent variables except in the case where only GDP was used as the independent variable. Wagner's hypothesis did not hold in all the estimations rather Keynesian hypothesis was validated.

Oke (2013) conducted a study to theoretically and empirically explore the effect of budget implementation on the Nigerian economic growth and provides a panacea to the problem of budget allocation and its implementation. The study the adopted the econometric model of ordinary least square (OLS) regression test for analysis and time series data span from 1993 to 2010 was considered to capture the short run relationship between the proxies of budget implementation and economic growth. The study revealed that implementation has a positive effect impact on Nigeria economic growth. The study further showed a positive relationship between GDP and public total expenditure (PEX), public recurrent expenditure (PRE), public capital expenditure, external debt (EXD), while public capital expenditure (PCE) shows a negative relationship to GDP.

Patricia and Izuchukwu (2013) investigates the effect of government expenditure in education on economic growth in Nigeria over a period from 1977 to 2012, the study adopted the Error Correction Model (ECM) to achieve its objectives. The study used Ex-post facto research design and applied time series econometrics technique to examine the long and short run effects of public expenditure and economic growth in Nigeria. The study revealed that Total Expenditure Education is highly and statistically significant and have positive relationship on economic growth in Nigeria in the long run. The result has more implication in terms of policy and budget implementation in Nigerian.

Onaolapo and Olaoye (2013) conducted a study on the appraisal of the factors contributing disparity in budget proposal and implementation. The main thrust of this paper was to examine the behavioral aspect of budget implementation disparity. Two hypotheses were set forth and tested using two ministries namely: education and finance in the Ekiti State of Nigeria. The study was analyzed using the primary data of analysis. Thirty high ranking staff involved in budget preparation and implementation out of thirty-five administered with questionnaires responded to time. Their findings revealed that government ministries always meet their budget target and the ministries have adequate measures to curb budget variances.

V. Methodology

The design of this research is the *ex-post facto* research design" which is a quasi-experimental study

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examining how independent variables prior to the study affects the dependent variable. *Ex-post facto* is also referred to as "after the fact research design" in which the investigation is conducted without interference from the research.

The study adopts an econometric model in determining the effect of budget implementation on economic growth, using Nigeria as a case study. The study adopts a similar model used by Oke (2013) which is specified below as:

$$GDP = f\ (PEX, PRE, PCE, PDS) \text{.................. Eqn 3.1}$$

In specifying the model for this study, the above model will be modified by removing public total expenditure (PEX) variable to suit the Nigerian situation. This variable is removed to avoid the violation of the ordinary least square principle which is referred to as multicollinearity.

The model is specified as follows:

$$GDP = f\ (PRE, PCE, PDS) \text{ .... Eqn 3.2}$$

Where;

GDP = Gross Domestic Product

PRE = Public Recurrent Expenditure

PCE = Public Capital Expenditure

PDS = Public Debt Servicing

F= functional denotation

The econometric form of equation 3.2 is represented as:

$$GDP = \beta_0 + \beta_1 PRE + \beta_2 PCE + \beta_3 PDS + \mu \text{ .... Eqn 3.3}$$

Where:

β_0 = Intercept Otherwise Referred to as the Constant Parameter

β_1 - β_3 = Coefficients of Estimates

μ = Stochastic or Error Term

It is essential to log-linearize the data on each variable to avoid spuriousity in estimation. Therefore, the above equation is presented in its log-linearized form in Eqn 3.4

$$Log(GDP) = \beta_0 + \beta_1 Log(PRE) + \beta_2 Log(PCE) + \beta_3 Log(PDS) + \mu \text{ .... Eqn 3.4}$$

From equation 3.3 above, the model can further be stated in time series form as depicted below: -

$$Log(GDP)_t = \beta_0 + \beta_1 Log(PRE)_t + \beta_2 Log(PCE)_t + \beta_3 Log(PDS)_t + \mu \text{ .... Eqn 3.5}$$

By stating the error correction model (ECM) from equation 3.3, the model becomes:

$$\Delta Log(GDP) = B_0 + B_1 \Delta logPRE_{t-1} + B_2 \Delta logPCE_{t-1} + B_3 \Delta logPDS_{t-1} + \Delta ECM_{t-1} + \textstyle\sum_t \text{ .... (Eqn 3.6)}$$

Δ = Change

$\sum ECM$ = Error Correction term

t – 1 = variable lagged by one period

$\sum_t$ = White noise residual

To test for the existence of long run equilibrium relationship, the error correction model i.e. equation 3.6 can be conducted by placing some restrictions on estimated long run coefficient of variables. Therefore, the hypothesis for the test is formulated as follows:

H_0: $\beta_1 = \beta_2 = \beta_3 = 0$ (absence of long run relationship or co-integration)

H_1: $\beta_1 \neq \beta_2 \neq \beta_3 \neq 0$ (existence of long run relationship or co-integration)

Centered on the results of previous empirical studies, this study hypothesizes certain relationships between the budget implementation variables and the economic growth in Nigeria as:

$\frac{dGDP}{dPRE}<0$. The relationship between GDP and public recurrent expenditure is expected to be negative. The inverse relationship signifies that a unit increase in the public recurrent expenditure will bring about a decline in the Gross Domestic Product. The relationship can be expressed mathematically as; f' (PRE) < 0.

$\frac{dGDP}{dPCE}>0$. The study also expects that there will be a positive relationship between GDP and public capital expenditures. This can be expressed mathematically as f' (PCE) > 0. This therefore implies that a unit increase in the public capital expenditure will heighten their level of economic growth measured by Gross Domestic Product.

$\frac{dGDP}{dPDS}<0$. The relationship between GDP and public debt servicing is expected to be negative. The inverse relationship signifies that a unit increase in the public debt service will bring about a decline in the Gross Domestic Product. The relationship can be expressed mathematically as; f' (PDS) < 0.

The model is estimated using time series annual data for the period 1986 – 2014. The data needed for the study are secondary in nature; implying data will be obtained from published sources.

Sources of these data include:

i. Central Bank of Nigeria Statistical Bulletin
ii. National Bureau of Statistics

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The estimation procedures for analyzing the subject matter includes the:

a. *Unit Root Test (URT)*

The Unit root is a standard approach in co-integration analysis used for determining the stationarity of time series data. It can either by performed using the Augmented Dickey Fuller (ADF) or the Philip Perron test but this study will use augmented dickey fuller to test the stationarity of data.

b. *Johansen Co-Integration Test (JCT)*

The Johansen's co-integration test is adopted in this study and it shows the long-run relationship subsisting between the dependent and the independent variables. This is done by evaluating both the trace and maximum Eigen statistics to determine the co-integration rank.

Also some statistical tests would also be conducted in the study. They are given below as:

c. *Standard Error Test (SET)*

The standard error test is done to determine the significance of each independent variable in the explanation of the behaviour of the dependent variable. It is done using the standard error statistics obtained from the co-integration equation of the co-integration test.

d. *Coefficient of Multiple Determinations (R^2)*

The coefficient of multiple determinations is used to measure the rate at which the behavior of the dependent variable is explained by the independent variables. It also takes into account the measurement of the behavior that is not explained by the model (Error Term).

e. *Overall Significance of the Model (F-Test)*

The F-test is used to show if the model adopted is statistically significant. This is done on a tail test with the comparison of the table value to the estimated value of F statistics.

f. *Durbin Watson Test (DW Test)*

The DW-test is used to determine the presence of Autocorrelation in a model. It could either show positive, negative or no autocorrelation, depending on the region which the DW statistical value falls.

VI. Analysis and Interpretation of Results

The results of all analytical technique mentioned earlier is presented and interpreted below.

a) *Presentation of Ordinary Least Square Result*

The study used Econometric View (Version 3.1) to analyze data which were extracted on the subject matter. The results from this computation are presented in its raw form in the appendix and interpreted below. In consonance with the identified research gap of ascertaining the short run and long run relationship between the variables, the ordinary least square result showing the short run relationship is presented in the table below:

Table 4.1 : Ordinary Least Square (OLS) Result

DEPENDENT VARIABLE	COEFFICIENT OF ESTIMATES	T- STATISTICS	PROBABILITY VALUE
C	10.62513	54.64034	0.0000
PRE	0.303291	4.578548	0.0001
PCE	-0.094486	-1.878675	0.0720
PDS	-0.025217	-0.463320	0.6471

R^2 = 0.910200 Adjusted R^2 = 0.899424 F-STAT = 84.46567 DW-STAT= 0.564577

Source: - Computed Result (See Appendix III)

The coefficient of estimates in the OLS result computed above can be expressed mathematically below:

$$GDP = 10.62513 + 0.303291_{PRE} - 0.094486_{PCE} - 0.025217_{PDS}$$

b) *Interpretation of Ordinary Least Square Result*

The result above shows that the constant parameter is positively related with gross domestic product. It has a positive coefficient of 10.62513 which implies that if all explanatory variables are held constant in the short-run gross domestic product will increase by 10.62513 units

Meanwhile, public recurrent expenditure (PRE) showed a positive coefficient of 0.303291 which implies that a unit increase in the level of public recurrent expenditure will result in a 0.303291 increase in the gross domestic product. Conversely, the coefficient of the public capital expenditure (PCE) showed a figure-0.094486 which implies a negative relationship between public capital expenditure and gross domestic product, therefore, a unit increase in public capital expenditure will lead to a 0.094486 unit decrease in the gross domestic product. In the same vein, the coefficient of public debt service shows a figure of -0.025217 meaning that a unit increase in public debt service will result in a 0.025217 decrease in Nigeria's gross domestic product.

Only an explanatory variable (public debt service) is in conformity with the prior expectation in the short-run as it shows same relationship with the result in the analysis. Meanwhile, the coefficient of multiple determinants (R^2) showed a coefficient of 0.910200 which implies a 91.02% explanation of the behaviour of gross domestic product by the totality of the explanatory variables (PRE, PCE and PDS) on the short-run. The Adjusted R^2 further prove this with the adjusted value of 0.899424 which implies an 89.94% explanation of the behaviour of gross domestic product by the totality of the explanatory variables with the remaining 10.06% behaviour attributed to other variables outside the model otherwise referred to as the stochastic variables.

c) Tests of Stationarity of Variable (Unit Root Test)

Performing a unit root test for time series model is considered mandatory to establish the stationarity of the variables in such model. This is more reason why this study considers it necessary to test for the stationarity of the variables in this model based on the following hypothesis.

H_0: - X_t has a unit root i.e. data is non-stationary

H_1: - X_t has no unit root i.e. data is stationary

d) Decision Rule

If the Augmented Dickey Fuller (ADF) statistics is greater than 5% Mackinnon critical value (in absolute terms), X_t is stationary, we accept the alternate hypothesis (H_1) and reject the null hypothesis (H_0). The Augmented Dickey Fuller as duly presented in Table C in the appendix is summarized in table 4.2 and 4.3 below.

Table 4.2 : Unit Root Result at Level

VARIABLES	ADF STATISTICS VALUE	MACKINNO CRITICAL VALUE @ 5%	H_0	H_1	REMARKS
GDP	0.965604	-2.9750	Accept	Reject	NON-STATIONARY
PRE	-2.175756	-2.9750	Accept	Reject	NON-STATIONARY
PCE	-2.936203	-2.9750	Accept	Reject	NON-STATIONARY
PDS	-2.313260	-2.9750	Accept	Reject	NON-STATIONARY

Source: Author's compilation

The table above shows that all variables are non-stationary before differencing. The ADF statistics of Terms of Trade (TOT) only shows a value lesser than 5% Mackinnon critical value (at absolute value) therefore, we reject the alternate hypothesis (H_1) all the variables and accept the Null hypothesis (H_0). In order to ensure the stationarity of data for the remaining variables found to be non-stationary at level, we proceed to test for stationarity at first difference. The result of the first differencing as duly presented in the appendix C is summarized below.

Table 4.3 : Unit Root Result at First Difference

VARIABLES	ADF STATISTICS VALUE	MACKINNO CRITICAL VALUE @ 5%	H_0	H_1	REMARKS
GDP	-2.134451	-2.9798	Accept	Reject	NON-STATIONARY
PRE	-4.129339	-2.9798	Reject	Accept	STATIONARY
PCE	-3.142752	-2.9798	Reject	Accept	STATIONARY
PDS*******	-2.313260	-2.9798	Reject	Accept	STATIONARY

Source: Author's compilation

Table 4.3 above shows that all variables except GDP are stationary at first difference. This is proven by the ADF statistics of each variable (PRE, PCE and PDS) that shows a value greater than the 5% Mackinnon critical values respectively. Hence, we reject their respective null hypothesis (H_0) and accept their alternate hypothesis (H_1). In order to ensure the stationarity of data for the last variable found to be non-stationary at level and first differencing we proceed to test for stationarity at second difference.

Table 4.4 : Unit Root Result at Second Difference

VARIABLES	ADF STATISTICS VALUE	MACKINNO CRITICAL VALUE @ 5%	H_0	H_1	REMARKS
GDP	-4.328269	-2.9850	Accept	Reject	STATIONARY

Source: Author's compilation

Table 4.4 above shows that the last variable is stationary at second difference. This is proven by the ADF statistics of the variable (GDP) that shows a value greater than the 5% Mackinnon critical values respectively. Hence, we reject their respective null hypothesis (H_0) and accept their alternate hypothesis (H_1).

e) *Summary of Order of Integration*

The summary of the Augmented Dickey Fuller (ADF) test of the unit root is presented in Table 4.6 below.

Table 4.5 : Summary of Order of Integration

Variables	Order of Integration
GDP	I(2)
PRE	I(1)
PCE	I(1)
PDS	I(1)

f) *The Augmented Dickey Fuller Test Equations*

The result of the ADF test equation carried out on each of the variables is presented in Table 4.7 alongside their respective level of stationarity and lagged period and the corresponding co-efficient of multiple determination (R^2).

Table 4.6 : ADF Test Equation

Variables	Coefficients	Standard Error	T-Statistics	Probability	R^2
D(GDP(-1),2)	-1.436506	0.331889	-4.328269	0.0003	0.736869
D(GDP(-1),3)	-0.031733	0.182405	-0.173968	0.8635	
C	-0.001098	0.005284	-0.207855	0.8373	
D(PRE(-1))	-1.407478	0.340848	-4.129339	0.0004	0.691737
D(PRE(-1),2)	0.010129	0.199193	0.050849	0.9899	
C	0.285648	0.091366	3.126421	0.0047	
D(PCE(-1))	-0.956775	0.304439	-3.142752	0.0046	0.547380
D(PCE(-1),2)	-0.116667	0.200527	-0.581800	0.5664	
C	0.174087	0.085942	2.025631	0.0546	
D(PDS(-1))	-0.152233	0.065809	-2.313260	0.0296	0.244765
D(PDS(-1),2)	-0.311112	0.173327	-1.794947	0.0853	
C	2.015285	0.767767	2.624867	0.0148	

Source: Author's compilation

The co-integration test is used in the determination of the long-run relationship that exists between variables. It is in line with the proposition of the Johansen in 1991.

Decision rule: - If the trace statistics (Likelihood ratio) is greater than the 5% critical value at none**, we reject the Null hypothesis (H_1) which says that there is no long-run relationship and accept the Alternate hypothesis (H_1) which says that there is long-run relationship between the variables. The table below shows the result of the Johansen co-integration test obtained from the co-integration result as duly presented in the appendix.

Table 4.7 : Presentation of Johansen Co-Integration Result

EIGEN VALUE	LIKELIHOOD RATIO	5% CRITICAL VALUE	1% CRITICAL VALUE	HYPOTHESISED NO OF (CE_S)
0.617830	48.00603	47.21	54.46	None*
0.467429	22.03503	29.68	35.65	At most 1
0.167638	5.023977	15.41	20.04	At most 2*
0.002582	0.069800	3.76	6.65	At most 3

*(**) denotes rejection of hypothesis @ 5%(1%) Significant level respectively
L.R. test indicates 3(2) co-integrating equation @ 5% (1%) significant level
Source: -Computed Result (See Appendix)

The table above shows that long-run relationship (co-integration) exist Gross Domestic Product (GDP) and the explanatory variables; Public Recurrent Expenditure (PRE), Public Capital Expenditure (PCE) and Public Debt Service (PDS). This is reflected in the likelihood ratio of the first row of the second column of the table that shows a value greater than that of the 5% critical value in the first row of the third column. Hence, the hypothesis of no co-integration (H_0) is rejected and that of presence of co-integration (H_1) is upheld.

g) Long-Run Model

From the co-integration result in the Johansen co-integration test above, it could be inferred that there is long-run relationship among the dependent and the explanatory variables. This prompted the need for the establishment of a co-integration model. This is derived from the Johansen co-integration result from which the equation with the lowest log-likelihood ratio is chosen. The equation with the lowest log-likelihood ratio is the first equation with the corresponding value of 80.20625. It is therefore presented as:

$$GDP = -1.080311_{PRE} + 0.445605_{PCE} + 0.826388_{PDS} - 14.18768$$
$$(0.46272) \qquad (0.23033) \qquad (0.46883)$$

Source: See Johansen Co-integration result in the appendix III
Note: Standard error statistics are given in parenthesis

From the above long-run equation, public recurrent expenditure showed a negative relationship with gross domestic product on the long-run while the remaining two variables (PCE and PDS) showed a positive relationship with gross domestic product. The constant parameter maintained a negative value of 14.18768 implying that if all explanatory variables are held constant, gross domestic product will increase by 14.18768units on the long-run. There are several reason in literature which results in public capital expenditure yielding a positive result on gross domestic product, one of the likely reason is that as time goes on if government keeps investing in public infrastructure, foreign firms can be motivated to invest in Nigeria since infrastructures such as electricity, good roads are in place. Also, only a thriving economy as well as government can service its loan at maturity, a long run thriving economy is a good impetus for foreign inflow of foreign capital. While public recurrent expenditure can only have a short run effect. For example, the payment of administrative salaries and wages can only encourage workers to be productive for just a little period of time.

Meanwhile, none of the variables gave the same effect on gross domestic product in the long run as in the short-run while the constant parameter shows the same effect in the long run and the short-run.

h) Error Correction Mechanism

An over-parametized error correction model is required in this analysis and was obtained by using the lag length to ensure that the dynamics of the model is not compromised and properly captured. The result of the over-parametized error correction model (ECM1) is presented in table 4.9 below:

Table 4.8 : Over-Parametized Model (Ecm1)
Dependent Variable = D (GDP, 2)

VARIABLES	COEFFICIENTS	STANDARD ERROR	T-STATISTICS	PROB VALUE
D(GDP(-1),2)	-0.454883	0.188422	-2.414170	0.0266
D(PRE,2)	-0.001079	0.022308	-0.048352	0.9620
D(PRE(-1),2)	-0.000284	0.018886	-0.015035	0.9882
D(PCE,2)	0.016206	0.022105	0.733108	0.4729
D(PCE(-1),2)	0.002653	0.016442	0.161326	0.8736

D(PDS,2)	0.014862	0.009603	1.547708	0.1391
D(PDS(-1),2)	0.000190	0.015173	0.012503	0.9902
ECM(-1)	-0.089651	0.049730	-1.802736	0.0882

R^2 = 0.4402003604 DW-STATISTICS = 1.975039

Source: *Computed Result (See Appendix)*

The summary of the over-parametized ECM above shows that the coefficient of the ECM is significant with the negative sign (-). It implies it effectiveness in the correction of any deviation that may occur in the long-run. The coefficient is -0.089651 which implies a sharp adjustment rate of approximately 0.09unit to any changes that may occur on the long-run and rate of correction of past deviation in the present period. These means that the present value of GDP adjust very sharply to changes in PRE, PCE and PDS.

In order to attain effectiveness of the model, there is the need to simplify the model to a more parsimonious model. The parsimonious model would be gotten by estimating the equation of only those variables that appear significant in the over-parametized ECM. The table below shows the result of the parsimonious model estimated.

Table 4.9 : Dependent Variables = D(GDP, 2)Parsimonious Model (Ecm 2)

VARIABLES	COEFFICIENTS	STANDARD ERROR	T-STATISTICS	PROB VALUE
D(GDP(-1),2)	-0.445891	0.149235	-2.987848	0.0070
D(PRE,2)	-0.000400	0.013703	-0.029158	0.9770
D(PCE,2)	0.014107	0.014142	0.997504	0.3299
D(PDS,2)	0.014384	0.007370	1.951841	0.0644
ECM(-1)	-0.090423	0.045346	-1.994065	0.0593

R^2 = 0.712104 DW-STATISTICS = 2.014767

Source: Author's compilation

From the result above, the coefficient of the ECM is further proven significant with its conformity to the over-parametized ECM. The value of the ECM shows a negative of -0.090423. This coefficient in it negative form implies that the speed of adjustment of any past deviation to long-run equilibrium in present period. It therefore indicates that the value of the GDP adjust more sharply to changes in the explanatory variables than it was in the over-parametized model.

However, the parsimonious model shows only a variable (PDS) is significant while the remaining variables proved insignificant. This is determined by the evaluation of the probability value of each variable. The corresponding probability of a variable must be less than 10% before it is said to be significant. therefore, it can be deduced from the parsimonious model above that changes in the dependent variable (GDP) is determined by PRE in the short-run while other PDS determines this changes in the long-run.

Furthermore, the table also reveals that PRE is inversely related with GDP with a negative coefficient of 0.000400, which implies that a unit increase in public recurrent expenditure will result in a 0.000400 decrease in GDP while the remaining two variables (PCE and PDS) maintained a positive relationship with GDP with their respective coefficients given as; 0.014107, and 0.014384. These therefore implies that a unit increase in any of the PCE and PDS in the long-run will result into a increase in the value of gross domestic product (GDP) by 0.014107 and 0.014384 respectively.

The coefficient of multiple determinants (R^2) showed an approximate value of 0.439115 which implies that the variables that makes up the model can account for approximately 44% of the behaviour of gross domestic product (GDP). The remaining 56% can be linked to white noise which is usually captured by other variables not present in the model.

i) Tests for the Statistical Significance of Parameters

In testing for the statistical significance of each variable, the standard error test is usually employed in long-run analysis. This is done by comparing the standard error statistics with half the coefficient of each variable as given in the Johansen co-integration result in absolute terms. The table below displays the test accordingly in there absolute terms respectively.

Table 4.10 : Test for the Significance of Parameters

VARIABLES	COEFFICIENT	COEFFICIENT/2	STANDARD ERROR	DECISION
PRE	-1.080311	0.5401555	0.46272	Significant
PCE	0.445605	0.2228025	0.23033	Insignificant
PDS	0.826388	0.413194	0.46883	Insignificant

The table above indicates both PCE and PDS are statistically insignificant while GDP is statistically significant. This implies that only public recurrent expenditure (PRE) can significantly explain Gross domestic product (GDP) in the long run. This is also supported in the short run by the probability value of PRE lesser than 5%. On this note, the only statistically significant variable in the short and long run is PRE. i.e. only PRE can significantly explain the variation in GDP.

VII. Implication of Findings

The compass of this study is focused on the impact of budget implementation on Nigeria's economic growth. A radical analysis of the subject matter revealed that in the long run, public recurrent expenditure and public capital expenditure will have a negative and positive relationship respectively with gross domestic product of the country which is in conformity with the 'a prior' expectation, only public debt service does not conform with prior expectation. This is to say that as the Nigerian government keeps implementing recurrent expenditure its positive effect can only be felt for a short period of time afterwards, a negative effect will emerge. The study also reveals that implementing capital expenditure in the national budget cannot yield any form of immediate economic growth, only a sustainable and continuous capital expenditure project such as electricity, good transport system among others within the country will serveas a good investment ground thereby encouraging foreign firms to patronize the country. The over-parametrized and parsimonious ECM also shows the lead value of the variables used in the study i.e it shows the relationship which each variables of subsequent years have with gross domestic product. The result of the oveparametrized and parsimonious ECM also conforms with that of the Johanson cointegration which suggest that the implementation of the national budget which is equivalent to the implementation of public recurrent expenditure, public capital expenditure and public debt will yield positive effect on gross domestic product of Nigeria in the long-run. The short run result reveals that the national budget has only be implemented up to 91%.

There is the need to link the findings in this study with the findings of other researchers on the subject matter. Though, there are several researchers who worked on the subject matter but Oke (2013) remains the only researcher that applied the same methodology as the one used in this study. Therefore the findings of Oke (2013) will serve as the basis for comparison in this research. Findings of Oke (2013) was able to reveal the same result using Ordinary Least Square Methodology as the result obtained in this study. The short run findings in this study reveals that in a short while the implementation of the public recurrent expenditure which encompasses the payment of salaries and wages will lead to productive workers who will give economic productions their best shot, this means economic development can be ensued in the short run. While implementing capital expenditure contribute to economic development but not in the short run. In short the analysis conducted shows that if proper care is not taken, the effect of capital expenditure on the economy can be adverse within a short period of time.

VIII. Summary, Conclusion and Recommendation

Investigation into the subject matter was conducted on the basis of empirical, theoretical and analytical investigation done as objectively as possible. Plethora of researches that have evolved over the years relating to this study (empirical review) were given adequate consideration in other to provide an effective benchmark and platform upon which this study is based. The study also carefully diagnosed the variously examined areas of past research works on the subject matter in other parts of Nigeria to objectively establish the most reliable result and conclusion possible. However, the study carefully reviewed theories and empirical studies that relates to the subject matter in order to critically evaluate the problems inherent in previous related study which serves as the research gap which were extensively bridged.. The analysis conducted in this study is categorized into the short run and the long run which is carried out using the Ordinary Least Square (OLS) and the Johanson Co-integration (JCI) analytical technique. The study also included other analysis such as the overparametized and parsimonious error correction model. The result of the short run analysis indicated an insignificant and negative relationship between Public Capital Expenditure (PCE) and Gross Domestic Product (GDP) applicable to Public Debt Service (PDS) and Gross Domestic Product (GDP). While Public Recurrent Expenditure (PRE) showed a significant and positive relationship with the gross domestic product in the short run. Meanwhile, the long run analysis reveals a positive relationship between Public Capital Expenditure (PCE) and Gross Domestic Product (GDP) and Public Capital Expenditure (PCE) and Gross Domestic Product (GDP). While Public Recurrent Expenditure (PRE) showed a negative relationship with gross domestic product (GDP).The F-test revealed that the overall model is statistically significant in the explanation of the subject matter. The Durbin Watson graph shows that there is absence of serial correlation in the model adopted for the study. Lastly, the goodness of fit of the model (co-efficient of multiple determinant) showed a statistical value of 0.910200 in the short-run indicating that the explanatory variables in the short-run can account for 91.02% changes that occur in Gross Domestic Product (GDP) while the long-run model showed a statistical value of

0.439115 indicating that the explanatory variables can only account for approximately 44% behaviour of Gross Domestic Product (GDP) on the long-run while other variables outside the model (stochastic variables) accounts for the remaining approximately 56%.

It can be generally concluded that as the Nigerian government keeps implementing recurrent expenditure, its positive effect can only be felt for a short period of time afterwards, a negative effect will emerge. The study also reveals that by implementing capital expenditure in the national budget cannot yield any form of immediate economic growth, only a sustainable capital expenditure project such as electricity, good transport system among others within the country will encourage foreign firms to patronize the country as a good investment ground. It can be concluded that in the short run, the implementation of all items in the budget will largely contribute to the development of the Nigerian economy. In the long run, it can be inferred from the analysis that the implementation of all items in the budget will average impact the Nigerian economy. From the foregoing, it can be finalized that other economic factors helps in developing the economy in the long run. Sequel to the findings of the research, the following recommendations are hereby presented for the benefit of researchers, Nigerian government and policy makers:

i. On the note of the analysis conducted in this study, it is recommended that for the Nigerian government to achieve all round sectorial and economic growth, public capital expenditure and debt servicing should not be taken with levity as their implementation can strongly boost economic growth and development.
ii. Recommendation for further studies is that upcoming researches should employ the use of more variables in order to boost the coefficient of multiple determination (R^2) in the long run.
iii. The government of the country should not see implementing recurrent expenditure as a strategy for achieving a long run development.
iv. On the basis of testing the significance of all the variables, only public recurrent expenditure can be relied upon as being significance, therefore, its effect must be checked mate in the future. The study reveals a negative effect on gross domestic product in the long run.

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The Importance of CSR in Financial Reporting Standards

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Keywords: corporate social responsibility (CSR), financial statement analysis, global reporting initiative (GRI), sustainability factors, environmental management accounting (EMA), integrated report (IR).

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THEIMPORTANCEOFCSRINFINANCIALREPORTINGSTANDARDS

Strictly as per the compliance and regulations of:

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Keywords: corporate social responsibility (CSR), financial statement analysis, global reporting initiative (GRI), sustainability factors, environmental management accounting (EMA), integrated report (IR).

I. Introduction

In an effort to stay abreast with corporate social responsibility (CSR) and financial reporting standards, this article will introduce four subject areas (1). Corporate Social Responsibility (CSR) Historical Approach, (2). Corporate Social Responsibility (CSR) Background Theories, (3). Corporate Social Responsibility (CSR) and Financial Reporting, and (4). Three Sustainability Factors that are relevant to small and publicly traded companies around the globe. In 1929, the market crash on Wall Street led to the emergence of CSR. Four background theories are presented throughout the study as the pillar of CSR in the financial market. In 1999, the AA1000 series began to promote financial reporting sustainability. By 2000, the Global Compact was established by the United Nations (UN). Since the inception of the Global Compact, 10 principles have been designed to promote human rights, labor, environmental, and anti-corruption standards. In the evolution of international accounting, Carnegie and Napier (2002) presented seven dimensions from a comparative aspect surrounding how to treat CSR and financial reporting in different financial markets. In 2005, at the World Summit, the three factors of environment, social, and economic were reaffirmed as efficient and effective in a company's financial decision-making process.

In the 21st century, CSR is an emerging field in the accounting and finance industry. Sustainability is understood as having environmental, social, and economic components. As mentioned by Marimon, Alonso-Almeida, and Rodriguez (2012), CSR has received several classifications, including "UN Global Compact Principles, OECD Guidelines for Multinational Enterprises, GRI, ISO 26000, AA1000, ISO 14001 and SA88000" (p. 183). In 2011, Noble, Mattison, and Matsumura (2015) their statistical research showed that about 57% of the U.S. Fortune 500 companies reported CSR practices on their websites. In the global market, about 95% of the largest 250 companies issue CSR reports and follow CSR compliance guidelines. Typically, the CSR report covers important areas such as the company's goals and objectives, environmental performance, and the human impact.

II. Review of the Literature

a) *Historical View of Corporate Social Responsibility (CSR)*

In 1929, the market crash on Wall Street led to the emergence of CSR. The main goal and objective of CSR is to align social aspirations and compliance with governance in the business sector. CSR continues to drive small and large business enterprises by helping them achieve the status of a "good citizen." For instance, small companies have increased their social engagement activities. In Australia, the business sector found that there is a mutual relationship between stakeholder and social capital theory. Ferrell, Fraedrich, and Ferrell (2015) indicated that stakeholder theory is understood by three approaches such as normative, descriptive, and instrumental. The normative approach deals with ethical guidelines. The descriptive approach suggests the importance of understanding a firm business behavior in addressing business decision strategies. The instrumental approach embraces management and organizational process. According to Sen and Cowley (2013) defined social capital theory as "Social capital, broadly speaking, refers to social networks, the reciprocities that arise from them and their value within the business environment" (p.416). Therefore, research studies indicate that the CSR

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conceptual framework brings more alignment in small companies than in medium and larger enterprises (Sen & Cowley, 2013).

The definition of CSR consists of five important aspects: (a) environment, (b) social dimension sustainability, (c) economic advancement, (d) stakeholder behavior, and (e) ethical evolution of society. CSR can be adopted by multinational corporations (MNCs) and enterprises that operate in different cultural background settings. As a result, CSR in the international market as noted by Jacob (2012) acts as an ambassador among communities and the business sector.

MNCs in the global market can reduce poverty by promoting their good citizen status and improving the living standards of their employees. Solid CSR guidance policies require innovation and new avenues to settle the cultural differences that exist among small companies and large enterprises. For example, the triangulation that exists (as cited in Montinho & Souther, 2010, p. 281) between the organizational evaluation, stakeholder criteria, and employees' cultural environment is known as CSR. Therefore, CSR is understood as the universal language of business compliance that provides social benefits to small and medium sized enterprises in the international arena (van Tonder & Roberts-Lombard, 2013).

III. Background Theories

a) System theory

This theory ensures democracy and economic freedom by promoting equality among citizens in society by building sustainability through a value chain. The primary foundation of system theory consists of an open market economy. System theory shares three unique aspects: social values, entity, and the environment. These three aspects contribute to economic creation, social changes, and the evolution of nature.

In early 2000, system theory (Emery, 2000) was interpreted as a reliable conceptual framework. Bala (2010) suggested three theoretical aspects that contribute to economic growth. The first theoretical aspect emphasizes the importance of reducing inflation and encourages consumers to contribute to the economy. The second theoretical aspect is to establish rules and regulations by accurately measuring international investment portfolios. The third theoretical aspect predicts the sustainability of the global economy.

b) Triple bottom line theory (TBL)

In 1997, John Elkington was the founding father of the triple bottom line (TBL) theory. The conceptual accounting framework of the TBL theory is measured through social sustainability performance, economic, and financial environment. The most important dimensions of the TBL theory are the 3Ps, or people, planet, and profits. Over the past 30 years, organizations have adopted the TBL theory to be better corporate citizens. Therefore, the core value of the TBL theory is to promote sustainability through the value chain (Slaper & Hall, 2011).

Christofi, Christofi, and Sisaye (2012) argued that the TBL is sustainable when CSR is standardized, because CSR addresses the importance and relevance of the well-being of both citizens and corporations. Since the creation of the TBL theory, researchers in the accounting arena have recommended expanding the standardization aspects and the development of corporate social performance. Sethi (1975) contributed to the aspects and development of corporate social performance in the accounting field. Then it was expanded by Carroll (1999) challenging the corporate sector and adapting to the rapid change of globalization.

In Australia, the TBL theory helped overcome corporate boundaries in the public sector and built the groundwork for sustainability. The main objective of the TBL theory is to promote compliance and sustainability among businesses. In the era of globalization, the TBL theory helps introduce reliability, accuracy, and transparency into the world's financial reporting market (Mitchell, Curtis, & Davidson, 2012).

c) Agency theory

The agency theory indicates that companies can use different sources of information related to results by decreasing asymmetries across the market (Cormier, Magnan, & Van Veltoven, 2005). Adequate CSR disclosure helps reduce differences between a company's performance and their stakeholders expectations (Bonsón & Bednárová, 2015; Ferrero et al., 2013).

d) Stakeholder theory

In 1984, Freeman introduced the stakeholder theory and mentioned that the core value of this theory is social responsibility. In order for a company to reduce information asymmetry, there needs to be equilibrium among stakeholders and CSR financial reporting. Therefore, the stakeholder theory should be viable to companies and easy the relationship among stakeholders (Bonsón & Bednárová, 2015).

IV. Corporate Social Responsibility (CSR) and Financial Reporting

Presently, CSR remains at a premature developmental stage. It seems inevitable that CSR will be a part of financial reporting standards. For example, in accounting, the areas that are related to CSR are financial accounting, managerial accounting, and income tax reporting. In the 21st century, CSR is an emerging field in the accounting and finance industry. The three most important financial reporting standards under CSR are Global Reporting Initiative (GRI) G3 standards, AA 1000 series, and the UN Global Compact's Communication on Progress (COP; Tschopp & Huefner, 2015).

a) Global Reporting Initiative (GRI) G3 standards

In 1999, for the first time in history, the G3s were issued as an exposure draft. By 2000, the GRIs were revised and officially launched in 2002. In 2006, the G3 guidelines were published and the new G4 standard was launched in 2013. Under G3, five guidelines are promoted by meeting the company's reporting principles, financial reporting guidance, and followed by disclosure requirements as illustrated by Tschopp and Huefner (2015): "strategy and analysis; organizational profile; report parameters; governance, commitments, and engagement; [and] management approach and performance indicators" (p. 566). G3 standards promote quality assurance and reliability (Tschopp & Huefner, 2015).

b) AA1000 series

In 1999, the AA1000 series began to promote financial reporting sustainability. The main standards included in the AA1000 series are assurance principles standards and stakeholder engagement. By 2008, AA1000 help companies implement CSR into their financial reporting systems. The AA1000 series is designed to help companies address financial reporting issues in the areas of stakeholder engagement, social identity, and environmental key leading indicators. The AA1000 framework should follow CSR guidelines. For example, the AA1000 Accounting Principles Standard focuses on financial reporting and auditing, the AA1000 Assurance Standard follows the CSR audit guidelines report, and the AA1000 Stakeholder Engagement Standard promotes stakeholder quality engagement and compliance (Tschopp & Huefner, 2015).

In the evolution of international accounting, Carnegie and Napier (2002) presented seven dimensions from a comparative aspect surrounding how to treat CSR financial reporting in different financial markets. The 7Ps are illustrated below:

1. *Period:* understood as the accounting development through a given period of time by considering economic, political, and social aspects.
2. *Places:* the treatment of accounting policies in different geographical regions.
3. *People:* the interests of people in leadership by transforming the development of accounting policies into a robust framework.
4. *Practices:* promote financial transparency and sustainability by preventing accounting fraud.
5. *Propagation:* the requirement of speaking one singular accounting language in the world's financial market.
6. *Products:* the creation of reliable accounting software and constructing better financial reports by meeting the auditing principles outcomes of assurance, transparency, and accuracy.
7. Profession: promote a code of conduct in the accounting profession by leading organizational groups in a sustainable manner.

The 7Ps can serve as road map guidance in developing a sustainable and adequate CSR financial reporting system.

c) UN Global Compact's Communication on Progress (COP)

In 2000, the Global Compact was established by the UN. Since the inception of the Global Compact, 10 principles were designed to promoted human rights, labor, environmental, and anti-corruption standards. According to Tschopp and Huefner (2015), "The Global Compact network is currently comprised of almost 800 business associations, 57 labor organizations, over 2,200 civil society organizations, over 700 academic participants, 171 public sector organizations, and 73 municipal organizations (UNGC 2013)" (p. 566). The participation of stakeholders in the UN Global Compact increased by 56% from 2003 to the present. Therefore, the main objective of the Global Compact is to promote transparency in corporate governance.

d) Pillars of Sustainability

Triangulation is the support and representation of three important factors that support sustainability (See Figure 1). The three pillars that support sustainability are environmental, social, and economic. In 2005, at the World Summit, these three factors were reaffirmed as efficient and effective in a company's financial decision-making process. In other words, if companies are not able to adopt these three important factors, they are not likely to survive (Noble, Mattison, & Matsumura, 2015).

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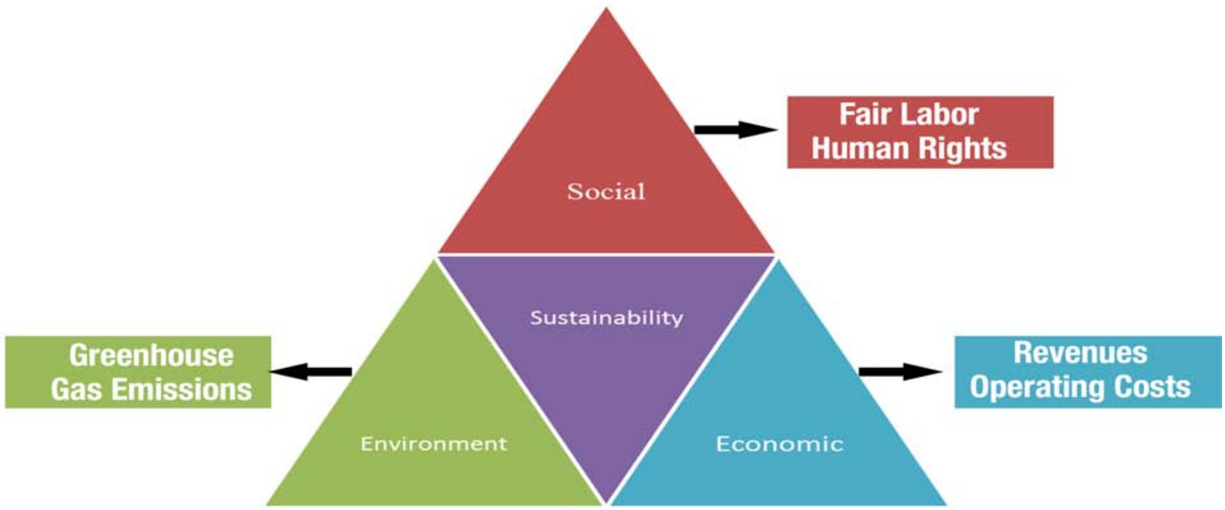

Figure 1 : What do we know about sustainability?

Certo and Certo (2012) indicated that businesses are highly motivated by managerial obligations and need the right to protect society. They developed a conceptual framework in prior research studies to triangulate business, society, and cross-cultural settings. The conceptual framework embraces sustainability and is supported by five areas: (a) social responsibility, (b) business and economic freedom, (c) social cost, (d) consumer behavior, and (e) business operating as an independent institution. Milton Friedman argued that society should be run by citizens, not by businesses. For example (as cited in Jayakumar, Anbalagan, & Kannan, 2012), the primary focus of an MNC is society. An MNC possess the unique characteristic of cross-cultural diversity. It has been proven over the years that MNCs act as good citizens in the international business arena.

CSR plays an essential role in audit committees because the audit committees are constantly dealing with regulatory governance and compliance. Presently, Bonsón and Bednárová (2015) in their study indicate that audit committees are taking an active role in organizational governance and also in the area of risk management. An existing area that is underdeveloped under CSR is the measurement and performance of audit committees. For example, in Australia, those in the accounting and financial sector are investigating how to expand CSR to audit committees by evaluating practice performance. Therefore, three areas that are crucial when evaluating the practice performance under CSR are corporate governance, policy measurement, and assessment processes (Bonsón & Bednárová, 2015).

Companies that have adopted CSR into their financial reporting experience a high auditor quality standard as compared to companies that have not adopted CSR. The areas of high auditor quality standard encompass the company's reputation, financial improvement, less financial risk, and higher earnings accruals. On the other hand, companies that do not adopt CSR into their financial reports tend to experience low auditing quality standards and increased financial risk. Prior studies conducted by Bonsón and Bednárová (2015) in this field demonstrated that there is a positive relationship between audit committee quality and auditor for tenure, because this positive relationship contributes to audit quality. For example, companies filing CSR reports prevent internal financial reporting weakness, experience a higher return on assets, and are more likely to have the support of the Big Four accounting audit firms.

Companies in the international market want to understand the existing relationship between stakeholder theory and the TBL theory. CSR appears to be a promising concept in academia and the business world. Companies that have adopted CSR have been forced to disclose more information in their financial statements related to the environmental and social activities. As a result, CSR came under discussion after serious financial scandals took place in 1929 with the fall of Wall Street, 2001 the collapse of Enron Corporation, the 2008 economic recession, and labor rights and protection in the emerging economies market (Noronha, Tou, Cynthia, & Guan, 2012). Presently, CSR is a necessity in financial statements because it promotes financial sustainability among financial institutions, boosts corporate profitability, and fosters good public relations (Bonsón & Bednárová, 2015).

Over the past 10 years, several standards under CSR have been promoted in the global arena. As mentioned by Marimon et al. (2012), CSR has received several classifications, including "UN Global Compact Principles, OECD Guidelines for Multinational Enterprises, GRI, ISO 26000, AA1000, ISO 14001 and SA88000" (p. 183). Research studies have shown that it is imperative to seek uniformity in a CSR international financial reporting system. For example, 40% of companies worldwide follow and comply with GRI standard (Bonsón & Bednárová, 2015).

The EU proposed the need for publicly traded companies to expand their CSR reporting. The EU defined CSR as the responsibility of enterprises within society. The challenge in the business world is to link CSR and leadership competitiveness. For example, in 2003, the EU mandated under article 46 of the Fourth Company Law Directive that companies must properly disclose financial and non-financial items as key leading performance. The goal and objective under article 46 was to promote corporate governance by public companies and most importantly demonstrate diversification in the organization's CSR policy (Ambrose, 2013).

In 2011, Aktas, Kayalidere, and Kargin (2013) statistical research showed that about 57% of the U.S. Fortune 500 companies reported CSR on their websites. In the global market, about 95% of the 250 largest companies issue CSR reports and follow CSR compliance guidelines. Typically, the CSR report covers important areas such as the company's goals and objectives, environmental performance, and the human impact. As a result, the company's 10K report at year end covers CSR and financial reporting in depth. The top four accounting firms are leaders in providing quality assurance information as related to CSR data. Therefore, the future of the TBL theory will be known as an integrated report (IR). Notably, the IR remains in its infancy stage and is being piloted by publicly traded companies. The idea behind IR is to provide a holistic view to stakeholders where material financial information and non-financial information can be consolidated in one report.

For example, according to Noble et al. (2015), "As of 2012, over 1,100 institutional investors with over $30 trillion of assets under management had signed on to the Principles of Responsible Investing (PRI) backed by the United Nations (UN)" (p. 139). This is a reflection of sustainability and financial reporting by institutional investors making a rational investment decision to include the environment, social, and corporate governance.

Primary financial statements, such as the income statement, balance sheet, and statement of cash flow, are the main sources of relevant information to users. The decision-makers are investors, lenders, and other creditors in the financial sector. The financial statements are constructed for the public interest. Also, it has been argued that non-financial information is important. Evidently, information reported in the financial statements helps decision-makers to execute better financial strategies. As a result, CSR and sustainability play vital roles when the numbers are reported in financial statements. For instance, financial reports and sustainability have been analyzed from a GRI perspective. Therefore, a company utilizing sustainability for its financial reporting approach should select a disclosure management approach and financial key performance leading indicators (Aktas, Kayalidere, & Kargin, 2013).

Yu and Ting (2012) indicated that financial investors and shareholders have a corporate commitment to society. Companies that are willing to adopt CSR into their financial reports experience higher financial sustainability. Corporate commitment is the path to reaching sustainability. Companies that focus on climate change issues can protect investors, stakeholders, and the community. In the global market arena there is an existing relationship between country-level characteristics and a country's commitment to sustainability (Yu & Ting, 2012).

In 2008, the financial crisis marked an important unprecedented value in the world financial market. Antonia García-Benau, Sierra-Garcia, and Zorio (2013) evaluated CSR reporting and CSR assurance strategy in Spain under an economic recession. Companies in Spain witness CSR reporting as a business threat because companies had to cut cost and discontinue operations. Also, the Return On Equity (ROE) was affected in the long-run. On the contrary, CSR assurance added value to CSR reporting as companies were navigating through an economic recession. Therefore, it is evident that stakeholder trust can be reinforced by embracing CSR reporting and a CSR assurance strategy (Antonia García-Benau et al., 2013).

Financial analysts in the world's financial market understand the importance of incorporating corporate sustainability into financial reports to achieve better economic performance and realize social performance as related directly to the company's goals and objectives. Indeed, GRI promotes sustainability in financial statements and establishes financial policies across the board. Therefore, companies that have adopted CSR in their financial reporting promote within organization environmental transparency and economic social performance (Lin, 2010).

Scholars and practitioners acknowledge that there is an existing relationship between corporate governance and CSR. This existing relationship promotes corporate strategy, accountability, stakeholder engagement, and the company's social responsibility. The success of previous existing relationships will depend upon the amount of support that the board of directors is willing to provide to the company. For example, in a study by Bogart (2013), results indicated that 14 independent directors of the board of trustees of seven of the U.S. Fortune 1,000 publicly traded companies acknowledged that CSR was an important key performance leading indicator in promoting sustainability. Therefore, it can be determined that boards of directors in major publicly traded companies can influence CSR by promoting four important aspects: (a) the board of trustees needs to have a clear understanding of the definition of CSR and how it is related to the organization's strategy; (b) the engagement of stakeholders and company's alignment opportunity cost; (c) promote respectful relationships among board management team and CSR investment; and (d) the board of directors can influence CSR through financial reporting, internal reporting assurance, and key financial leading indicators (Bogart, 2013).

Financial reporting quality is an important subject in the investment arena. Over the past decade, educating managers in the investment sector has broadened a degree of challenge in embracing agency problems and investment decisions from a CSR perspective. Research studies have shown that there is a positive relationship between investment in CSR and future profitability. For example, Vollono (2010) identified a positive relationship between CSR and corporate financial performance (CFP). Therefore, companies that opt to implement CSR into their financial reports will experience high financial quality performance and improve the relationships among stakeholders (McDermott, 2012).

A survey conducted by King and Bartels (2015) indicated that CSR is a norm driven by regulation. The percentages in Figure 2 reveal that corporate responsibility (CR) in annual reports can be identified as a trend. For example, in 2011, only 20% of companies adopted CR reporting into their annual reports. Four decades later, the adoption of CR in annual reports increased by 36%. The countries that were leading in CR financial reporting in the world's financial market between 2013 and 2015 were Taiwan (+64), South Korea (+43), and Norway (+31) by average points (King & Bartels, 2015).

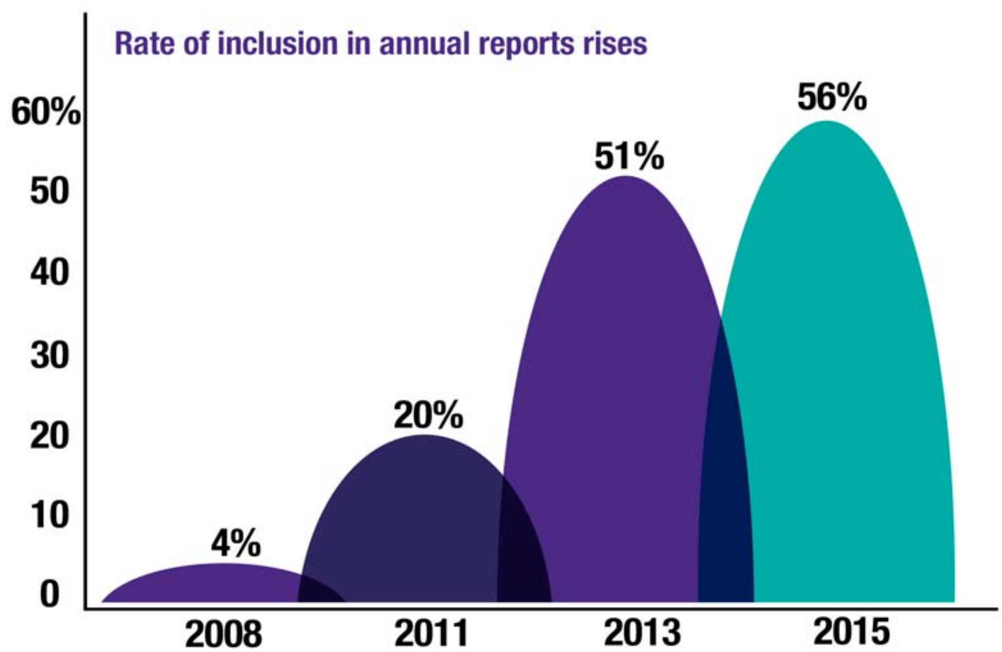

Figure 2 : Rate of inclusion in annual reports rises (King & Bartels, 2015, p. 36)

Figure 3 reveals the percentages of eight countries in three different continents including Europe, Asia, and Africa with the highest acceptance rate of CR reporting. This will improve the financial reporting quality of the world's biggest companies (G250) operating in 15 different industry sectors and 31 different countries. According to Choi and Meek (2005), 14 years ago half of the largest companies (G250) were reporting social responsibility in their financial statements in the following regions: France, Germany, Japan, the United Kingdom, and the United States. Evidently, the adoption of CR in financial statements has the ability to increase the amount of relevant information provided to shareholders and stock exchange markets around the world, which is presently enforcing the importance of adopting CR into financial statements.

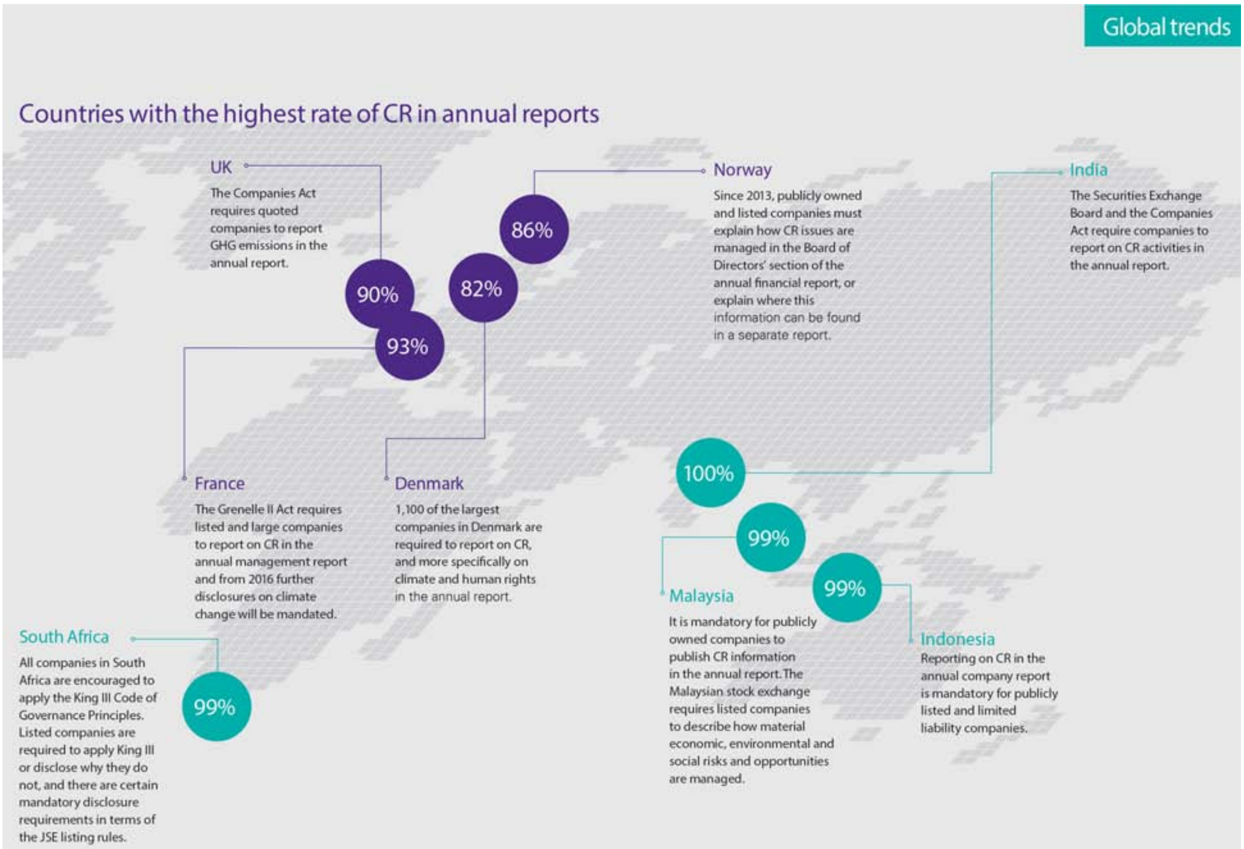

Figure 3 : Countries with the highest rate of CR in annual reports (King & Bartels, 2015, p. 36)

V. Conclusion

In conclusion, the CSR conceptual framework brings more alignment in small companies than in larger medium enterprises. CSR is understood as the universal business of compliance by providing social benefits to small and medium sized enterprises in the international arena. The three most important financial reporting standards under CSR are GRI G3 standards, AA 1000 series, and the UN Global Compact's Communication on Progress. Furthermore, the future of the TBL theory will be known as IR. Notably, the IR remains in its infancy stage where it is being piloted by publicly traded companies. The idea behind IR is to provide a holistic view to stakeholders where material financial information and non-financial information can be consolidated in one report. The countries that were leading CR financial reporting in the global financial market between 2013 and 2015 were Taiwan (+64), South Korea (+43), and Norway (+31) by average points (King & Bartels, 2015).

a) Recommendations for Future Studies

The author of this article suggests that the following aspects be considered for future studies surrounding CSR and financial statement analysis:

- Examine the relationship between CSR disclosure requirements and sustainability in the stock exchange markets world-wide.
- Study the impact of G4 development guidelines under GRI on the TBL theory.
- Explore the integration of sustainability into financial statements and the evaluation of social return on investment (SROI).
- Examine the importance of CSR measurement and the performance of audit committees.

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The Fluxional Relationship between Internally Generated Revenue and Cost of Collection in Cross River State, Nigeria: Tax Education and Sensitization Measures

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Abstract- This study is about the determination of the fluxional relationship between Internally Generated Revenue and the cost of collection in Cross River State with a view to proffering cost minimization measures. The research is focused on the possibility of finding an optimum level of collection in an era when all tiers of government have been forced by circumstances of the dwindling fortunes of the Federation Account to look inwards for a sustainable model of fiscal operation. Secondary data was obtained from the Cross River State Board of Internal Revenue, the State Budget Department and Ministry of Finance. Descriptive statistics was used to analyze the trend and relationship between Internally Generated Revenue (IGR) and collection cost in Cross River State. Trend analysis was also used to find if the increase in collection cost resulted to corresponding increase in revenue.

Keywords: internally generated revenue, fluxional relationship, collection cost, off-shore sourcing, outsourced collection, tax education, sensitization.

GJMBR - D Classification : JEL Code : M41, M42

THEFLUXIONALRELATIONSHIPBETWEENINTERNALLYGENERATEDREVENUEANDCOSTOFCOLLECTIONINCROSSRIVERSTATENIGERIATAXEDUCATIONANDSENSITIZATIONMEASURES

The Fluxional Relationship between Internally Generated Revenue and Cost of Collection in Cross River State, Nigeria: Tax Education and Sensitization Measures

Oti, Peter. A. [α], Odigbo, Ben E. [σ] & Odey, Ferdinand I. [ρ]

Abstract- This study is about the determination of the fluxional relationship between Internally Generated Revenue and the cost of collection in Cross River State with a view to proffering cost minimization measures. The research is focused on the possibility of finding an optimum level of collection in an era when all tiers of government have been forced by circumstances of the dwindling fortunes of the Federation Account to look inwards for a sustainable model of fiscal operation. Secondary data was obtained from the Cross River State Board of Internal Revenue, the State Budget Department and Ministry of Finance. Descriptive statistics was used to analyze the trend and relationship between Internally Generated Revenue (IGR) and collection cost in Cross River State. Trend analysis was also used to find if the increase in collection cost resulted to corresponding increase in revenue. The result showed that although internally generated revenue increased steadily within the period in response to increase in collection cost, other factors such as attitude to work and relevant logistics need to be addressed. It was concluded that the expenditure on revenue collection should be carefully planned, budgeted for, implemented and monitored to ensure that priority areas such as, tax education and sensitization, mobility of revenue officers, infrastructural development and welfare of personnel are guaranteed. The state should equally apply the Pareto principle to ensure revenue collection efficiency by matching revenue potential and collection costs. Social mobilization was also found to play a key role as most tax payers would voluntarily declare their income for the purpose of assessment and collection if government programmes were executed transparently by capturing the needs of the people through an all-inclusive budgetary approach. In all, enforcement machinery was found to be vital in income assessment and collection.

Keywords: internally generated revenue, fluxional relationship, collection cost, off-shore sourcing, outsourced collection, tax education, sensitization.

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I. Introduction

The need for inward looking and development of sustainable fiscal operation has become obvious today than ever. The global economic crisis from 2008 has resulted in a chain-reaction with more unpleasant fiscal consequences on developing countries, especially those with import dependent economies and mono-product foreign exchange earner such as Nigeria. The situation is dierer as most states of the Nigerian Federation cannot afford the settlement of their basic recurrent bills. The Federal Government on the other hand is faced with humongous recurrent bill to settle for adopting a governance structure with an expensive bicameral legislature and an unwieldy bureaucracy whose fate is more tilted to the whims of the political class rather than statute. The economy has been pelted from many fronts, ranging from falling value of the national currency, volatility of price of petroleum products, rising inflation rate and above all, high level of unemployment and economic sabotage.

This state of quagmire has left the country with an option of applying creativity and discipline to ensure a better and more productive approach to shore up the internally generated revenue profile without compromising the business climate. The imperatives are explained by this study to provide a sustainable solution to the Cross River State experience.

The overriding objective of boosting internally generated revenue according to Dike (2000) is to "collect the maximum revenue with the minimum economy and minimum interference with legitimate trade of the tax payer". The basic strategies that are currently in use to generate revenue by states according to Ojo (2003) include: original assessment; back duty assessment, deduction at source; tax clearance certificates; best of judgments; warrant of distrain; search and seizure as well as the use of consultants.

Taxes cost money to collect. State Owned Enterprises (SOEs) may generate large revenues but incur even larger costs. An effective policy to raise internally generated revenue must, therefore, be based on analysis of the net revenue generated. At present this is not possible as the Internal Revenue Service (IRS) report gross inflows in many cases and the cost of collection are not separately accounted for. This is particularly critical for large State Owned Enterprises (SOEs), some of which may be so unprofitable that their contributions to Internally Generated Revenue (IGR) might actually be negative. Net revenues from taxes collected irregularly and in small quantities are also likely to be low. Typically, they cost more to collect than they yield. These issues are summed up in the concept of tax efficiency. Tax efficiency implies that the net taxation yield relative to the cost of collection or generation, hence, eliminating inefficient taxes or revenue sources and raising the efficiency of others is a key part of Government Fiscal Strategy.

The contemporary issue in Nigeria Public Sector today is about Internally Generated Revenue (IGR). The attention being given to IGR by the various tiers of Government today is occasioned by the dwindling resources from the Federation Account. It is obvious that more Revenue would increase the spending capacity of Government with the concomitant effect on development. This research is concerned about the cost of such revenue collection, because the dominant factor in most revenue statistics is the gross amount. It is important to investigate the cost of collection with a view to engaging in the process of cost analysis and cost minimization.

II. Literature Review and Conceptual Framework

a) *Theoretical underpinnings*

One of the theoretical bases of this work is the benefit received theory of taxation. This is predicated on the premise that a web of interconnectivity exist between the public authority and the individual tax-payers. The public authority in this exchange relations make available certain public goods and services to the citizens and contributes to expenditure of these items vis-a-vis the maximization of the receivable benefits. This theory requires the distribution of tax according to the benefits received from the services on which the taxes are spent, and hence internally generated revenue can be enhanced in a state only when the tax proceeds are judiciously used in providing public goods and services. However, the benefit principle can be applied where those who benefit from the services are clearly identified. This is not true of most services provided by the government.

Another theoretical framework is the service cost theory. This hypothesis is synonymous with the benefit received theory of taxation identified earlier but emphasizes the bi-directional contractual relations between the sub-national government and its subjects in the remittance of tax liabilities. Here the sub-national authority is obliged to provide relevant protections and statutory obligations which entails recovering of the cost of services and hence implies balanced budget policy. The major drawback of this theory is that it assumes the equality between the revenue generated from taxation and the cost of collection.

Zhou Gideon & Madhikeni Alouis (2013) opined that "an efficient national revenue collection system is the hub of every public administration system and the cornerstone of sound fiscal management. It enables governments to finance budget deficits from domestic sources, thus dissuading recourse to off-shore sourcing".

Odd-Helge, Katera & Ngalawa (2009) say "outsourced collection generally implies lower administrative cost for local government authorities by shifting the collection costs to the private sector rather than utilizing government employees for the same purpose. They also assert that due to the seasonality of some revenue sources, a private agent or market association has much more flexibility in labour inputs than government bureaucracy where there are stringent conditions for labour engagement. This flexibility would allow the private sector to reduce its costs during periods of slack operation and increase same during peak periods.

The ability to pay theory by A. C. Pigou suggests that citizens of a country should pay tax according to their ability. The flaw in this theory is that the tax payer would as much as possible explore the possibilities of shielding his or her ability. There are several of such cases of tax avoidance and outright evasion as long as the tax authorities are not sufficiently equipped to uncover the whole truth about declaration by the tax payer.

Some theorists have also suggested that taxes should be based on ownership of property while others strongly feel that taxation should be based on expenditure. In all this, what is paramount is the integrity of declaration made by the tax payers about their capacities. The developed economies may have the capacity to track property owners and verify other claims, but the developing and underdeveloped economies lack such ability.

b) *Conceptual Issues*

i. *The Concept of Internally Generated Revenue*

Internally Generated Revenues (IGR) are those sources of government finance generated majorly by the federal, states and local councils, which help in broadening and widening the overall non-oil revenue structure of the state. The current challenges of the three tiers of government in Nigeria is the dwindling level of revenue generation, mostly by the state governments and the absolute dependence on federal allocation which is tilted more in favour of the Federal Government, hence giving rise to annual budget deficits in the states and inadequate financial resources for meaningful growth and viable projects development (Adewoye & Fasina, 2008). Udeh (2002) asserts that the poor financial status of states in Nigeria has escalated due to the non-provision of grants by the federal government which under the constitution are needed to be made available annually during budgetary disbursement to leverage sub-national governments in crisis to address challenges of inadequate financial resources needed to cope with their ever increasing areas of assigned services which include; shelter, health services, water supply, food, as well as qualitative education at primary and post-primary schools level which usually engulf huge sums of money. An observation of the income profile of Cross River State from 2007 to 2014 showed that the internally generated revenue is less than one fourth of the total inflows accruing to the state.

The fiscal potency with reference to tax assessment, which involves the jurisdiction to make tax laws and set the rate of taxes; the administrative authority as well as the right to revenue collection, largely resides with the federal government of Nigeria (Adesopo et al. 2004). To further exacerbate the funding challenges of states in the country, it has remained impracticable to get those who are self-employed to remit their tax liabilities realistically and since the public authority has not been able to device ways of assessing the income of those self-employed, they have been cases of evasion to the detriment of the internal revenue service and the government, and hence reducing the revenue generation strength of the states (Omogui, 2007).

c) *Raising Internally Generated Revenue and Filling the Funding Gaps in Cross River State, Nigeria*

Realizing the need to strengthen its capacity for Internally Generated Revenue (IGR), reforms are needed to re-engineer the process of assessment and collection. Digitalizing internally generated revenue and efforts to expand the tax base should be intensified; which must be hinged on the following critical factors:

- Right staffing and capacity building: continuous training and re-training of staff, engagement of professionals and technically- skilled staff to ensure continuity, sustainability as well as provision of incentives and motivational packages to staff.
- Development of team spirit and good working relationship among stakeholders – that is, Ministries, Departments and Agencies and others.
- Regular public enlightenment of tax payers through public education and sensitization.
- Performance monitoring of all revenue-yielding Ministries, Departments and Agencies (MDAs).
- Ranking of Ministries, Departments and Agencies based on their net collection (after matching gross collection with collection cost).
- Application of Pareto principle to emphasize efficiency.

Notwithstanding the success factors and actions listed above, there are limits to the state's capacity for IGR set by the weak market potential occasioned by low income and the aspiration to become the preferred destination for tourism and investment. It is important to note however that taxes cannot fully be relied upon for filling the revenue/funding gap in an economy where private income is low, as excessive taxes can be a de-motivator to private investment. A major imperative for the tax manager is to determine the optimal tax capacity of the state (CRS Ministry of Finance, 2013).

Table 1 : Internally Generated Revenue and the Cost of Collection in Cross River State, 2007-2014

Year	TOTAL IGR(N'Billion)	TOTAL COC (N'M)	NET COLLECTION(N' Billion)	Ratio of Collection Cost (COC:IGR)	Rate of IGR +Or - (%)	Rate of Increase/Decrease In COC (%)
2007	3,341,876,034.00	435,439,094.20	2,906,436,939.80	13.03	-	-
2008	6,447,975,865.96	655,661,077.10	5,792,314,788.86	10.20	93.00	50.57
2009	7,106,292,956.28	437,281,512.30	6,669,011,443.98	6.20	10.20	-33.30
2010	7,870,941,915.00	402,482,195.00	7,468,459,720.00	5.11	10.77	-8.00
2011	9,159,651,948.00	532,003,763.30	8,627,648,184.70	5.80	16.38	32.33
2012	12,734,560,333.00	655,744,878.80	12,078,815,454.20	5.12	39.03	23.31
2013	12,002,167,999.57	576,363,952.93	11,425,804,046.64	4.80	-5.70	-12.20

2014	15,738,850,743.95	640,473,141.96	15,098,377,601.99	4.00	31.14	-11.11
TOTAL	71,060,441,928.40	4,335,449,615.50	66,724,992,313,40			

Source: Cross River State Internal Revenue Service (2015).

d) Tax Education and Sensitization Measures

Tax education and sensitization measures geared towards promoting internally-generated revenue in Cross River State could be initiated through integrated marketing communications (IMC) strategies and measures. Integrated marketing communications (IMC) according to Smith (2002) involves the coordination and integration of all marketing communication tools, techniques, media and strategies in a campaign into a seamless program in order to maximize the impact on the target audience at a minimal cost. In our context therefore, it is the expert deployment of marketing communication tools, techniques, strategies and media in such a way to achieve the willing acceptance of the populace in Cross River State to pay their taxed without being coaxed to do so. The American Association of Advertising Agencies (4A's), says that IMC is an approach aimed at achieving the objectives of a marketing campaign through a well-coordinated use of different promotional methods and media that are intended to reinforce each other (Businessdictionary. com, 2012; Docstoc, 2011).In doing so, various communication tools like advertising, public relations, sales promotions, publicity, personal selling, direct marketing, on-line marketing media are strategically employed (Vantamay, 2011). Abramovich (2013) also saw IMC as a strategic marketing process designed to ensure that all messaging and communication strategies are unified across all channels and are centered around the customer, as figure 1 below shows. All these IMC tools when employed will definitely lead to conflict-free tax drives and boost the internally generated revenue base of Cross River State.

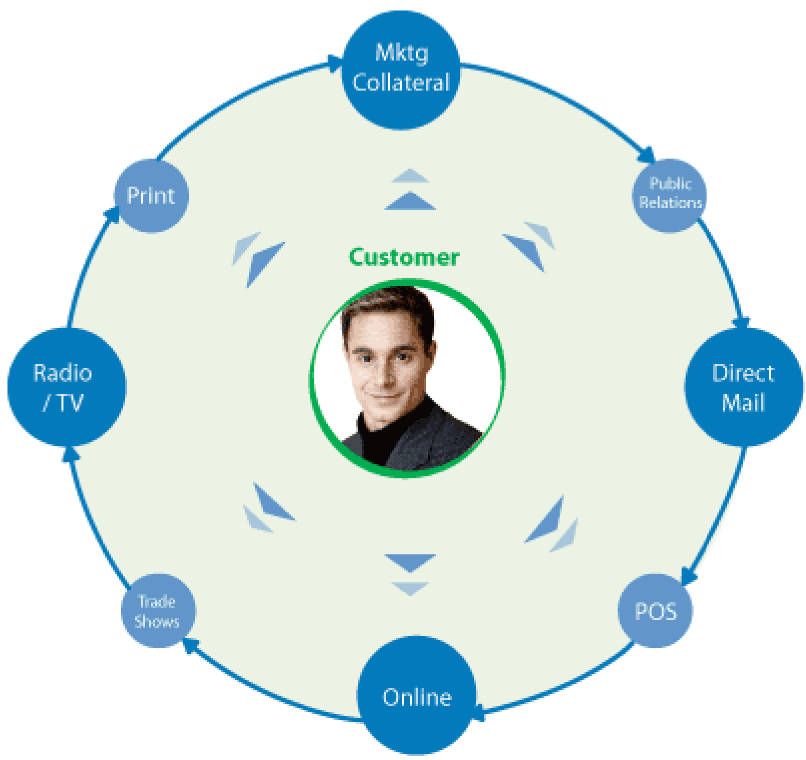

Fig. 2.1 : Abramovich, Danny (2013), Integrated marketing communications plan, *Marketing Communication Theories,* http://www.marketingPlanNOW.com

III. Methodology

Data analysis was undertaken using descriptive method. A major segment of the information collected during the study was descriptive in nature. Descriptive statistics such as charts, percentages and graphs etc were employed in most of the analysis in summarizing trends, changes and comparison across certain characteristics. Final presentation took the form of description, tabulation and illustrations. The major source of data is secondary as the data used were sourced from the Cross River State Internal Revenue Service, Budget Department and Ministry of Finance.

IV. Data Analysis and Discussion of Results

Between 2007 and 2014, total internally generated revenue increased steadily with increasing total cost of collection and decreasing rate of cost to IGR (COC:IGR). The internally generated revenue increased from ₦3.3billion in 2007 to ₦6.4billion in 2008. It further increased to ₦7.1billion in 2009, 7.8billion in 2010, ₦9.2billion in 2011, ₦12.7billion in 2012 but dropped to ₦ 12.0billion in 2013 and increased to₦15.7billion in 2014 (see table 1).

The state IGR caters for less than 10% of Government Annual Expenditure. There is an enormous resource gap between available IGR and the amount required to meet the developmental aspirations of the state. The cost of collection as table 1 shows indicate a steady drop from 13.03 percent of collection cost in 2007 to 10.2 percent in 2008 and 6.2 percent in 2009. The ratio of collection cost to the revenue generated was 5.11 percent in 2010, 5.80percent in 2011. The ratio dropped from 5.12 percent in 2012 to 4.80 percent in 2013 and further decreased to 4.00 percent in 2014. It should be noted that the ratios are within the band stipulated by the Cross River State Revenue Administration Law (2011) which approved collection cost of between 5 and 10 percent. Within the period, collection cost exhibited marginal downward trend between 2008 and 2014. Within the period, two years are outstanding; the rate of IGR increase in 2008 was 93 percent with rate of collection cost at 50.57 percent. In 2012, the rate of IGR increase was 39.03 percent with collection cost rate increase of 23.31 percent. Comparing 2012 and 2011, the rate of increase of 23.31 percent 2012 resulted in revenue generation of ₦12, 734,560,333.00, but with 32.33 percent in 2011 there was total revenue of ₦9, 159,651,948.00. The collection cost in 2013 was 4.8 percent and dropped to 4.00 in 2015 while the total IGR increased by 31.14 percent. This disparity is what prompted this work

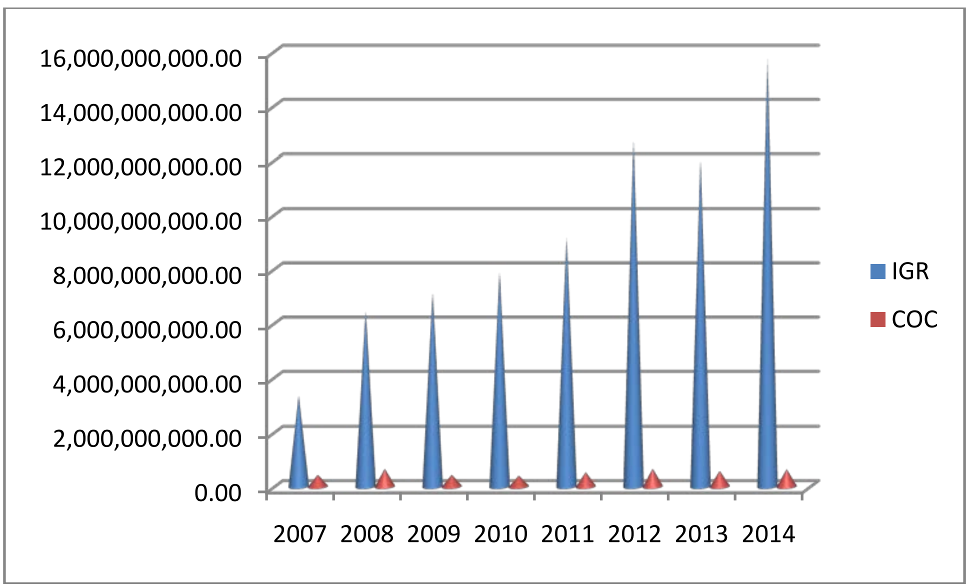

Fig.1 : Internally Generated Revenue And Cost Of Collection Trend, 2007-2014

Source: Cross River State Internal Revenue Service (2015).

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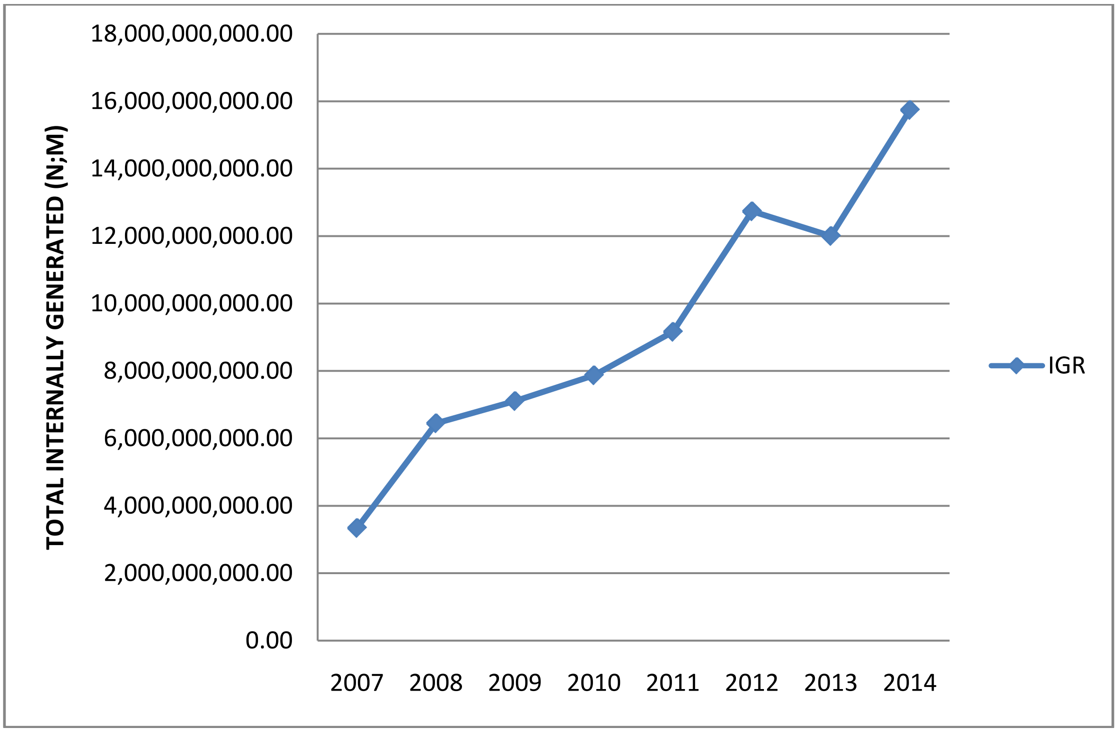

Fig. 2 : Internally Generated Revenue Trend In Cross River State, 2007-2014

Source: Cross River State Internal Revenue Service (2015).

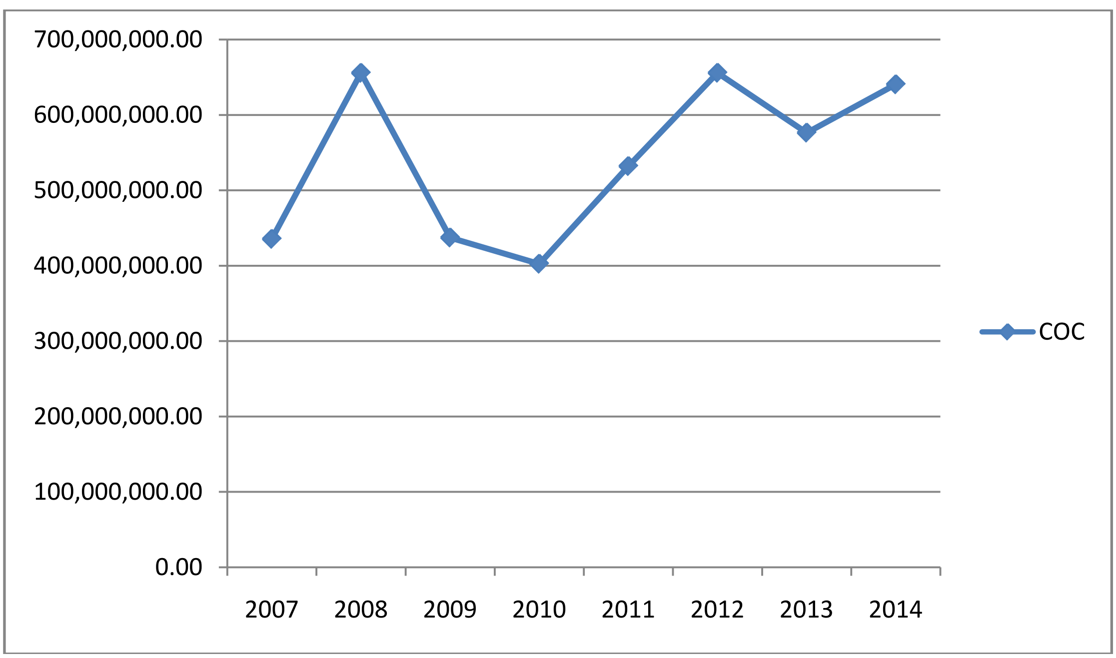

Fig. 3 : Collection Cost Trend, 2007-2014

Source: Cross River State Internal Revenue Service (2015)

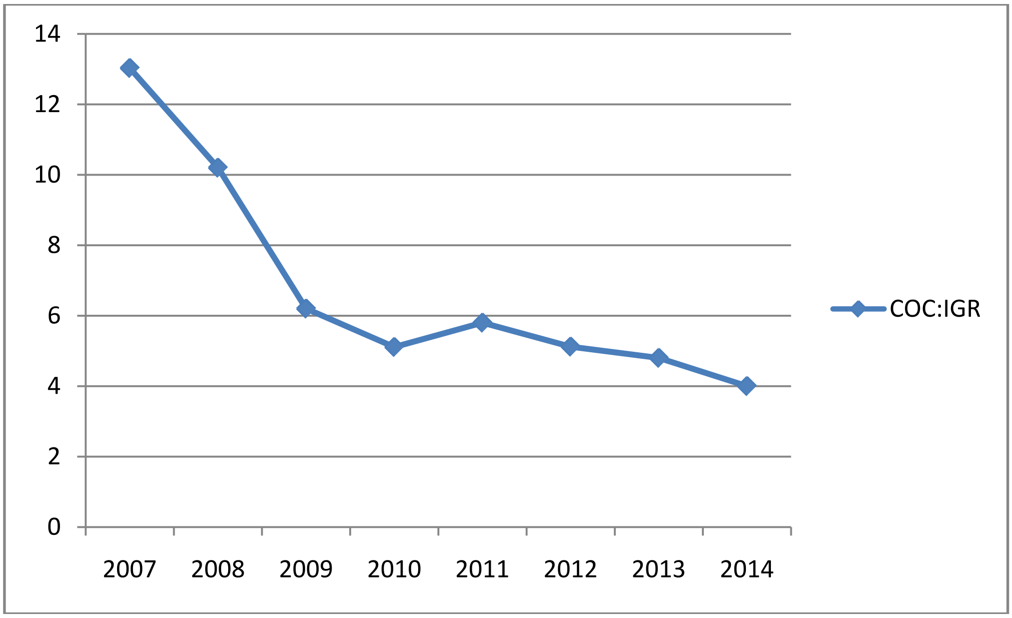

Fig. 4 : Ratio of Collection Cost to Internally Generated Revenue, 2007 -2014

Source: Cross River State Internal Revenue Service (2015).

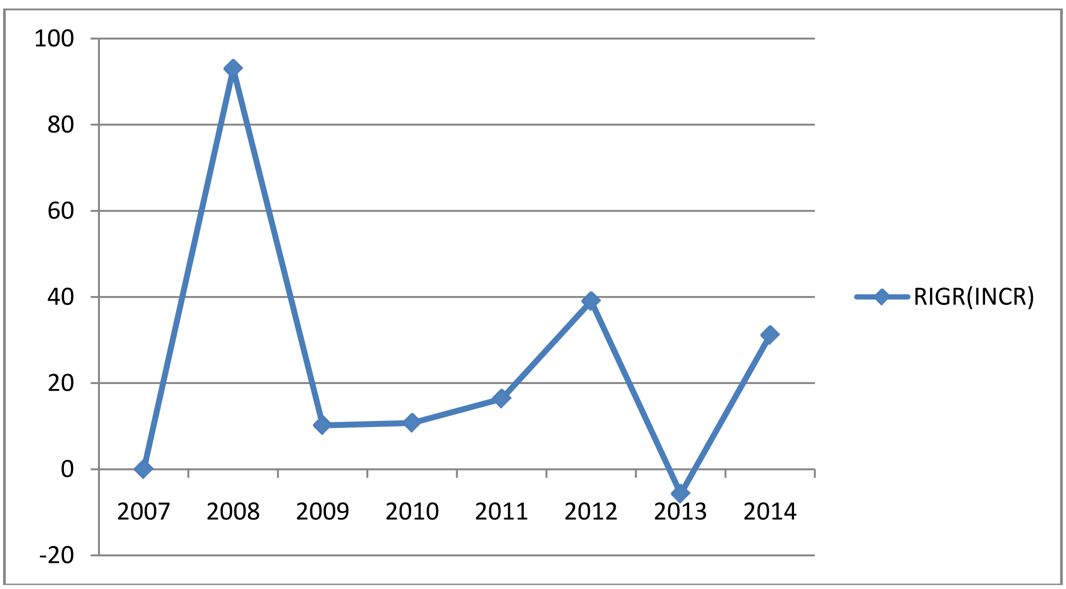

Fig. 5 : Rate of Increase/Decrease in Internally Generated Revenue in Cross River State, 2007-2014

Source: Cross River State Internal Revenue Service (2015).

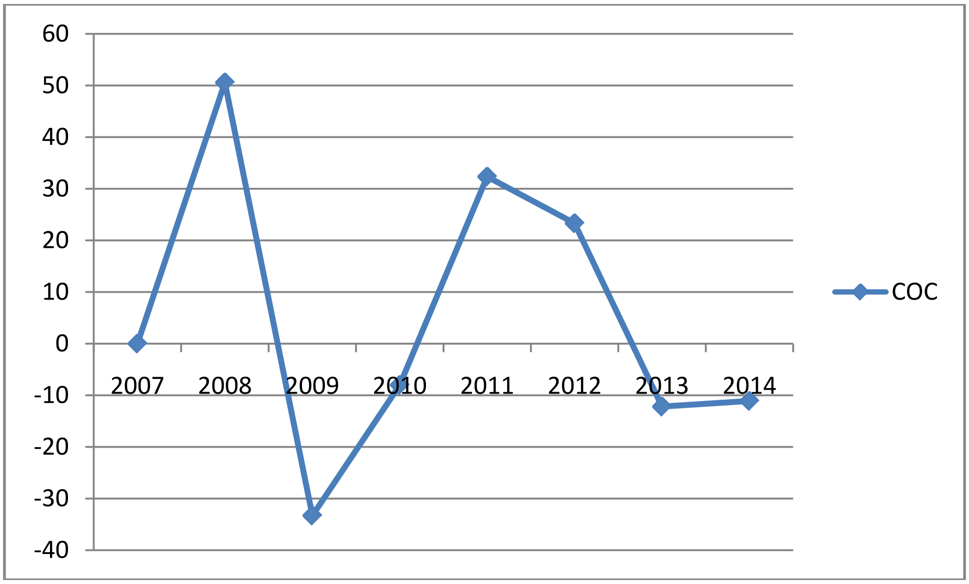

Fig. 6 : Rate of Increase/Decrease in Collection Cost, 2007-2014

Source: Cross River State Internal Revenue Service (2015).

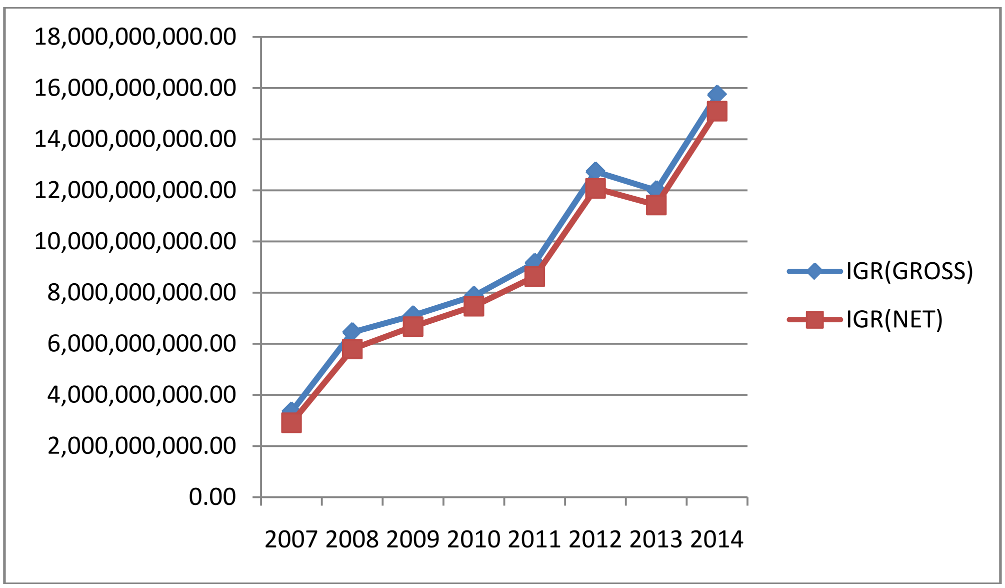

Fig. 7 : Gross and Net Internally Generated Revenue, 2007-2014

Source: Cross River State Internal Revenue Service (2015).

The progress in government programmes and projects may be retarded if the cost of collecting revenue from taxation tends to be unstable over time. From the findings, the state should harness other revenue sources for the sustainable development of the economy.

V. Conclusion

Taxation is a vital instrument of fiscal policy if effectively applied or utilized to provide desired public goods and services for sustainable development. The nature of a tax system defines the capacity and well being of the people. Tax laws, no matter how stringent they may be couched must be backed by a strong compliance framework. The compliance framework should be laced with accountability and transparency to motivate positive response from tax payers and reduce collection costs. It is also important that maximum effort should be geared in the direction of potential maximum revenue yield. The study further reiterates the fundamental role of government revenue in any state's quest for economic growth and development and argues that any state or nation that does not efficiently utilize its revenue and expenditure streams will not have any advancement in economic growth. The study is of the view that the experience of Cross River State government since the beginning of the democratic era and its fervent attempt to develop underlie the need to redirect attention to the effective and efficient utilization of its internally generated revenue. The cost of collection must be within the statutorily prescribed band to ensure sustainable economic growth and development within the premise of the Pareto-efficiency thesis. In developing fiscal policies relating to revenue generation, there should be recognition of the behaviour of specific revenue sources which are often occasioned by their environmental conditions. Consequently, such policies should be seen as unique with modification if there have to be applied elsewhere.

VI. Recommendations

- The Cross River State government in order to be sustainable in its development strive must develop the internally generated revenue base, promote fiscal prudence in the management of its resources, develop relevant infrastructure, build human capacity, eschew corruption, emphasize cost minimization and employ IMC strategies to educate and sensitize the people of the State to pay their taxes willingly.
- There is need to increase its revenue base by leveraging areas of its comparative advantage over other states of the federation, such as, agriculture, tourism and culture.
- The state government should develop a cost minimization model to ensure efficiency in revenue generation.
- Outsourcing of some revenue heads would keep down collection cost as the private sector can respond quickly to seasonal variation in terms of cost reduction.
- Revenue generation should be given priority in the annual budget by making adequate provision for required human and material resources to achieve set target.
- There should be close monitoring of all related activities to ensure that adverse variances are promptly identified and addressed.
- The decision making chain should be abridged for prompt actions.
- Obsolete edicts/bye laws on revenue administration should be updated.
- There is need for the internal revenue service department to be fully computerized in their operations to enhance performance. A comprehensive database must be in place in compliance with the requirement of the Joint Tax Board.
- Electronics revenue monitoring and collection strategy is desirable.
- Multiple taxes should be discouraged and best of judgment window should be transparently administered to curb abuses.

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An Accounting Model to Measure Profit Accounting Conservatism in the Industrial Jordanian Public Joint- Stock Companies Listed in Amman Stock Exchange during the Period 2008-2014

By Dr. Mohammad Naser Hamdan & Dr. Layth Akram Mufleh Al-Qudah

Al al-Bayt University

Abstract- This study aimed at measuring the accounting Conservatism for the industrial Jordanian joint stock companies through applying Basu's, 1997, model. The study relied on the analytical descriptive method in the data collection process, which are represented in the financial lists of the industrial Jordanian joint stock companies from the period 2008- 2014. The population consisted of all joint stock industrial Jordanian joint stock companies that are listed in Amman Stock Exchange (N= 77 companies). The sample included (59) companies representing (76%) of the population. The study reached to a set of results, namely: there is a significant statistical effect for the share market revenues in case of the bad news compared with the share market revenues in case of the good news.

Keywords: accounting conservatism, basu's model, public liability industrial companies, and the fair value.

GJMBR-D Classification: JEL Code: M41

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Abstract- This study aimed at measuring the accounting Conservatism for the industrial Jordanian joint stock companies through applying Basu's, 1997, model. The study relied on the analytical descriptive method in the data collection process, which are represented in the financial lists of the industrial Jordanian joint stock companies from the period 2008- 2014. The population consisted of all joint stock industrial Jordanian joint stock companies that are listed in Amman Stock Exchange (N= 77 companies). The sample included (59) companies representing (76%) of the population. The study reached to a set of results, namely: there is a significant statistical effect for the share market revenues in case of the bad news compared with the share market revenues in case of the good news. In addition, the study showed that there is no significant statistical effect for applying the fair value of re-evaluation of the company's net assets on the accounting conservatism of the accounting profits in the industrial Jordanian joint-stock companies.

Keywords: accounting conservatism, basu's model, public liability industrial companies, and the fair value.

I. Introduction

The large effect of accounting reservation on the accounting information which is reflected on the taken decisions in light of such information resulted in an increase of the accounting research especially during the last decade. This accounting reservation is considered among the important principles that affect the consistency and accuracy of accounting information listed in the financial lists. However, there are various reasons that caused the interest of scholars in the accounting reservation, including the need to have more conservatism financial lists to insure the existence of profit management practices in the financial reports, the increase of debate about the use of the fair value in evaluating the assets which indicate to the need to disclose thereof when taking consultation decisions (Mohammed, 2011, 70).

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In addition, the accounting conservatism is deemed as one of the important features that are generally accepted (GAAP) and it is still used and dominant in the accounting practices in the accepted accounting principles (GAAP). Such use is considered a prevailing feature in various countries. The importance of this principle stems from: its influence on the relationship between the current profits and the future cash expenditures, where future cash spending is stated on the top of the most conservatism financial reports (Jain & Rezaee, 2004, 11). As a matter of fact, accounting reservation faced a severe disagreement by the mutual project of the ideological accounting framework by (The Financial Accounting Standards Board/ US) and the International Accounting Standard Board, as this reservation results in a kind of bias in the accounting information that are included in the discloses accounting lists. This completely contradicts with some basic facts due to the existence of such information, most importantly: the correct representation, neutrality (that is considered one of the aspects of real representation) as well as the enhanced qualitative features (the applicability to make sure there of) (The Arab International Forum for Certified Accountants, 2013, 28-30). Contrary to that, the topic of accounting reservation has received a serious support by a good number of scholars as it provides benefits for the users of accounting information, especially through its role in increasing the efficiency of transactions concluded among various parties of the contradicting stakeholders in the company. Most importantly, debt contracts, incentives and administrative rewards, which decreases the severity of the problems resulting from adopting the theory of agency (represented in interest contradictions. In this regard, Basu's model (1997, 3-37) received acceptance among scholars as a means to measure accounting reservation. The basic idea of this model relies on the fact that the market is faster than the accounting system in responding to the good and bad news, as various information arrive to the markets from difference resources. In return, this can be quickly reflected on the company's net assets; the competent market responds promptly to such information and reflects them on the prices prior to having the company's financial lists. The importance of this study stems from the increase of the financial capital markets in the economic, social and political roles on both the local and international levels. In addition, the importance of accounting information increases in such markets, as such information are used as a basis for taking consultation and security decisions to attract investors, shareholders, security providers, financial analysts, the state and other parties who use such information. Moreover, such importance increases due to the increase of the accounting reservation in the financial reports during the last years in the Jordanian joint – stock industrial companies. This study will apply the analytical descriptive methodology in data analysis and to conclude results, with the help of some models and statistical methods to conduct analytical studies. In addition, it will use statistical measures for the analysis of results. Based on the results, the paper will conclude the most important conclusions and necessary recommendations.

II. Problem of the Study

The main issue of the current accounting studies was represented in finding a benchmark to decide whether the values of the financial position has taken reservation into account or not?

In this context, most of research almost agree that Basu's model (1997) represents the keystone for most of studies relating with the concept of reservation and measuring it at the current time, despite the existence of other current studies that largely affected the accounting research in the field of accounting reservation (e.g. Bauwhede, 2007); (Hamdan, 2012). Basu's model focused on the informative content of the profits and the share market price, especially the features of Timeliness and Goind- concern. According to the feature of the competent market (the least in its formula), share prices should reflect all relating available information about the company without any bias, and regardless whether such information contain good or bad news to embody the shares' intrinsic values. The problem of the study is represented in the attempt to answer the following question: *What is the efficiency of Basu's model in measuring the profit's accounting conservatism in the Jordanian joint- stock industrial companies?*

This can be examined through answering the following sub-questions:

1. What is the effect of market revenues in case of bad news compared with the good news on the accounting conservatism of the accounting profits in the Jordanian joint – stock industrial companies? 2) What is the effect of market revenues when the percentage of market value compared with the book value at the first period is high on the accounting conservatism of the profits in the Industrial Jordanian public joint – stock industrial companies? 3) What is the effect of the fair value for re-revaluating the net assets of the company on the accounting reservation of the profits in the Jordanian joint – stock industrial companies?

a) *Significance of the study*

The importance of the scientific studies is embodied in the reflections and benefits achieved in contribution of such studies in developing the field status. Accordingly, the current study can be divided into the following themes:

*First: the practical importance

In light of the increase of capital markets in the economic, social and political activities on the local and international levels, the importance of accounting information increases in such markets, with an increase in the degree of reservation in the financial reports during the last years. Therefore, we find interest in measuring this reservation in the Jordanian joint – stock industrial companies.

*Second: the theoretical and subjective importance

The current study takes its theoretical significance since it deals with current vital accounting topics and has serious effects on the performance of the profits in the Jordanian joint – stock industrial companies. Accordingly, the accounting Research in Capital Markets (CMR) currently represents the main trend towards local and international accounting research.

b) *Objectives of the Study*

The study aims at achieving the following:

1. Introducing the concept of accounting reservation and the models used to measure therefore.
2. Measuring the accounting reservation for the Jordanian joint – stock industrial companies through applying Basu's Model (1997).
3. Developing Basu's Model by introducing new variables that represent the percentage of market value compared with the share book value and applying the fair value to re-evaluate the company's net assets) so as to be an accepted standard that measures the level of the accounting conservatism.

c) *The concept and definition of the accounting conservatism*

Conservatism is considered among the concepts that affect accounting practices, especially in the measurement and disclosure processes. Accordingly, there were many attempts to define this concept. FASB, 1980, par. 93-95, 722 defined accounting conservatism as a delay in recognizing the revenues in case of non-certainty, and decrease instead of exaggeration in evaluating the assets and profits during the current period, not to forget acknowledging the future potential losses. In addition, the Institute of Chartered Accountants of England and Wales (ICAEW, 2001, 1986) defined accounting conservatism as alert and caution on practicing personal judgments in making the necessary estimations under non-certain conditions. In such conditions, this tasks does not required the evaluator to increase or decrease the aspects of the financial lists based on personal judgments only, but based on evidence and accurate reliable information regarding such conditions, and therefore, the practice of accounting conservatism does not mainly rely on personal judgments in decreasing the assets, profits and increasing the debts and losses, but on reliable future potential circumstances. On the other hand, (Chung and Wynn, 2008, 135, 153) "in their study" defined accounting conservatism as a decrease in the company's value of net assets and avoiding future risks and consequences resulting from lawsuits, and the presentation of more accurate data for all parties.

d) Methods of Accounting Conservatism

Accountants divide accounting conservatism into two methods, where the term method of accounting conservatism was different through the related studies, which means that various names were used to indicate to the methods of accounting conservatism by various accounting scholars.

e) Conditional Accounting Conservatism

This is also called "Income statement conservatism) "Chandra, 2011, 285, 314" and "Ex-post conservatism" (Pope & Walker, 2003, 53- 88), and the (News- Dependent" (Ball et al., 2000, 1-51), the (asymmetric income timelines) (Basu, 1997, 3-37). The conditional accounting conservatism was defined by (Ball and Sadka, 2005, 1-51) as: the value of the book decreases enough under in-suitable events, but such book values do not get higher again despite the occurrence of other appropriate events. Examples on such accounting policies are the method of costs or market, whichever is less for accounting in terms of the stock, and applying accounting procedures to acknowledge the sharp losses in the long- term asset values (the non- observed).

f) Un-conditional Accounting Conservatism

This can also be called as the "balance sheet conservatism" (Chandra, 2011, 285- 314), the "Ex-ante conservatism" (Pope and Walker, 2003, 53-87), the "independent news conservatism (Ball et al., 2000, 1-51). Moreover, Pope and Walker, 2003, 53-87 defined the non-conditional accounting conservatism as the statement of a low book value for the rights of shareholders or that occurred due to the rapid acknowledgment of expenditures and postponing acknowledging the profits, which means a decrease in the book value for the rights of shareholders compared with the market value.

g) Functions of Accounting Conservatism

During the last ten years, there various accounting studies tended to study the accounting conservatism. This can be attributed to four main reasons (Lafond and Watts, 2008, 447- 478) and (Watt, 2003, 207-221): 1) The large development in studying the contractual relationship that form the organization and its effects on the financial report; 2) The increase of asking for the production of more conservative financial lists to insure the practices of profit management in most parts of the financial report. 3) The huge development in the studies that examined the instruments for measuring many of the financial and accounting phenomenons regarding the status of financial lists. 4) The increase in arguments, especially in the United States of America, regarding the use of fair value in evaluating the assets.

h) Measuring the accounting conservatism within the contexts of financial markets

Within the framework of the development of accounting thought in the financial markets, the increasing research provided more and various measures and concepts, in reliance on the nature of the informative content of the financial figures that are discloses in the financial lists. These lists embody the nature of the applied accounting policies, the informative content of the share prices and changes that reflect the decisions of the investors and any information they used when taking their investment decisions. The accounting studies have embodies the effect of conservatism of the financial reports which are attributed to (Feltham and Ohlson, 1995, 731), who defined accounting conservatism based on the variation between the market value and the book value for the property rights. Under accounting conservatism, equality between the two values can never be achieved, and conservatism will result in making the book value less than its market value. Furthermore, (Zhang, 2000, 125-149) relied "in measuring the accounting conservatism" on the average percentage of the market value for the ownership rights to their book value, which are higher, the average of share prices compared to the profits. Moreover, Beaver and Ryan, 2000, 127-148 used the model of book value percentage to the market value upon preparing the financial lists. The same researchers (Beaver and Ryan, 2005, 269- 309) used the market value compared to the book value as the increase on market value to more than (one) is an evidence on the practice of the concept of accounting conservatism, but the percentage of market value is still larger than the book value, with the elapse of time.

i) The effect of accounting conservatism on the accounting profits

The company's compliance with the principle of the accounting conservatism provides it with many advantages. Various studies tended to link between the accounting conservatism and the quality of profits that depend on the continuous profits in the future; conservatism in disclosing profits by using accounting policies that may postpone acknowledging the revenues, will create continuous profits in the future through generating cash flows for the next period. In addition, research showed a good role for the accounting conservatism in improving the quality of profits (Penman and Zhang, 2002, 237- 264). However, profits, regardless of the level of their quality are considered among the important inputs in taking investment decision, and can also be used to predict, speculate and evaluate the current and future performance of the business. In addition to that, the quality of profits express their ability to show the real profits and in predicting future profits (Chan et al., 2006, 32-37).

As for the (income smoothing), it is considered a pattern of profit management that aims at decreasing variation in the regular profits, and since the accounting policies are flexible and allow managers to amend the disclosed profits to introduce (Income Smoothing) (Tucker and Zarowin, 2006, 251- 270). In fact, following an accepted level of accounting conservatism limits the effects of illegal profit management (Lara, 2014, 173-198), as accounting conservatism limits manipulation with profits and facilitates evaluating the company by the users of financial data.

III. Previous Studies

This part presents a number of Arabic and foreign previous studies that examined the topic of accounting conservatism.

1. Al- Sahli (2009): conducted a study titles: Accounting reservation upon preparing the financial reports for the Saudi join- stock companies: an applied study.

This study aimed at examining the phenomenon of accounting reservation, specifically, the study focused on evaluating the relationship between the degree of accounting reservation at the company and the following factors; company's profitability, type of business, company's debts, establishing the Saudi Stock Market Commission. This study relies on testing the hypothesis of the study through the cross- sectional analysis and time intervals during the years 2001- 2005. In addition, the study used the measure of accounting reservation that was proposed by Basu (1997). The population of the study consisted of all Saudi companies that are registered in the stock market at the end of the financial years 31/12/2005, whereas the sample consisted of (76) companies distributed on eight sectors, namely: banks, insurance, communication, electricity, industry, cement, services and agriculture. The sample was chosen after disqualifying the companies that have no complete data. The final sample consisted of (63) companies. The results showed lack of accounting reservation in the Saudi companies. Although the results show – in general- that there is no relationship between the size of company and the accounting reservation, it showed also that the large companies are less conservative than the small ones. The study recommended to encourage scientific studies that relate to the quality of accounting income in order to raise the level of awareness of the investors and regulators about the need to improve the means and standards of disclosure that are prevailing in the Kingdom of Saudi Arabia.

2. Al- Samarah (2009): conducted a study titled: "The effect of accounting reservation and non-resemblance in information on the cost of funding in the Jordanian joint- stock companies: This study intended to show the role of the accounting reservation and its effect on the cost of capital through the variation of effect between the conditioned and non- conditioned the accounting reservation on the cost of debts and ownership. The population of the study consisted of (227) joint-stock companies distributed on four sectors enlisted on Amman Stock Exchange at the end of the year 2006. The sample consisted of (101) companies enlisted on Amman Stock Exchange, which represent (12) banks, (17) insurance companies, (27) service companies and (45) industrial companies. The period of the study lasted from the beginning of 2000 up to 200 6, as the number of view per variable amounted to (707). Basu's (1997) model was used as a basic measure to predict the policy of accounting reservation. The other secondary measure was to predict accounting reservation through accruals. Based on the results of the analysis of the hypothesis, the study concluded to a number of results, namely: the Jordanian joint- stock companies – in general- use accounting reservation but with different degrees among various sectors. It was found that the level of accounting reservation in the industrial sector was the highest. Based on these results, the study recommended to conduct more studies in the future to examine the factors that define the ideal level of accounting reservation for each company. In addition, the study recommended focusing on the conditioned accounting reservation.
3. Kassab (2011): Conducted a study that aimed at examining the factors affecting accounting reservation through focus on four factors: the size of the company, percentage of debts, governance and

variation of the accounting criteria used by the companies. The study used the percentage of market value to the book value of ownership rights (MTB) to measure the accounting reservation. The study was applied on 68 Saudi companies and 48 Egyptian companies during the year 2008. The study showed a reverse relationship between the size of the company and the level of accounting reservation, so that the level of the accounting reservation becomes lower with the increase of the company's size and vis-a-versa. In addition, the study showed a positive relationship between the percentage of debts and the percentage of independent and non-executive members and the level of accounting reservation, with an increase in the level of accounting reservation in the companies that use national accounting criteria (Kingdom of Saudi Arabia) other than those used by Egypt.

4. Muhsin, 2013: conducted a study titled: Measuring the degree of accounting reservation in the joint-stock Saudi companies: an applied study. The study aimed at measuring the degree of accounting reservation in the Saudi joint-stock companies and to study the effect of a set of factors on the extent of applying this accounting method in the joint- stock companies. In addition, the study examined the establishment and development of this methodology as well as the applied implications in the financial lists and its various measurements. The study was applied on a sample of (38) Saudi joint-stock companies enlisted in the Saudi stock exchange, by using Basu's model (1997) during the period 2006 – 2010. The study used SPSS to conduct the variant inclination of the variables and to test the hypothesis relating to the factors affecting the degree of reservation. The results showed lack of accounting reservation used by the Saudi joint-stock companies. This can be justified due the simple procedures and accounting criteria in the KSA, and the lack of lawsuits that relate to accounting. In addition, the study did not show a vital effect for the factors of the size of the company, nature of industry and size of debts on the degree of accounting reservation that is applied, as well as that the 2008 international crisis did not affect vitally on the degree of applied accounting reservation. Despite that, the results showed some indicators that the small companies are more conservative than the big ones, and the less indebted ones than the more indebted companies. The same applies after the financial crisis as the companies were more conservative than before. Moreover, the study showed that the agricultural sector – in such an exceptional way- apply accounting reservation methodology than the other sectors.
5. Basu, 1997, conducted a study titled: "The Conservatism Principle and the Asymmetric Timeliness of Earnings". The study aimed at measuring the accounting reservation through measuring the speed that reflects accounting profits in case of good and bad news. It was supposed- according to the competent market hypothesis, at least in its medium formula, that the prices or revenues of shares shall respond to the surprise held by the accounting profit in a non-biased way (which means to respond positively with the good news held by the accounting profit the same way as with the negative news). The study relied on assuming the existence of a reverse slope relationship between the accounting profit and the share revenues, where the accounting profit is the dependent variable whereas the share revenues are the independent variable. With the use of the positive revenues as an alternative for proxy of the good news, and using the negative revenues of shares as an alternative measure for the bad news, the study relied on four perspectives. First: states that profits are faster and more responsive to the bad news compared with the good news featured by the effect of slow profits. Second: the link between the profits and revenues are relatively stronger than the link between revenue and the cash flow in terms of the bad news compared with the good ones. Third: the high un-expected profits tend to be more continuous and the low un-expected profits tend to be temporary. The variation of continuity can be noted through the time chain of profits. In addition, good news leave continuous effects on the profits, where such profits are low in the period that takes place directly after the bad news. Forth: the non-ordinary profit per one (USD) of the unexpected revenues is less in case of disclosing the losses, than the case when disclosing the profits. The response of share price in the market reflects the news about the current and future profits.
6. The study of Beatty et al., 2008, titled: Conservation and Debt. This study aimed at examining the relationship between using the non-resemblance in the agreements and expansion in applying accounting conservancy in the financial lists (the borrowers). The sample included (1456) companies during the period (1996- 2004). The study examined the relationship between expansion in the accounting conservancy in the accounts of debt contracts and the level of accounting conservancy in the lenders financial reports. Market and non-market measures were used to measure accounting conservancy, which strengthened the results of the study. Market measures were used through the percentage of book value on the market value and Basu's model (1997), as well as the non-market measures (measuring the relationship between cash flow and the financial dues) and the relationship

between change in the profits and the change in the previous profits. The study concluded that the company which has low percentage of the book value for the market value per year (which inter in the contracts) "has an accounting conservancy", might have a high non-similar treatment for profit and loss in their contracts. In addition, through Basu's model (1997) there was no large similarities in terms of treating the profits and losses of the contracts that have an appropriate timing to acknowledge losses. As for the non-market measures, the study found that the companies which have high percentage of income included in the accounts of their debt contracts show a more positive relationship between the dues and cash flow, when they disclose negative cash flow. Similarly, it was found that the companies that have high percentage of income included in the accounts of their contract debts show a more negative relationship between the change in the net income for the current period and a change in the net income for the previous period, when the change in the net income for the previous period is negative. On the other hand, the study showed that the companies that expand in accounting conservancy in their financial reports have no assimilation in the agreements, which means that the lenders mostly use contract terms to satisfy their needs for reports that are conservative in terms of accounting, though the companies provide more conservative information (relatively), which indicates that the requests of lenders for having accounting conservatism were not fully achieved through the treatment of the accounting data.

7. The study of Hamdan, 2011, titled: "The Impact of Company Size, Debt Contracts, and Type of Sector on the Level of Accounting Conservatism: An Empirical Study from Bahrain". The study aimed at measuring the level of accounting conservatism and the affecting factors in all companies enlisted in Bahrain Stock Exchange (50 companies) during the period (2005- 2008) using Basu's model (1997) and the input of the book value for the market value in order to measure the level of accounting conservancy. The results of the study showed that the financial reports issued by the Bahraini companies are characterized with conservancy. This finding has been confirmed through using two different aspects to measure the level of accounting conservancy. As for the differences among the companies in the level of conserving their financial reports according to their size, the results showed that the large companies are more conservative in their reports than the small ones. This can be attributed to the desire of the large companies to avoid political costs resulting from disclosing high profits or large values for their assets, due to the high control of the public bodies and financial analysts, not to forget the high level of company governance compared with the small size companies. Moreover, the results showed that each of the high or low debt companies have conservative financial reports. However, the highly indebted companies are more conservative. This indicates to the high pressures practiced by debtors on the companies' managements to be conservative in disclosing the profits and the high values of their assets.

Finally the study investigated the extent of differentiation of the economic sectors in Bahrain in terms of the conservancy of their finance reports, as it was found that the service sector is more conservative than the financial one.

8. The study conducted by Hamdan, 2011, titled: "Evaluation of the Conservatism Level in Kuwait Stock Exchange: By Using Basu Model". The study aimed at evaluating the level of accounting conservatism upon preparing the financial data by the companies listed in Kuwait Stock Exchange and to examine the factors that affect the level of accounting conservancy in such companies, taking into account, the size of the company, debt contract, and type of sector. In order to achieve the objectives of the study, Basu's model (1997) was used to measure the level of accounting conservancy. The sample consisted of (225) companies enlisted in Kuwait Stock Exchange. To measure the variables of the study, the financial data of the companies were used at the end of 2009. The results of the study showed that the Kuwaiti Stock Exchange succeeded to force the Kuwaiti companies to provide a reasonable level of accounting conservancy. In addition, the study showed that the small are more conservative in their accounting policies than the large ones. Moreover, there was an effect for the debt factor on the level of accounting conservancy upon preparing the financial reports. On the other hand, the least indebted companies were less conservative than the higher indebted ones. Furthermore, the study found that the financial sector in Kuwait Stock Exchange is more conservative in their accounting policies. What distinguishes the current study from the previous ones It is possible to summarize this study from the previous ones as follows: 1) The current study examines measuring the degree of accounting conservatism by using (Basu's model) in an environment that differs from the place where this model was applied in terms of the organizational and regulative perspective, namely, the Jordanian stock exchange environment. 2) New variables were added to the model to become a developed one in this study, specifically, the percentage of market value to the book value,

applying the fair value to re-evaluate the net assets of the company.

IV. Variables and Model of the Study

The model of the study: it can be clarified from the following figure (1):

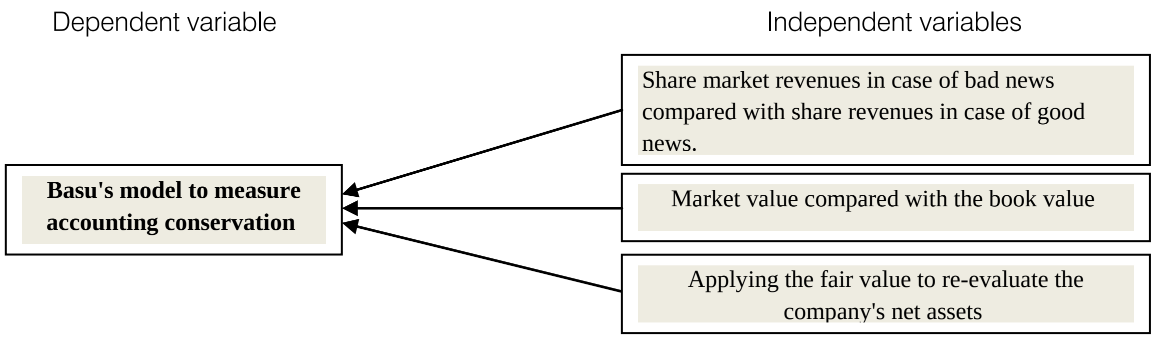

Figure (1): Basu's amended model to measure the efficiency of profit accounting conservatism in the Jordani

a) *Variables of the study*

Dependent variable: Profits (Xit/ Pit- 1) measures the profit variable (Xit), company's share profit (i) at the end of the period (t) divided by the share price at the beginning of the period (Pit-1). Dividing profit on the price is a necessary process to get rid of the effect of share price due to the difference in the nominal value for each company on the share profit.

Independent variables:

1. Market revenues per share in case of bad news compared with the effect of market revenues per share in case of good news (R it * DRit).
2. Percentage of market value to the book value per share (MTBt-1): this variable separates between the cases where the percentage of market value is more than the book value per share at the beginning of the year for more than (one), which equals of less than (one). Measuring the above variable is implemented on two stages:

First: The percentage of market share to the book share are calculated at the beginning of the formula (Pit-1/ Bit-1).

Second: The value of (1) is registered when the percentage is more than (one) and is recorded as (Zero) in the other cases.

3. The fair value (FT): This variable was used to separate the companies that re-evaluated their net assets due to inclusion or ownership. The variable was registered for any company during the year of re-evaluation and the following two years at the end of the re-evaluation. With the same method, the dual- measurement approach was used, which gave the variable a value (1) for the year of re-evaluation and the following two years, and the value (Zero) for the other years.

b) *Hypothesis of the study*

This study is based on the following hypothesis:

Ho1: there are no significant statistical effects for the share's market revenues in case of bad news compared with the effects of share market value in case of good news on the accounting reservation of the profits in the Jordanian join-stock industrial companies.

Ho2: there are no significant statistical effects for the market revenues when the percentage of market value compared with the book value per share in the first period is high on the accounting reservation for the accounting profits in the Jordanian join-stock industrial companies.

Ho3: there are no significant statistical effects for applying the fair value of re-evaluating the net assets of the company on the accounting reservation of profits in the Jordanian join-stock industrial companies.

c) *Methods of measuring the hypothesis*

The following models were used to measure the study hypothesis:

1. *Measuring the first main hypothesis*: Which states "there are no significant statistical effects for the market revenues in case of bad news compared with the effect of share market value in case of good news on the accounting reservation of the profits in the Jordanian join-stock industrial companies". Basu's main model (1997) will be used in the equitation No. (1) to measure the extent of profit response for the accounting reservation in the financial lists of the Jordanian commercial banks through the following slope relationship to express the slope of profits on revenues, as follows:

$$X_{it} / P_{it-1} = \alpha + \beta_1 R_{it} + \beta_2 DR_{it} + \beta_3 (R_{it} * DR_{it}) + Uit \quad (1)$$

2. *Measuring the second main hypothesis:* which stated: " there are no significant statistical effects for the market revenues when the percentage of market value compared with the book value per share in the first period is high on the accounting reservation for the accounting profits in the Jordanian join-stock industrial companies".

This hypothesis is linked with the percentage of market value to the book value (MTB) and the factor of Basu's model (1997). This percentage measures the accumulated effect resulting from the difference in the market value and the book value (Beaver and Ryan, 2000, 127- 148) and (Roychowdhurry and Watts, 2007, 2-31). As for the coefficient of Basu's model, it reflects the accounting reservation that results from the changes of value during one period. Accordingly, it is expected that reservation factor will become higher through the use of Basu's model (1997) whenever the market value compared to the book value is high. To test this hypothesis, Basu's model (1997) will be amended by adding the percentage of market value to the book value in order to measure the accumulated effect of the accounting reservation, as in the following equitation (equitation):

$$X_{it} /P_{it-1}= \alpha+ \beta_1 R_{it}+\beta_2 DR_{it} + \beta_3(R_{it}*DR_{it})+ \beta_4 MTB_{it-1}+\beta_5 MTB_{it-1}* R_{it} + \beta_6 \quad (1)$$

$$MTB_{it-1} * DR_{it} + \beta_7 MTB_{it-1}* R_{it}*DR_{it} + Uit. \quad (2)$$

3. *Measuring the third hypothesis: which states: "there are no significant statistical effects for applying the fair value of re-evaluating the net assets of the company on the accounting reservation of profits in the Jordanian join-stock industrial companies".*

The assumption of fair value was established based on the fact that re-evaluating the company's net assets will result in approximating the values of assets from their fair value. Consequently, the asset values are – after that- closer to decrease due to any mistakes that may take place during the re-evaluation process, or due to the decrease of the assets' fair value after evaluation. That may result in an increase in the negative revenues and an increase in the accounting reservation after the evaluation. The views of evaluation (F= 1) in the year of evaluation and the following two years were recorded thereof.

$$X_{it} /P_{it-1}= \alpha+ \beta_1 R_{it}+\beta_2 DR_{it} + \beta_3(R_{it}*DR_{it})+ \beta_4 FT_{it-1}+\beta_5 FT_{it-1}* R_{it} + \beta_6 FT_{it-1} * DR_{it} + \beta_7 FT_{it-1}* R_{it}*DR_{it} + Uit. \quad (3)$$

V. Methodology of the Study

This study used the analytical descriptive method for data collection. In addition, the study used two main resources gather data:

In order to achieve the objectives of the study and test its hypothesis, data were collected through the following methods:

1. Preliminary resources: the financial lists of the Jordanian join-holding industrial companies during the years (2008- 2014).
2. Secondary resources: books, Arab and foreign periodicals, essays and the previous studies related with the topic as well as the daily newsletters of Amman Stock Exchange which are deposited in the library of the Stock Market.

a) Population and sample of the study

The population of the study consists of all of the Jordanian join-stock industrial companies enlisted in Amman Stock Exchange (N= 77) as per the companies' directory for the year 2014 and according to the website of Amman Stock Exchange. The sample included all industrial Jordanian join-stock companies enlisted in Amman Stock Exchange after excluding the following companies:

1. The companies that were subject to liquidation or merger during the period of the study;
2. The companies that did not publish their financial lists regularly during the period of the study.

Accordingly, the final size of the sample which satisfied the previous requirements amounted to (59) companies that form (76 %) of the population.

b) Statistical analysis

This part tests the extent of the linear model for the data of the study. In this regard, the natural distribution of data was tested, then the coefficients between the independent and dependent variables were calculated and the same procedure was implemented regarding the independent variables among them. In addition, the existence of multi-co linearity phenomenon was tested through calculating the VIF as well as testing the multiple coleanirty phenomenon through the use of Darbun- Watson test. On the other hand, the time series stationary were tested, not to forget testing the hetero-sedasticity test. Following is a presentation of the procedures that were implemented prior to testing the hypothesis

First: Testing of Normal Distribution of Data

Among the conditions of the validity of the "General Linear Model" (GLM) is that the values of views shall follow the normal distribution. In case this requirement is not satisfied, then data shall be treated through using the ordinary logarithm or their quadratic (square root) as well as other procedures. It has been insured that data follow the normal distribution based on Jarque- Bera tests. The results were as follows:

Table 1: Jarque- Bera Test for Normal Distribution: testing the reliability of data for analytical analysis

Variables	Jarque-Bera	P-value
EPS (X_{it})	1.5558	0.7082
Price (P_{it-1})	0.6900	0.7058
Price (P_{it})	1.3533	0.5083
Return (R_{it})	0.5732	0.7508

The above table shows that the level of coefficient level for all variables is higher than (0,05). According to Guajarati, 2004, 149, this indicates that all variables of the study follow the normal distribution.

c) *Testing the autocorrelation*

The problem of autocorrelation appears in the model if the neighboring views were linked, which will affect the accuracy of the model; the effect of independent variables on the dependent ones will be high due to that link. To insure thereof, the researcher used D-W- Durbin Watson tests. It is worth stating that DW is calculated based on a complex relationship. In addition, it could be obtained through SPSS. After calculating DW value, it will be compared with the other two values (dj) which represent the minimum limit for the absence of autocorrelation and (dy) which represent the maximum extent for the absence of autocorrelation. This comes based on the number of views and independent variables in t he model for each level of significance. Either hypothesis might be accepted or rejected based on mathematical rules. The value of (DW) is the medium (2) and when the autocorrelation is absent, the coefficient will equal (Zero). Accepting or rejecting the (H0) will be based on some statistical comparisons.

Table 2: Testing Autocorrelation in the model of the study

Durbin-Watson(d)	Variable
1.920	X_{it}/P_{it-1}
A=0.05 From Durbin-Watson tables: $d_{V=}$ 1.400, d_L= 0.610 N= 413 (Number of sample views) K= 3: Number of independent variables.	

In (Durin- Watson) test, the following hypothesis will be tested:

Ho: the model does not suffer from the autocorrelation problem;

Ha: the model suffers from the problem of autocorrelation.

From table (7), we notice that (DW value) = (1,920). By testing a moral value of (a = 0.05), we notice that the value of (dL= 0.610) and DV = 1.400 value. In addition, we notice that the value of DW is not located within the scope, where (DV >dL) and therefore, the model does not suffer of the problem of autocorrelation (Hussein and Sa'eed, 1998, 448).

d) *Analysis of the results*

After insuring the validity of data for analysis, it will be possible to test the models of the study, first to measure the level of accounting conservatism for the profits of the Jordanian join-stock industrial companies enlisted in Amman Stock Exchange. Here are the results of analysis as interpreted by the accounting conservatism.

Table 3: Showing the descriptive statistics of the main variables

Measurement	Share profitability	Net Revenues
Means	27,736	0.2460
The largest value	87,967	0.3502
The lowest value	7,6565	0.0336
SD	34,342	0.1331

From table (3) above, we notice the accounting means for the profit of share (EPS) which equals (27,736) with a standard deviation (34,342). In addition, the minimum value per profit share equals (7,6565) while the maximum value is (0.1331). The minimum value of the revenues equals (0.0336) and the maximum value is (0.3502).

e) *Testing the hypothesis*

H01: "There are no significant statistical effects for the market revenues in case of bad news compared with the effect of share market value in case of good news on the accounting reservation of the profits in the Jordanian join-stock industrial companies".

As noted before, the idea of the Basu's model (1997) is based on the fact that market receives good or bad news from various resources and promptly reflects them on the prices. Accordingly, the revenues of shares take place (positive or negative) prior to receiving the accounting profit reports. In this regard, we find that variable (Rit) in the model records all positive and negative market revenues without differentiation. As for the variable of news (DRit), it is a dummy on with the value of (one) or (zero). It separates the negative revenues (which take the value: 1) from the positive revenues (that take value zero). Therefore, multiplying variable (Rit) with (DRit) will result in another independent variable (DRit X Rit) recording the negative values only. This procedure results in using (B1) to measure the slope coefficient of the profits on the positive revenues only. As for (B3), they measure the slope coefficient of the profits for the negative revenues only. On the other hand, coefficient (B2) measures the accounting reservation in the financial lists regardless of the positive or negative revenues and the value of such revenues. In this context, Basu stated that such coefficient, if it has a negative value, then it expresses the degree of reservation in the accounting profits regardless of the values of the negative revenues.

Table 4: The accounting reservation after separation based on the bad news compared with the good news in the industrial Jordanian join-stock companies

$X_{it} / P_{it-1} = \alpha + \beta_1 R_{it} + \beta_2 DR_{it} + \beta_3 (R_{it} * DR_{it}) + U_{it}$						
	Bad News (DR=1)			Good News (DR=0)		
Coefficients	Response coefficient	(t)	P-value	Response coefficient	(t)	P-value
α	0.249889	0.59302	0.568	1.36746	1.50366	0.137
β_1	0.443560	2.66637	0.026	-0.11882	-1.96292	0.054
R^2	44.13%			5.08%		
S	0.676798			0.548269		

From table (4) above, we notice that B1 equals (0.44356) and the value of t-test is: 2.666, P value- = 0.026 which are important from a statistical perspective since the (t) value is bigger than its scheduled value, while (p- value) is less than (0.05). Consequently, we would reject the null hypothesis and say: " there is no significant statistical effect for the market revenues in case of bad news compared with the effect of share market value in case of good news on the accounting reservation of the profits in the Jordanian join-stock industrial companies".

As for the good news, the value (t= - 1.96292) is less than its scheduled value with a possibility of (P – value = 0.05). Accordingly, it is not possible to reject the first sub-null hypothesis in case of the good news and we would say: " there is no significant statistical effect for the market revenues in case of bad news compared with the effect of share market value in case of good news on the accounting reservation of the profits in the Jordanian join-stock industrial companies". This might be attributed to the lack of data relating to the good new in the sample".

Based on the above results, we would reject the null hypothesis which state: " there is no significant statistical effect for the market revenues in case of bad news compared with the effect of share market value in case of good news on the accounting reservation of the profits in the Jordanian join-stock industrial companies" and accept the alternative hypothesis which state: "there is significant statistical effect for the market revenues in case of bad news compared with the effect of share market value in case of good news on the accounting reservation of the profits in the Jordanian join-stock industrial companies".

H02:"There are no significant statistical effects for the market revenues when the percentage of market value compared with the book value per share in the first period is high on the accounting reservation for the accounting profits in the Jordanian commercial banks".

Table 5: Testing the relationship between the percentage of market value to the book value per share and Basu's model (1997) on the whole sample

$$X_{it}/P_{it-1} = \alpha + \beta_1 R_{it-1} + \beta_2 DR_{it-1} + \beta_3(R_{it-1}\times DR_{it-1}) + \beta_4 MTB_{it-1} + \beta_5 MTB_{it-1}\times R_{it-1} + \beta_6 MTB_{it-1}\times DR_{it-1} + \beta_7 MTB_{it-1}\times R_{it-1}\times DR_{it-1} + U_{it}$$

The amended model			The original model			
P-value	(t)	Response coefficient	P-value	(t)	Response coefficient	Coefficients
0.005	2.88538	3.11209	0.148	1.46	1.3675	A
0.001	-3.42255	-0.24909	0.060	-1.91	-0.11882	R
0.012	-2.56648	-3.12635	0.267	-1.12	-1.1176	DR
0.001	3.49613	0.74189	0.000	3.70	0.5624	DR×R
0.002	-3.14255	-0.23920				MTB
0.001	3.39226	0.01875				MTB×R
0.068	1.85331	0.23852				MTB×DR
0.181	-1.35110	-0.08045				MTB×DR×R
34.28%			17.3%			R^2
0.515726			0.563998			S

The original model ANOVA

Analysis of Variance

Source	DF	SS	MS	F	P
Regression	3	5.3947	1.7982	5.65	0.001
Residual Error	81	25.7656	0.3181		
Total	84	31.1603			

The amended model ANOVA

Analysis of Variance

Source	DF	SS	MS	F	P
Regression	7	10.6804	1.5258	5.74	0.000
Residual Error	77	20.4800	0.2660		
Total	84	31.1603			

Table (5) shows the results of the amended model as well as variables that reflect the increase of the percentage of market value compared with the book value for more than (1). The results of the model provide some indicators that the market's dealing with the bad news depends on the percentage of market value compared with the book value. It this percentage is less than one, then the market will not be much affected by the accounting reservation and that will not be reflected to a large extent since the prices are basically low. Therefore, the coefficient of revenue of accounting profit response is not high.

In addition, the response confident for the positive revenues decreased to (- 0.24909) after it was (- 0.11882). The second evidence it that the response coefficient for the bad news rose to (0,74189) with a significant statistical value (P- value= 0.001) after it was (0.5624) with a moral value.

Based on the above results, we would reject the null hypothesis stating: "there is a significant statistical effect for the market revenues when the percentage of market value compared with the book value per share in the first period is high on the accounting reservation for the accounting profits in the Jordanian commercial banks".

Ho3: there are no significant statistical effects for applying the fair value of re-evaluating the net assets of the company on the accounting reservation of profits in the industrial Jordanian joint- stock companies.

Table 6: Testing the fair value hypothesis

The model $X_{it} /P_{it-1}= \alpha+ \beta_1 R_{it}+\beta_2 DR_{it} + \beta_3(R_{it}*DR_{it})+ \beta_4 FT_{it-1}+\beta_5 FT_{it-1}* R_{it} + \beta_6 FT_{it-1} * DR_{it} + \beta_7 FT_{it-1}* R_{it}*DR_{it} + Uit$		
The original model *** (218) 0.15	The amended model *** (2,5) 0.16	Stable a
*** (5,23) 0.02	*** (5,2) 0.02	B coefficients
- (1,73) 0.03	- (1.3) 0.02	R
*** (3,67) 0.19	*** (3,44) 0.17	RD
		DR*R
		F
		R * F
		F.DR
		F.DR.R
• Moral at 0.1 % or less ** means (T) between brackets *** = t value is moral at 5% or less. * means (t) value.		Definition coefficient R2

The above table presents a set of important results that tend to accept the application of the fair value which will increase the market reservation and accounting profit due to bad news after evaluation. At the level of positive revenues, the response coefficient did not differ from the original model (0.02: moral), and the fixed reservation (DR) rose in the accounting profits from (0.02 to – 0.03) but it is still immoral. In addition, the coefficient of reservation towards the bad news rose from 0, 17 in the original model to 0,19 in the amended one by applying the fair value and because moral at less than 0.1%. On the other hand, the explanatory power of the amended model rose to 14, 6 % instead of 10,3 % in the original model. As for the variables that were added to measure the effect of applying the fair value, the response of the accounting profits for the positive revenues was reversed with a value of – 0, 82 and moral at less than 0.1% level. This means that the accounting profits were not congruent with the positive news received by the market during the years chosen to trace the effect of re-evaluation. The last significant results is the existence of a semi complete response between the negative revenues the accounting profits for the bad news that reached the market within each year. This result means that the accounting profits keep the same degree of market reservation and that the reservation coefficient in case of raising the book value to the fair value increases the reservation coefficient five times in case of keeping the book value of the assets (1,05 / 0.19= 5,5 times). In general, the results support the hypothesis that the application of the fair value results in increasing the degree of reservation towards the bad news which the market receives regarding the asset values.

VI. Conclusion

The Jordanian commercial banks can deal with the bad news in a way that reflects the accounting conservatism due to the existence of data relating with the bad news. As for the good news that shows profits, the reactions of the Jordanian banks are relatively less. This can be attributed to the lack of data linked with the good news, where the accountants tend to acknowledge the un-achieved profits prior to the achieved ones, which means stating the reports of the bad news (losses) faster than the good news (profits). This result is consistent with the study of (Abu Al-Khair, 2008); Abdul Malek, 2012), Al- Otaibi and Khalifa, 2012, and Kung et al., 2011. In addition to, The dealings of the commercial Jordanian banks with the bad news relies on the percentage of market value compared to the share's book value; if this percentage is more than (one), then the market will largely be affected with the accounting conservatism, as the coefficient of the response of the share market value revenues increase when the percentage of market value to the share's book value at the beginning of the term is high. However, if this percentage was less than (one), then the market will not be so affected with the accounting conservatism and will not be largely reflected on the revenues since the price is mainly low, and therefore, the coefficient of accounting profit response to the revenues will not be high. This result is consistent with the study conducted by (Abu Al-Khair, 2008) and (Abdul Malek, 2012); Also, There is a significant statistical difference for applying the fair value of re-evaluating the company's net assets on the accounting conservatism in the industrial Jordanian companies, where the application of the fair value results in an increase in the conservatism degree towards the bad news received by the market regarding the values of the assets.

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Assessment on Implementation of Audit Findings Reported by Office of Auditor General: Case Study at Ethiopian Public Sectors

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Abstract- The main aim of this case study is to assess the extent of audit findings implementation in Ethiopian public offices. Auditors express their opinion on audit finding through audit report to concerned body in each sector and design follow up mechanism for their implementation. Auditor's opinion will bear the expected fruit only when it is fully implemented according to auditor's recommendations. In order to assess the stage of audit findings implementation in public offices of the region, primary data was collected through Likert-scale type questionnaire from audited entities and auditors. The collected data were analyzed through simple descriptive statistics using percentage. The result of the case study revealed that there is no frequent practice of audit findings implementation in the public offices. The main causes for lack of audit findings implementation in public sectors are lack of interest for audit report; absence of integrated effort to implement audit reports; weakness in follow up; and delay in audit report presentation to audited entities.

Keywords: audit findings implementation, audit reports, public sectors, Ethiopia.

GJMBR-D Classification: JEL Code: M42

ASSESSMENTONIMPLEMENTATIONOFAUDITFINDINGSREPORTEDBYOFFICEOFAUDITORGENERALCASESTUDYATETHIOPIANPUBLICSECTORS

Strictly as per the compliance and regulations of:

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Keywords: audit findings implementation, audit reports, public sectors, Ethiopia.

I. Introduction

Public sectors are body of government entities established with the main aim of providing regular services to the whole society in an effective and efficient manner. The governmental bodies play a greater role through public sectors in meeting the current increasing demand of society for public services. The public sectors could achieve this goal by assuring the existence of responsible and accountable financial and operational performance in each sector. Auditing practice is one of the commonly used and key mechanisms of assuring the practical existence of responsible financial and operational activities in any sector. Hence, government auditors, as agents responsible for auditing government income and expenditures; and have critical role by acting as watchdogs for financial integrity and creditability of reported financial information.

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Auditing is the process in which a competent and independent person accumulates and evaluates evidence about quantifiable information related to a specific economic entity for the purpose of determining and reporting on the degree of correspondence between the quantifiable information and established criteria (IIA, 2012; MOFED, 2013). The objectives of auditing activities are to prepare a written opinion or report on the fairness of the financial statements provided and on its compliance with accounting and legal regulations or evaluate the adequacy and effectiveness of controls encompassing the organizations governance operations and internal system. In addition, audit reviews include the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets and compliance with laws, regulations and contracts (IIA, 2012; Cosserat and Rodda, 2009).

According to Cosserat and Rodda (2009), the general purpose of an audit report is: "… to give assurance and/or highlight problems with regard to the truth and fairness of the financial and compliance with the applicable reporting framework, law and other relevant regulation." Auditors express their opinion on audit finding through audit report to concerned body in each sector and design follow up mechanism for their implementation. Auditor's opinion will bear the expected fruit only when it is fully implemented. However, there is big gap in audit report implementation especially in Ethiopian public sectors. This was happened due to lack of management support and concern in auditor's opinion implementation. Even in some sectors, the management does not offer full freedom for auditors to verify the implementation and follow up their opinion. Therefore, the main aim of this study was to assess the extent of implementing auditing findings reported by office of auditing general (OAG) in public sectors. The study was conducted in Ethiopian public sectors found in Southern Nations, Nationalities and Peoples Regional State (SNNPRS). SNNPRS (hereafter referred to as the region) is one of the nine Ethiopian regional state geographically found in Southern part of the country. For the purpose of this case study, only those public entities responsible to audit their financial and operational performance and implement audit findings were considered.

II. Statement of the Problem

The primary objectives of many audit functions are reviewing internal controls, assessing fair utilization of allocated resources, evaluating rules and regulations implementation according to reasonable procedures. All audit activities are performed in line with established auditing standards and guidelines. Auditors summarize and express outcomes of their audit performance through preparing audit report.

Audit reports should provide assurance and highlight problems with regard to the truth and fairness of the financial and operational performance (Cosserat and Rodda, 2009). In addition, the written audit reports should communicate the results of audits to all levels of government, make the results less susceptible to misunderstanding, make the results available for public inspections, and facilitate follow-up to determine whether corrective actions have been taken (INTOSAI, 2004). This implies that auditing tasks do not end up with the provision of final audit report to audited entities and/or concerned bodies rather the auditor and auditee design follow up mechanism for their implementation. Specifically, the audited entity should take full responsibility of assuring audit reports implementation unless it destroys the ultimate goals of audit function.

An audit provides assurance regarding to the truth and fairness of an entity's financial operational position presented by the management. The main objective of government auditing is to express opinion on financial statements and related issues of legality, regularity, and fraud as well as examining whether government institutions are operating economically, efficiently and effectively. To achieve these objectives, the country has established office of the auditor general whose independence is protected by law in each region. Given the importance of its role, however, queries are often raised about the audit, the auditors and the stakeholders they serve.

Accordingly, SNNPRS have office of the auditor general that examines regional, zonal and local government offices with strict ethical and disciplined manner. Public office auditors present audit reports to the management office of the auditor general. After reviewing and arriving at consensus with auditors, the management dispatches the result to regional council, finance bureau and regional administrations. If the finding holds harsh violation of financial procedures, office of the auditor general has the right to call policy for investigations or report to ethics and anti-corruption commission of the region for immediate action up on the report (SNNPRS, 2004).

The responsibilities and mandate of office of the auditor general will not end with reporting the audit finding to the legislative body; it also has role to follow-up its implementations. For instance, during the fiscal year 2011 to 2014 the office has accepted and dispatched 1,289 financial and performance audit report to the law making organs for correction taking and decision-making. However, the report of OAG shows the existence of various problems in the implementation of dispatched audit reports (SNNPRS, 2014).

The main problems disclosed in the office report are fraudulent financial statements, mis-appropriation of assets, and ineffective utilization of public resources. Regardless of these problems, the manner of follow up of the audited entities is not this much strong. Since follow up of concerned bodies is not as strong as expected, most of their financial statements are not free from errors or the same audit report is issued from year to year for the same entity. Furthermore, the audit reports were put on shelves rather than taking the necessary adjustment based on the audit findings and their recommendations (SNNPRS, 2014).

Despite of these problems, no adequate assessment has been made on audit finding implementation in the region public offices. This case study undertook detail assessment on level of audit findings implementation and causes of not implementing audit findings on time in public offices.

III. Objectives of the Study

The general objective of this case study was assessing implementation of audit findings dispatched by office of the auditor general in Southern Nations, Nationalities and Peoples Regional State (SNNPRS) public offices. Specifically, the case study was attempted to:

- Assess the extent of audit findings implementation in the region.
- Explore causes of auditee non-compliance and lack of audit findings implementation.
- Detect the consequences of lack of audit findings implementation in public offices of the region.
- Explore the common weakness of audit report implementation follow up mechanisms in the region.

IV. The Research Questions

The case study was intended to solve the following research questions.

- What is the extent of audit findings implementation in selected public entities of the region?
- What are the causes of not implementing audit findings in public offices?
- What are the consequences of absence of audit findings implementation?
- What are the weaknesses of concerned bodies in audit finding implementation follow up?

V. Significance of the Study

This study was conducted to make assessment on implementation of audit findings in public offices. The study's outcomes have three important significances. First, the conclusions would help to understand the extent of auditing findings implementation in public offices. Second, by exploring causes and consequences of lack of audit findings implementation, it indicates the direction for taking corrective actions. Finally, the study's outcomes would contribute to the literature by developing a conceptual understanding of audit finding implementation.

VI. Related Literature Review

Audit forms an indispensable part of the financial system and is one of the important organs necessary to ensure sound functioning of financial and operational activities. It is main instrument used to secure and promote accountability and integrity of financial management operations in every organization (Eze N., 2016; MOFED, 2013; IIA, 2012). The primary functions of audit are verifying the accuracy and completeness of accounts related with revenue collection, expenditures authorization, and complete and fair presentation of financial transactions. This is why auditing is now viewed as a cornerstone of good public sector governance (IIA, 2012).

An audit opinion is expressed on audited financial and/or performance statements through audit report. An audit report is a written opinion of an auditor regarding the correctness and fairness of an entity's financial and performance statements. It is required that an auditor states its opinion in the view of generally accepted accounting principles have been followed or not. However, simply expressing opinion on audited financial and performance statements does not grant the complete achievement of audit goals. These audit functions would be achieved only when auditing reports are implemented in organization. Lack of auditing practices (Eze N., 2016) and audit findings implementation diminish management accountability in public sectors. For effective achievement of audit functions, management support and auditor's opinion implementation pay the great role (Mihret and Yismaw, 2007).

VII. Research Design and Methodology

All public auditors currently working and government offices operating in the region were the target population of this case study. Primary data was collected using three points of Likert Scale type questionnaire from 103 purposively selected public sectors and auditors. For the purpose of triangulating and keep the reliability of data, all data were collected from both auditors and auditee (clients). Here the questionnaire has two major sections. The first section of the questionnaire focuses on demographic information of respondents. The second section of the questionnaire was designed in order to obtain necessary data related with four important issues (objectives) of the study. The first issue focuses on level of audit report implementation in public sectors. The second issue was concerned with causes of lack of audit report implementation in public offices. The third and final issues were focused on consequences of lack of audit report implementation, and common weakness of office of the auditor general and other concerned bodies in audit report implementation follow up procedures respectively. Each item of the questionnaire has three points of scale (such that 1 = disagree, 2 = neutral and 3 = agree) except respondents' demographic information section.

VIII. Research Findings: Analysis and Discussion

The collected data were analyzed using simple descriptive statistics through percentage and presented in table. All distributed questionnaires were collected from the respondents and used in the analysis. The analysis and discussion were presented in four sections as follows.

a) Respondent's Demographic Information Analysis

From total respondents, n = 26 (25%) were females and n = 77 (75%) were males. Ratio of female participation in the study as well as on employment position was very less than ratio of males. Majority of the respondent's age category found between 30 to 39 years and unfortunately, there were no respondents above 60 years indicating most of respondents were in adolescent age. Regarding to respondent's education status, most of respondents have bachelor's degree n = 93, (90.3%) followed by diploma n = 15, (5%), and other respondents were masters degree and certificate holders. Finally, most respondents have 6-10 years work experience in public sectors, n = 72 (70%).

b) Level of Audit Report Implementation in Public Offices

In order to assess the level of audit report implementation in public sectors, seven response items were presented to respondents. The responses obtained from respondents were expressed in percentage for respective scale of each item as presented in table-1.

Table 1: Level of Audit Report Implementation

Item	Agree		Neutral		Disagree	
	Frequency	%	Frequency	%	Frequency	%
1. Each audit report is frequently implemented in my office.	9	9	5	5	89	86
2. The audit report implementation is adequate.	10	10	0	0	93	90
3. If audit reports were properly implemented, they can bring the expected change on my office.	90	87	1	1	12	12
4. The implementation of audit report on appropriate time has its own value on public resource utilization of the office.	91	88	3	3	9	9
5. Lack of audit report implementation will enhance illegal action in public offices.	89	86	2	2	12	12
6. Implementation of audit report reduces errors and frauds in public offices.	88	85	5	5	10	10
7. Implementation of audit report increases the moral of the auditors and auditee.	93	90	2	2	8	8

The above table shows the percentage response of respondents for corresponding seven items. As the result reflects, majority of the respondents (n = 89, 86%) were not agree with the continuous implementation of audit reports in their offices. This shows that most audit reports are not implemented in public offices. Auditors simply waste their time and effort on auditing financial and operational aspects with no meeting the ultimate goal of auditing. Auditing gives the expected fruit if its findings get implementation. The ultimate goal of audit function cannot be achieved without implementing audit report. Audit report implementation is still not adequate in public offices. Respondents were not satisfied with the adequacy of audit report implementation (n = 93, 90%) in their offices. Regardless of audit report implementation, the respondents were well informed about the benefits of audit reports. Implementing audit report has multi dimension advantages to an office. Accordingly, appropriate audit report implementation can bring the expected change or improvement on management operations of an organization (n = 90, 87%). In addition, it can contribute to proper utilization of public resources (n = 91, 88%), minimize illegal financial or operational acts (n = 89, 86%), reduces the possibility of committing errors or frauds (n = 88, 85%) and motivate auditors and auditee (n = 93, 90%). To the contrary, absence of audit reports implementation in organizations, takes way these benefits of auditing.

c) *Causes of Lack of Audit Report Implementation in Public Offices*

In order to investigate the main causes for not implementing audit reports in public offices, eight items were presented to respondents. Respondents' opinion for each item was expressed in percentage as provided in table-2. The major factors obstructing audited entities not to implement audit reports are lack of interest on audit reports (n = 87, 84%); lack of coordination among concerned bodies to implement audit reports (n = 82, 80%); weakness in audit report implementation follow up (n = 89, 86%); delay of audit report presentation (n =91, 88%); weakness in enforcement of policy and law (n = 91, 88%), and absence of good attention for audit reports (n = 89, 86%). However, the good news is that lack of knowledge how to make necessary adjustments (n = 56, 64%) and quality of audit reports in the offices are not the main causes for not implementing audit reports. It is not surprise that management of public offices do not give due attention for audit reports implementation. This is because the effects of misleading financial or operational practices do not known in short time period. It may take two to five years to know one of the causes of bankruptcy or ineffectiveness of an organization is not to implement audit findings. It kills organization after long time cumulative effects. They do not feel about it today. Therefore, they delay to take corrective measure soon. These are the major reasons for lack of management attention and interest to audit reports.

Table 2: Causes for Not-implementing Audit Reports in Public Offices

Item	Agree		Neutral		Disagree	
	Frequency	%	Frequency	%	Frequency	%
1. Lack of interest on audit report	87	84	4	4	12	12
2. Lack of integrated effort of concerned body.	82	80	4	4	17	16
3. Weakness in follow up by the audit office.	89	86	6	6	8	8
4. Due to delay of audit report.	91	88	4	4	8	8
5. Lack of knowledge on how to take adjustments	43	42	4	4	56	64
6. Weakness in enforcement of policy and law	91	88	4	4	8	8
7. Lack of attentions by council and concerned body	89	86	4	4	10	10
8. Lack of Quality of Audit Report	8	8	4	4	91	88

d) *The Consequences of Lack of Audit Report Implementation in Public Offices*

After making assessment on level of audit report implementation and causes of not implementing audit report in public offices, we are interested to know the outcomes of not implementing audit reports in entities. To explore the consequences of not timely implementing audit reports in public offices, five response items were provided to respondents. Respondents' response for each item was presented in table-3 with corresponding percentage. The first consequence of not implementing audit reports in public sectors is fraudulent financial statement. Most respondents (n = 89, 86%) believe that weak audit report implementation leads to false and unfair financial statements presentation. Fraudulent financial statements are those financial reports do not present fair or correct financial information of particular entity. In absence of audit report implementation, financial statements are not prepared in accordance with acceptable accounting principles, practices and procedures or rules of the entity. Delay in economy development due to wastages of public treasury is the other consequences of not implementing audit report on time in public sectors (n = 89, 86%). As a result, the ruling body or management lacks public trust from society (n = 78, 76%). On the other hand, weak audit reports implementation opens a way for corruption and criminal acts (n = 82, 80%) which contributes to under economy growth of a country.

Table 3: Consequences of Lack of Audit Reports Implementation in Public Offices

Item	Agree		Neutral		Disagree	
	Frequency	%	Frequency	%	Frequency	%
1. Fraudulent Financial Statements	89	86	4	4	10	10
2. Delays economy development and promote wastages of public treasury.	89	86	4	4	10	10
3. Loss of community trust in ruling body	78	76	4	4	21	20
4. Increases corruption and encourage criminal acts	82	80	6	6	15	14
5. Under developed economy	82	80	6	6	15	14

e) *Common Weakness of Office of the Auditor General and Other Concerned Bodies in Audit Report Implementation Follow up.*

The final discussion and analysis section of this case study was focuses on common weakness of auditors' offices and other concerned bodies in audit report implementation follow up procedures. In order to investigate some common weakness in audit report implementation follow up performance of office of auditors and other concerned bodies, six response items were presented to respondents. Table-4 presented the corresponding respondents' opinion proportion for each item. The very big weakness of auditor offices in audit report implementation follow up is the absence of coordination among offices. Most respondents (n = 85, 83%) were agreed on lack of coordination with audit offices in audit report implementation follow up. In addition, audited entities have biased view against audit reports (n = 85, 83%). Sometimes, auditors are viewed by clients as default finders rather than problem solvers. As a result auditee lacks confidence on audit reports (n = 62, 60%) and delays in action taking or decision-making (n = 81, 79%). Lack of responsibility and commitment is the other weakness in audit report implementation follow up (n = 89, 86%). Most public entities do not understand audit report implementation is part of their responsibilities. Due to this, they lacked commitment for implementing audit reports in their offices. In general, absence of coordination among offices, biased view against audit reports, lack of confidence on audit reports, lack of immediate decision-making, and absence of responsibility and commitment are the common weaknesses of offices of auditor in audit report implementation follow up processes.

Table 4: Weakness of Office of the Auditor General and Other Concerned Bodies in Audit Report Implementation Follow up.

Item	Agree		Neutral		Disagree	
	Frequency	%	Frequency	%	Frequency	%
1. Lack of coordination with audit offices.	85	83	1	1	16	16
2. Auditee biased outlook on audit report.	85	83	3	3	15	15
3. Lack of confidence in audit report.	62	60	2	2	39	38
4. Delay in action taking and decision making by the auditee.	81	79	3	3	19	18
5. Actions taken and decisions made are not promising.	84	81	3	3	16	16
6. Lack of responsibility and commitments.	89	86	7	7	7	7

IX. Conclusions

The following conclusions were drawn from the findings of the case study. First, even though audited entities recognize the advantages of implementing audit findings, there is no frequent practice of audit findings implementation in the region public offices. Second, the major causes for not implementing audit findings in the region public offices are lack of interest for audit report; absence of integrated effort to implement audit reports; weakness in follow up; and delay in audit report presentation to audited entities. Third, weak audit report implementation leads to unfair and false financial and operational statement presentation; promoted public treasury wastage; result in loss of public trust; and opens a way for corruption and criminal acts. Finally, absence of coordination, auditee biased outlook for audit reports, lack of confidence in audit report, delay in decision making, and lack of responsibility and commitment are the common weaknesses of audit offices and concerned bodies in audit findings implementation follow up procedures.

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Insights into the Accounting Conservatism Literature: A Selective Criteria Analyzing

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Abstract- This study attempts to present a literature review for accounting conservatism that is considered one as of the most ancient and debatable terms in accounting research. Based on several academic studies the theoretical background propose an examination for accounting conservatism which consists of definition, explanations for existence raisons of accounting conservatism and gives measurement models in order to provide a better insight. It is also contribute on the growing literature investigating the role of conditional conservatism in the value of equity markets. Starting from the idea that the conditional accounting conservatism is characterized by an asymmetric recognition of positive and negative economic news we present respectively some sources of conditional accounting conservatism; the goodwill impairment, long-lived asset impairment, inventory recorded at the lower of cost or market and asymmetry in gain/loss contingencies.

Keywords: *accounting conservatism, conditional conservatism, conservatism measurement.*

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Abstract- This study attempts to present a literature review for accounting conservatism that is considered one as of the most ancient and debatable terms in accounting research. Based on several academic studies the theoretical background propose an examination for accounting conservatism which consists of definition, explanations for existence raisons of accounting conservatism and gives measurement models in order to provide a better insight. It is also contribute on the growing literature investigating the role of conditional conservatism in the value of equity markets. Starting from the idea that the conditional accounting conservatism is characterized by an asymmetric recognition of positive and negative economic news we present respectively some sources of conditional accounting conservatism; the goodwill impairment, long-lived asset impairment, inventory recorded at the lower of cost or market and asymmetry in gain/loss contingencies.

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I. Introduction

This essay provides a selective explanation and discussion review of the accounting conservatism literature focusing primarily but not exclusively on theoretical research. Selectivity is necessary given the many topics that comprise accounting conservatism research. Specifically it aims to present some definition and measurement of accounting conservatism illustrated from the most important papers treated the explanations of conservatism accounting phenomena. This paper present a theoretical discussion and analysis of the themes treated in some of the most important papers on accounting conservatism topic. Going through several studies, we note that some papers discuss conceptual debates supported by methods of determination and measurement of accounting conservatism, others papers proposes just purely theoretical discussion of accounting conservatism topic, and the most of papers present measurement of accounting conservatism.

The conservatism area, one of the most prominent characteristics of financial accounting information, has influenced accounting practices for centuries. It can be alternatively defined as the asymmetric recognition of economic losses versus gains such presented by (Basu, 1997) or it can be identify us the understatement of book values independent of economic gains and losses like that defined by Beaver & Ryan, (2005). These two interpretations of accounting conservatism are referred to their sources as a conditional and an unconditional accounting conservatism Beaver & Ryan, (2005). Indeed, the unconditional conservatism it comes from some practices related to the over-expensing, early expensing, and deferring revenue recognition and it can impounds a negative persistent in the process of bias in book values, contrarily only conditional accounting conservatism arises from efficient contracting needs to protect the interests of stakeholders.

Accounting conservatism was defined as a downward bias in the accounting net asset value relative to the economic net asset value arising from an incomplete and inconsistent recognition of economic value in accounting earnings. It has been considered as an important accounting principle for centuries such firstly presented by Basu, 1997. Similarly, Watts (2003a, b) propose more explanation to this phenomenon which provides that the demand for conservatism results from the contracting role of accounting. Mostly, there are two important reporting features of conservative accounting are asymmetric timeliness in recognition of accounting gains versus losses which qualify in the conditional conservatism and systematic understatement of net assets value which characterized as unconditional accounting conservatism such as presented in several research Givoly et al., 2007; Roychowdhury & Watts, 2007. Watts, (2003a) point out that these two features are related to accountants' predisposition to require a higher degree of verification and certainty for the establishment of assets as compared with liabilities.

In what follows, Section 2 presents a literature and background on accounting conservatism. Section 3 focuses on the accounting conservatism measurement. Section 4 comments on the conditional conservatism sources. Section 5 briefly concludes.

II. Literature and Background on Accounting Conservatism

Hence, Kothari et al., 2009 argues that the managers have incentives to delay disclosure and recognize the bad news due to their career and compensation concerns, therefore a conditional conservatism could be more beneficial to the concerned' shareholders with losses and are less

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informed about impending bad news. Because accounting conservatism forces earlier recognition of economic bad news the value stock price value in the case of a conservative firm is likely to be closer to its fundamental value than those in the case non-conservative firm. The information announced by the less conservative firms' in the financial statements is more likely to be provided in the upper end of the distribution of fundamental values of the firms. The information disclosed by conservative firms will be perceived by the market as less biased and more accurate, while the information delivered to the market by less conservative firms could be perceived as more optimistically biased.

As a finding, when a bad news is disclosed, for less the conservative companies, the market is concerned that the revelation of bad news announced is not complete, and it might react more stronger. Conversely, the market can react to good earnings news in the case less conservative firms will be more subdued than the good earnings news announced by more conservative firms. Kothari et al. (2009) argues that the market reacts particularly negatively to the announced news of dividend decreases. The authors discuss this result as recognizing that managers are more likely to withhold bad news disclosed relating to dividend cuts. Moreover, it is interesting to provide whether a greater conservatism constrains the managers' in the behaviorism earnings management and forces bad dividend news ‘‘out” earlier.

A several research developed to propose measures of conservatism, chiefly those of the Basu, 1997 asymmetric timeliness measure being the most prominent. Hence, the Basu model based on the question how economic income, as evaluated by market returns, is asymmetrically related to the accounting earnings. By examining the effect of earnings on stock returns, Basu provides his predict assumption that the coefficient of stock returns will be higher when companies have ‘‘bad news” than when the companies have ‘‘good news”. Moreover, Basu conclude that also the litigation climate can affects the degree of conservatism. Other stud such those of Givoly and Hayn, 2000 and Holthausen and Watts, 2001 analyze the variation in earnings conservatism over time. Ball et al., 2003, and Bushman and Piotroski, 2006 make comparison between international contexts about the degree of conservatism across some different accounting systems. Other research tests whether conservatism is associated to ownership structure and whether conservatism participates to reduce the information asymmetry. Ahmed and Duellman, 2007 provide that the conservative accounting is practiced to assist board directors to reduce agency costs of the company.

More specifically, their results present evidence that the presence of inside (outside) directors is negatively (positively) related to the accounting conservatism. In another study and Focuses on managerial ownership, LaFond and Roychowdhury, 2008 show that the severity of agency problems increases, leading to a greater demand for the accounting conservatism level. Also, their results provide that the accounting conservatism directly declines with the level of managerial ownership, and hence provide evidence of a demand for conservatism from the firm's shareholders. Besides, after controlling for the other demands for conservatism, LaFond and Watts, 2008 find that conservatism reduces information asymmetry. They conclude that information asymmetry between the inside and the outside equity investors make a demand for accounting conservatism in the financial statements. All forms of accounting conservatism recognize by an understatement of accounting book value related to the market value of equity. Additionally, the accounting conservatism will generally recognize in understated assets and revenues, overstated liabilities and expenses.

III. Accounting Conservatism Measures

To measure the conditional conservatism, Basu (1997) propose his model by based on how the economic income, measured by market returns, is asymmetrically correlated to the accounting earnings. He also provides that the litigation climate affects the degree of conditional conservatism. Since the publication of Basu's paper on 1997, several studies have begun to pay attention to the incremental coefficient of negative returns as the asymmetric timeliness coefficient that is, the measure of conservatism in accounting area. To explain the validity of this model, Beaver and Ryan (2005), and Ball, Kothari and Nikolaev (2009) analyze the econometrics of the Basu's asymmetric timeliness coefficient through a model in which stock prices lead accounting earnings.

There are two important reporting criteria of conservative accounting; the asymmetric timeliness in recognition of accounting gains versus losses and the systematic understatement of net assets (Roychowdhury and Watts, 2007; Givoly et al., 2007). From the accountants' predisposition these two criteria require a high degree of verification and certainty for the establishment of firm assets as compared with liabilities such as argued by Watts (2003a). The most important criteria of conditional accounting conservatism is characterized by the needing of a lower verification requirements of accounting recognition based economic losses as opposed to economic gain. Thus, conditional conservatism characteristics can forces the managers to reveal their private information about negative economic shocks in a more timely fashion.

a) Market-to-book

In some framework, the accounting information reports the value of separable net assets that can be independently liquidated from other components not the contemporaneous market value of equity. The contracts written on accounting disclosed information require that information must verify two criteria the timeliness and verifiability. The asymmetric information is considered as a nature criterion of the payoffs between various contracting parties introduces asymmetric verification standards for gains versus losses. But that can causes some unverifiable increases in the amount of separable net assets and that not labeled.

Empirical study has tended to identify the accounting conservatism as the understatement of the market value of equity, or changes therein. This is a common feature of almost all empirical measurement of accounting conservatism, including the Basu model. Indeed, the Market value of equity (MVE) incorporates not just separable net asset values, but also it includes the rents on the current projects and some future growth opportunities. The use of MVE can be argued by the belief that accountants can supply with verifiable or reliable estimates of the firm' equity market value and that are better than the observed market value in liquid markets, and it's possibly due from a lack of a framework for accounting conservatism literature.

There are a several alternatives of the non-equity market-value-based conservatism measures have been used occasionally, e.g. the Basu model 1997 uses the earnings reversals while Givoly and Hayn (2000) include the sign and magnitude of accumulated accruals. There are different aspects of accounting conservatism that can be included in the presentation of various measures such the market-to-book (MTB) haw the extent to which the book value of net assets can understates the market value of equity . Dechow et al. (2010) propose an analyzing study aims to explain how earnings quality is defined in the accounting literature and the proxies commonly used to measure it. The authors find that there is no consensus definition of earnings quality, which may be attributed to the different perspectives on the use of accounting information

b) The Basu asymmetric timeliness measure

Basu 197 examines the extent to which a given period's "good news" or "bad news" about a firm is incorporated in the firm's earnings. Basu (1997) uses include the stock returns as a proxy for news measurement. Indeed, the stock prices reflect the market' information which receives from a variety of sources other than current earnings and hence the firm' stock price changes are a measure of news arrival covering a concerning period. The Basu model is based on an expectation of asymmetric standards for the verification of losses and gains to make a bad news (e.g. negative stock returns) and that can be reflected in current earnings more than good news (positive stock returns.

Although there is a plentiful study on accounting conservatism, the lack of a firm-year measure of conservatism in prior developing literature once limited the kinds of assumptions examining that could be conducted. Using the estimation C_Score, based on the Basu (1997) asymmetric earnings timeliness notion, and other variables affecting conservatism such the size, the market-to-book or the leverage implied by accounting conservatism, Basu, 1997 and, Khan and Watts, 2007, find that firms characterized by a longer investment cycles, the younger firms of firms with higher idiosyncratic uncertainty are more conservative. They justify these results by referring to firm characteristics, firstly, the younger firms are less mature and less stable, and therefore they will have more information asymmetry problems. Secondly the firms with a longer investment cycles tend to have less verifiable earnings, to be more likely to face adverse outcomes from investments, and to expose their shareholders to losses. Thirdly, the firms with higher idiosyncratic uncertainties (as measured by the standard deviation of daily stock returns) have a higher degree of conservative accounting because agency costs increase with idiosyncratic risks. Therefore, for these different raisons these firms have a greater contracting demand for accounting conservatism level.

The framework for accounting conservatism of Roychowdhury and Watts (2007) purpose to generate and examine the effect of new predictions on the relationship between market-to-book and asymmetric timeliness varies with measurement horizon. Using their framework, Roychowdhury and Watts (2007) predict and provide positive relationship over long horizons related market-to-book end of the period to asymmetric timeliness. The authors find that positive returns accompanied by high value of ending market-to-book ratios can be reflected by an increasing in rents values or in unverifiable separable net asset values. The framework used by Roychowdhury and Watts (2007) is can be used to make their predict assumptions about the relation between the market-to book of end period and the asymmetric timeliness, finding the predicted results does not provide conclusive evidence that their framework necessarily explains accounting practice.

Roychowdhury and Watts (2007) include a framework based on the idea that ''the role of accounting is to report the market value of net assets available for interim distributions to claimants'' to make tow assumption related to estimation period, firstly, the previously-documented negative association between asymmetric timeliness and market-to-book ratio and to predict a positive association related asymmetric timeliness and the ending market-to-book ratio. Their discussion provides findings consistent with their framework, suggesting that previous studies criticizing

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the asymmetric timeliness measurement merely caused by the negative correlation with market-to-book is likely misguided.

IV. Conditional Conservatism Sources

Extending different definitions of accounting conservatism, accounting researchers have categorized the aforementioned understatement of accounting value on two broad forms of conservatism: conditional conservatism, and unconditional conservatism. The most important difference between the two forms of accounting conservatism is that the application of conditional conservatism is specifically based on economic news events, but the application of unconditional conservatism does not need it. The accounting Conditional conservatism produced when the accounting disclosure is based on economic' bad news on a timelier basis more than with economic good news. In short, the conditional accounting conservatism is characterized by an asymmetric recognition of positive and negative economic news. The conditional accounting conservatism depends on asymmetric information about the treatment of loss and gain contingencies and accounting for inventory using the lower-of-cost-or-market convention practices.

However, the unconditional conservatism occurs through the consistent under-recognition of accounting net assets. In contrast to the conditional conservatism, the unconditional conservatism practices does not related to news events. The unconditional conservatism characterized by some practices such as an immediately expensing research, accelerated depreciation or the development expenditures. While conditional and unconditional conservatism both result in a downward bias in accounting value, these two forms of conservatism arrive at this bias through different accounting practices. Moreover, accounting studies has made a point to distinguish these two forms of conservatism from one another.

Beaver & Ryan, 2005 provide that Conditional conservatism differs from unconditional conservatism in that it is news dependent. In other words, book values are written down under sufficiently adverse circumstances but not written up under favorable circumstances. In addition, Ball and Shivakumar (2005) provide that conditional conservatism can improve contracting efficiency, while unconditional conservatism seems inefficient or at best neutral in contracting.

a) *Goodwill impairment*

Holthausen & Watts, 2001 consider that the goodwill is not separable from the firm, and thus declines rapidly in net assets value when a firm is in financial distress to become a worthless in the event of firm liquidation. Hence, this explanation is consistent with the accounting conservative disposition often the observed around debt contract monitoring since the event of debt contracts are designed to protect the interests of those lenders concerns about losses at the liquidation process. Further, the evaluating and reporting of goodwill by the accounting standards guide might not yield net assets values that lenders view as reliable. The Managers use subjective estimating method in the measurement of goodwill. Watts (2006) argue that this subjectivity provides the opportunity to manipulate the reported value of goodwill to the lenders' detriment.

Based on the SFAS No. 142, the tests of goodwill impairment are referring to the fair value estimates that are largely at managements' discretion. Furthermore, the goodwill is not an asset that can be sold separately from the other assets of the firm. However, the lenders who are particularly related to the solvency and liquidity risks are likely to discount or even ignore the value of recorded goodwill.

Several recent researches investigating on different contractual terms and argue that private lenders do contract on goodwill. Also, other studies find evidence that when the goodwill and other intangible assets include a high part of the total assets, and it is can be more likely that if these assets are added to the net worth. This result suggests that lenders do consider entirely the information announced in goodwill values when goodwill is significant in amount and therefore, a more important asset on the balance sheet. Watts (2006) find that the conservative estimate models are needed and thus intangible assets must be excluded from the calculation of net assets in private contracting purposes. The findings are consistent with those of other studies for e.g. Leftwich (1983) argues that the managers benefit from their discretion and estimates inherent in SFAS No. 142 to avoid goodwill impairments, thus rendering the earnings to be less representationally faithful.

Also, Watts (2006) find that estimating measurement of goodwill is typically not verifiable since the periodic estimation requires the value of the firm that is frequently not verifiable, and that allows for significant manipulation. Similarly, Frankel et al. (2008) find some evidence that net worth covenants still tend to exclude intangible assets following the adoption of SFAS Nos. 141 and 142. Other paper reports a qualitative testing of financial accounting in the area of goodwill impairment. Specifically, they discuss the calculative practice involved in the producing of goodwill impairment values that are recognisable and impersonal enough to pass the test of reliability.

b) *Long-lived asset impairment*

Under the U.S. GAAP, the firms from the oil industry start to use either of two oil and gas accounting methods, full cost or successful efforts. Under the integration of successful efforts, only those exploration costs relating to successful wells are recorded as assets. All exploration costs for unsuccessful wells, or &dry holes,' are expensed. By contrast, the exploration of costs related to both dry and successful wells are capitalized under full cost. While, although full-cost companies can record dry holes as net assets such as required by the U.S. Securities and Exchange Commission who recommend them to proceed a quarterly impairment test, recognize by the 'ceiling test', on the capitalized net assets value of oil and gas firms.

The findings of empirical study of Alciatore et al., (2000) conducted in the oil and gas firms, show that the oil and gas firms' referring that they take the write-downs would have an "unrealistic and harmful" impact on net value of firms' equity was not justified since the returns that are associated with the write- down amounts realized in the quarters prior to and contemporaneous with the quarter in which the write-down is taken.

c) Inventory recorded at the lower of cost or market

Our study also carries theoretical implications for researchers. Indeed, the Inventory record inaccuracy (IRI) was severally considered as a pervasive question needing theoretical explanation and empirical investigation in retailing and causes non-trivial profit loss. The simulation models used to evaluate the effect of random errors on not only inventory record inaccuracy but also it can include the lost sales. The most results support the necessity to infer erroneous inventory records and incorporate statistical estimates into inventory control (DeHoratius et al., 2008; Mersereau, 2013; Chuang & Rogelio, 2015). Other study provide that the Inventory record inaccuracy can refers to the discrepancy between physical and recorded inventory levels, and is a pervasive problem in retailing; for e.g. in their Kok and Shang (2014) conclude that the conclude that IRI can be attributed to shrinkage, transaction errors, and misplacement.

d) Asymmetry in gain/loss contingencies

A lengthy literature addressed to the sources of conditional conservatism has given rise to numerous corollaries, including asymmetrical utility drawn from asymmetry in gain/loss contingencies, non-linear probability evaluations of gains and losses, an asymmetrical decreasing sensitivity and an endowment effects to the status quo-condition.

The findings of several studies show evidence to improve the model fit along with large impacts for welfare measurement when referencing is accounted for. However, previous empirical tests of reference-dependent behavior assumed left a series of unresolved topics. Firstly, there is only a few of evidence that argues the explanation on how referencing influences different attributes and whether other reference points and which provides that matter apart from currently experienced levels. secondly, in transportation situation, the reference-dependence is can be typically examined only for travel time and fare and has rarely been explored in cases of complex trade-offs referring to several attributes, a typical criteria of real world choices.

Recent research such those of Horowitz and McConnell, (2002) and Bateman et al., 2008) provide that, in some situations, the numeric information which are contrasted with an alternative treatment in which objectively identical accounting information is announced in visual form via virtual reality of the same data. In similar cases, the authors consider the reliance upon the numeric information exacerbates tendencies for survey respondents to rely upon heuristics rather than their underlying preferences in formulating responses. Using such insights to the field of non-market valuation, for certain environmental goods, information on increases or decreases in the numeric levels of an attributes may trigger reliance upon the loss aversion heuristic, leading to an exacerbation of the well know gains/loss asymmetry problem.

V. Conclusion

Accounting conservatism is severally discussed in the accounting literature research, indeed its definitions sometimes complement each other, and sometimes ideas are resumed under different expressions. Between different measures of accounting conservatism, it seems obvious the method starting by Basu's model although as we have seen, some researchers canceled this method such Richard et al., 2006 and others researcher limited to present its limitations (Givoly et al., 2006).

This study tend to give a selective critical review of the financial accounting literature focusing on one most prominent characteristic of financial accounting information research topics: accounting conservatism identification, measurement and the conditional conservatism sources.

Sometimes, accounting researchers have followed paths that although they have been proved viable in their research, but they have not been argued by some economic reality, thing which signaled by other researchers who propose subsequently to resume the respective topics. Whereas afterwards, such several researchers began their work based on the definition and methods of determination of accounting conservatism developed by Basu 1997, we consider that this contribution was analytical for accounting conservatism research. Whereas in this field the accounting literature is vast, our review has not exhausted the topic of its revisal, as we didn't propose to do this in these few pages.

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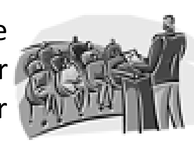

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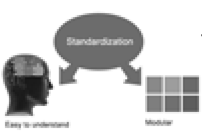

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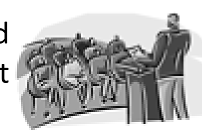

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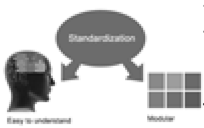

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Many researchers searching for information online will use search engines such as Google, Yahoo or similar. By optimizing your paper for search engines, you will amplify the chance of someone finding it. This in turn will make it more likely to be viewed and/or cited in a further work. Global Journals Inc. (US) have compiled these guidelines to facilitate you to maximize the web-friendliness of the most public part of your paper.

Key Words

A major linchpin in research work for the writing research paper is the keyword search, which one will employ to find both library and Internet resources.

One must be persistent and creative in using keywords. An effective keyword search requires a strategy and planning a list of possible keywords and phrases to try.

Search engines for most searches, use Boolean searching, which is somewhat different from Internet searches. The Boolean search uses "operators," words (and, or, not, and near) that enable you to expand or narrow your affords. Tips for research paper while preparing research paper are very helpful guideline of research paper.

Choice of key words is first tool of tips to write research paper. Research paper writing is an art.A few tips for deciding as strategically as possible about keyword search:

- One should start brainstorming lists of possible keywords before even begin searching. Think about the most important concepts related to research work. Ask, "What words would a source have to include to be truly valuable in research paper?" Then consider synonyms for the important words.
- It may take the discovery of only one relevant paper to let steer in the right keyword direction because in most databases, the keywords under which a research paper is abstracted are listed with the paper.
- One should avoid outdated words.

Keywords are the key that opens a door to research work sources. Keyword searching is an art in which researcher's skills are bound to improve with experience and time.

Numerical Methods: Numerical methods used should be clear and, where appropriate, supported by references.

Acknowledgements: Please make these as concise as possible.

References

References follow the Harvard scheme of referencing. References in the text should cite the authors' names followed by the time of their publication, unless there are three or more authors when simply the first author's name is quoted followed by et al. unpublished work has to only be cited where necessary, and only in the text. Copies of references in press in other journals have to be supplied with submitted typescripts. It is necessary that all citations and references be carefully checked before submission, as mistakes or omissions will cause delays.

References to information on the World Wide Web can be given, but only if the information is available without charge to readers on an official site. Wikipedia and Similar websites are not allowed where anyone can change the information. Authors will be asked to make available electronic copies of the cited information for inclusion on the Global Journals Inc. (US) homepage at the judgment of the Editorial Board.

The Editorial Board and Global Journals Inc. (US) recommend that, citation of online-published papers and other material should be done via a DOI (digital object identifier). If an author cites anything, which does not have a DOI, they run the risk of the cited material not being noticeable.

The Editorial Board and Global Journals Inc. (US) recommend the use of a tool such as Reference Manager for reference management and formatting.

Tables, Figures and Figure Legends

Tables: Tables should be few in number, cautiously designed, uncrowned, and include only essential data. Each must have an Arabic number, e.g. Table 4, a self-explanatory caption and be on a separate sheet. Vertical lines should not be used.

Figures: Figures are supposed to be submitted as separate files. Always take in a citation in the text for each figure using Arabic numbers, e.g. Fig. 4. Artwork must be submitted online in electronic form by e-mailing them.

Preparation of Electronic Figures for Publication

Even though low quality images are sufficient for review purposes, print publication requires high quality images to prevent the final product being blurred or fuzzy. Submit (or e-mail) EPS (line art) or TIFF (halftone/photographs) files only. MS PowerPoint and Word Graphics are unsuitable for printed pictures. Do not use pixel-oriented software. Scans (TIFF only) should have a resolution of at least 350 dpi (halftone) or 700 to 1100 dpi (line drawings) in relation to the imitation size. Please give the data for figures in black and white or submit a Color Work Agreement Form. EPS files must be saved with fonts embedded (and with a TIFF preview, if possible).

For scanned images, the scanning resolution (at final image size) ought to be as follows to ensure good reproduction: line art: >650 dpi; halftones (including gel photographs) : >350 dpi; figures containing both halftone and line images: >650 dpi.

Color Charges: It is the rule of the Global Journals Inc. (US) for authors to pay the full cost for the reproduction of their color artwork. Hence, please note that, if there is color artwork in your manuscript when it is accepted for publication, we would require you to complete and return a color work agreement form before your paper can be published.

Figure Legends: Self-explanatory legends of all figures should be incorporated separately under the heading 'Legends to Figures'. In the full-text online edition of the journal, figure legends may possibly be truncated in abbreviated links to the full screen version. Therefore, the first 100 characters of any legend should notify the reader, about the key aspects of the figure.

6. AFTER ACCEPTANCE

Upon approval of a paper for publication, the manuscript will be forwarded to the dean, who is responsible for the publication of the Global Journals Inc. (US).

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The corresponding author will receive an e-mail alert containing a link to a website or will be attached. A working e-mail address must therefore be provided for the related author.

Acrobat Reader will be required in order to read this file. This software can be downloaded

(Free of charge) from the following website:

www.adobe.com/products/acrobat/readstep2.html. This will facilitate the file to be opened, read on screen, and printed out in order for any corrections to be added. Further instructions will be sent with the proof.

Proofs must be returned to the dean at dean@globaljournals.org within three days of receipt.

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6.4 Author Material Archive Policy

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You must strictly follow above Author Guidelines before submitting your paper or else we will not at all be responsible for any corrections in future in any of the way.

Before start writing a good quality Computer Science Research Paper, let us first understand what is Computer Science Research Paper? So, Computer Science Research Paper is the paper which is written by professionals or scientists who are associated to Computer Science and Information Technology, or doing research study in these areas. If you are novel to this field then you can consult about this field from your supervisor or guide.

TECHNIQUES FOR WRITING A GOOD QUALITY RESEARCH PAPER:

1. Choosing the topic: In most cases, the topic is searched by the interest of author but it can be also suggested by the guides. You can have several topics and then you can judge that in which topic or subject you are finding yourself most comfortable. This can be done by asking several questions to yourself, like Will I be able to carry our search in this area? Will I find all necessary recourses to accomplish the search? Will I be able to find all information in this field area? If the answer of these types of questions will be "Yes" then you can choose that topic. In most of the cases, you may have to conduct the surveys and have to visit several places because this field is related to Computer Science and Information Technology. Also, you may have to do a lot of work to find all rise and falls regarding the various data of that subject. Sometimes, detailed information plays a vital role, instead of short information.

2. Evaluators are human: First thing to remember that evaluators are also human being. They are not only meant for rejecting a paper. They are here to evaluate your paper. So, present your Best.

3. Think Like Evaluators: If you are in a confusion or getting demotivated that your paper will be accepted by evaluators or not, then think and try to evaluate your paper like an Evaluator. Try to understand that what an evaluator wants in your research paper and automatically you will have your answer.

4. Make blueprints of paper: The outline is the plan or framework that will help you to arrange your thoughts. It will make your paper logical. But remember that all points of your outline must be related to the topic you have chosen.

5. Ask your Guides: If you are having any difficulty in your research, then do not hesitate to share your difficulty to your guide (if you have any). They will surely help you out and resolve your doubts. If you can't clarify what exactly you require for your work then ask the supervisor to help you with the alternative. He might also provide you the list of essential readings.

6. Use of computer is recommended: As you are doing research in the field of Computer Science, then this point is quite obvious.

7. Use right software: Always use good quality software packages. If you are not capable to judge good software then you can lose quality of your paper unknowingly. There are various software programs available to help you, which you can get through Internet.

8. Use the Internet for help: An excellent start for your paper can be by using the Google. It is an excellent search engine, where you can have your doubts resolved. You may also read some answers for the frequent question how to write my research paper or find model research paper. From the internet library you can download books. If you have all required books make important reading selecting and analyzing the specified information. Then put together research paper sketch out.

9. Use and get big pictures: Always use encyclopedias, Wikipedia to get pictures so that you can go into the depth.

10. Bookmarks are useful: When you read any book or magazine, you generally use bookmarks, right! It is a good habit, which helps to not to lose your continuity. You should always use bookmarks while searching on Internet also, which will make your search easier.

11. Revise what you wrote: When you write anything, always read it, summarize it and then finalize it.

12. Make all efforts: Make all efforts to mention what you are going to write in your paper. That means always have a good start. Try to mention everything in introduction, that what is the need of a particular research paper. Polish your work by good skill of writing and always give an evaluator, what he wants.

13. Have backups: When you are going to do any important thing like making research paper, you should always have backup copies of it either in your computer or in paper. This will help you to not to lose any of your important.

14. Produce good diagrams of your own: Always try to include good charts or diagrams in your paper to improve quality. Using several and unnecessary diagrams will degrade the quality of your paper by creating "hotchpotch." So always, try to make and include those diagrams, which are made by your own to improve readability and understandability of your paper.

15. Use of direct quotes: When you do research relevant to literature, history or current affairs then use of quotes become essential but if study is relevant to science then use of quotes is not preferable.

16. Use proper verb tense: Use proper verb tenses in your paper. Use past tense, to present those events that happened. Use present tense to indicate events that are going on. Use future tense to indicate future happening events. Use of improper and wrong tenses will confuse the evaluator. Avoid the sentences that are incomplete.

17. Never use online paper: If you are getting any paper on Internet, then never use it as your research paper because it might be possible that evaluator has already seen it or maybe it is outdated version.

18. Pick a good study spot: To do your research studies always try to pick a spot, which is quiet. Every spot is not for studies. Spot that suits you choose it and proceed further.

19. Know what you know: Always try to know, what you know by making objectives. Else, you will be confused and cannot achieve your target.

20. Use good quality grammar: Always use a good quality grammar and use words that will throw positive impact on evaluator. Use of good quality grammar does not mean to use tough words, that for each word the evaluator has to go through dictionary. Do not start sentence with a conjunction. Do not fragment sentences. Eliminate one-word sentences. Ignore passive voice. Do not ever use a big word when a diminutive one would suffice. Verbs have to be in agreement with their subjects. Prepositions are not expressions to finish sentences with. It is incorrect to ever divide an infinitive. Avoid clichés like the disease. Also, always shun irritating alliteration. Use language that is simple and straight forward. put together a neat summary.

21. Arrangement of information: Each section of the main body should start with an opening sentence and there should be a changeover at the end of the section. Give only valid and powerful arguments to your topic. You may also maintain your arguments with records.

22. Never start in last minute: Always start at right time and give enough time to research work. Leaving everything to the last minute will degrade your paper and spoil your work.

23. Multitasking in research is not good: Doing several things at the same time proves bad habit in case of research activity. Research is an area, where everything has a particular time slot. Divide your research work in parts and do particular part in particular time slot.

24. Never copy others' work: Never copy others' work and give it your name because if evaluator has seen it anywhere you will be in trouble.

25. Take proper rest and food: No matter how many hours you spend for your research activity, if you are not taking care of your health then all your efforts will be in vain. For a quality research, study is must, and this can be done by taking proper rest and food.

26. Go for seminars: Attend seminars if the topic is relevant to your research area. Utilize all your resources.

27. Refresh your mind after intervals: Try to give rest to your mind by listening to soft music or by sleeping in intervals. This will also improve your memory.

28. Make colleagues: Always try to make colleagues. No matter how sharper or intelligent you are, if you make colleagues you can have several ideas, which will be helpful for your research.

29. Think technically: Always think technically. If anything happens, then search its reasons, its benefits, and demerits.

30. Think and then print: When you will go to print your paper, notice that tables are not be split, headings are not detached from their descriptions, and page sequence is maintained.

31. Adding unnecessary information: Do not add unnecessary information, like, I have used MS Excel to draw graph. Do not add irrelevant and inappropriate material. These all will create superfluous. Foreign terminology and phrases are not apropos. One should NEVER take a broad view. Analogy in script is like feathers on a snake. Not at all use a large word when a very small one would be sufficient. Use words properly, regardless of how others use them. Remove quotations. Puns are for kids, not grunt readers. Amplification is a billion times of inferior quality than sarcasm.

32. Never oversimplify everything: To add material in your research paper, never go for oversimplification. This will definitely irritate the evaluator. Be more or less specific. Also too, by no means, ever use rhythmic redundancies. Contractions aren't essential and shouldn't be there used. Comparisons are as terrible as clichés. Give up ampersands and abbreviations, and so on. Remove commas, that are, not necessary. Parenthetical words however should be together with this in commas. Understatement is all the time the complete best way to put onward earth-shaking thoughts. Give a detailed literary review.

33. Report concluded results: Use concluded results. From raw data, filter the results and then conclude your studies based on measurements and observations taken. Significant figures and appropriate number of decimal places should be used. Parenthetical remarks are prohibitive. Proofread carefully at final stage. In the end give outline to your arguments. Spot out perspectives of further study of this subject. Justify your conclusion by at the bottom of them with sufficient justifications and examples.

34. After conclusion: Once you have concluded your research, the next most important step is to present your findings. Presentation is extremely important as it is the definite medium though which your research is going to be in print to the rest of the crowd. Care should be taken to categorize your thoughts well and present them in a logical and neat manner. A good quality research paper format is essential because it serves to highlight your research paper and bring to light all necessary aspects in your research.

Informal Guidelines of Research Paper Writing

Key points to remember:

- Submit all work in its final form.
- Write your paper in the form, which is presented in the guidelines using the template.
- Please note the criterion for grading the final paper by peer-reviewers.

Final Points:

A purpose of organizing a research paper is to let people to interpret your effort selectively. The journal requires the following sections, submitted in the order listed, each section to start on a new page.

The introduction will be compiled from reference matter and will reflect the design processes or outline of basis that direct you to make study. As you will carry out the process of study, the method and process section will be constructed as like that. The result segment will show related statistics in nearly sequential order and will direct the reviewers next to the similar intellectual paths throughout the data that you took to carry out your study. The discussion section will provide understanding of the data and projections as to the implication of the results. The use of good quality references all through the paper will give the effort trustworthiness by representing an alertness of prior workings.

Writing a research paper is not an easy job no matter how trouble-free the actual research or concept. Practice, excellent preparation, and controlled record keeping are the only means to make straightforward the progression.

General style:

Specific editorial column necessities for compliance of a manuscript will always take over from directions in these general guidelines.

To make a paper clear

· Adhere to recommended page limits

Mistakes to evade

- Insertion a title at the foot of a page with the subsequent text on the next page
- Separating a table/chart or figure - impound each figure/table to a single page
- Submitting a manuscript with pages out of sequence

In every sections of your document

· Use standard writing style including articles ("a", "the," etc.)

· Keep on paying attention on the research topic of the paper

· Use paragraphs to split each significant point (excluding for the abstract)

· Align the primary line of each section

· Present your points in sound order

· Use present tense to report well accepted

· Use past tense to describe specific results

· Shun familiar wording, don't address the reviewer directly, and don't use slang, slang language, or superlatives

· Shun use of extra pictures - include only those figures essential to presenting results

Title Page:

Choose a revealing title. It should be short. It should not have non-standard acronyms or abbreviations. It should not exceed two printed lines. It should include the name(s) and address (es) of all authors.

Abstract:

The summary should be two hundred words or less. It should briefly and clearly explain the key findings reported in the manuscript--must have precise statistics. It should not have abnormal acronyms or abbreviations. It should be logical in itself. Shun citing references at this point.

An abstract is a brief distinct paragraph summary of finished work or work in development. In a minute or less a reviewer can be taught the foundation behind the study, common approach to the problem, relevant results, and significant conclusions or new questions.

Write your summary when your paper is completed because how can you write the summary of anything which is not yet written? Wealth of terminology is very essential in abstract. Yet, use comprehensive sentences and do not let go readability for briefness. You can maintain it succinct by phrasing sentences so that they provide more than lone rationale. The author can at this moment go straight to shortening the outcome. Sum up the study, with the subsequent elements in any summary. Try to maintain the initial two items to no more than one ruling each.

- Reason of the study - theory, overall issue, purpose
- Fundamental goal
- To the point depiction of the research
- Consequences, including definite statistics - if the consequences are quantitative in nature, account quantitative data; results of any numerical analysis should be reported
- Significant conclusions or questions that track from the research(es)

Approach:

- Single section, and succinct
- As a outline of job done, it is always written in past tense
- A conceptual should situate on its own, and not submit to any other part of the paper such as a form or table
- Center on shortening results - bound background information to a verdict or two, if completely necessary
- What you account in an conceptual must be regular with what you reported in the manuscript
- Exact spelling, clearness of sentences and phrases, and appropriate reporting of quantities (proper units, important statistics) are just as significant in an abstract as they are anywhere else

Introduction:

The **Introduction** should "introduce" the manuscript. The reviewer should be presented with sufficient background information to be capable to comprehend and calculate the purpose of your study without having to submit to other works. The basis for the study should be offered. Give most important references but shun difficult to make a comprehensive appraisal of the topic. In the introduction, describe the problem visibly. If the problem is not acknowledged in a logical, reasonable way, the reviewer will have no attention in your result. Speak in common terms about techniques used to explain the problem, if needed, but do not present any particulars about the protocols here. Following approach can create a valuable beginning:

- Explain the value (significance) of the study
- Shield the model - why did you employ this particular system or method? What is its compensation? You strength remark on its appropriateness from a abstract point of vision as well as point out sensible reasons for using it.
- Present a justification. Status your particular theory (es) or aim(s), and describe the logic that led you to choose them.
- Very for a short time explain the tentative propose and how it skilled the declared objectives.

Approach:

- Use past tense except for when referring to recognized facts. After all, the manuscript will be submitted after the entire job is done.
- Sort out your thoughts; manufacture one key point with every section. If you make the four points listed above, you will need a least of four paragraphs.

- Present surroundings information only as desirable in order hold up a situation. The reviewer does not desire to read the whole thing you know about a topic.
- Shape the theory/purpose specifically - do not take a broad view.
- As always, give awareness to spelling, simplicity and correctness of sentences and phrases.

Procedures (Methods and Materials):

This part is supposed to be the easiest to carve if you have good skills. A sound written Procedures segment allows a capable scientist to replacement your results. Present precise information about your supplies. The suppliers and clarity of reagents can be helpful bits of information. Present methods in sequential order but linked methodologies can be grouped as a segment. Be concise when relating the protocols. Attempt for the least amount of information that would permit another capable scientist to spare your outcome but be cautious that vital information is integrated. The use of subheadings is suggested and ought to be synchronized with the results section. When a technique is used that has been well described in another object, mention the specific item describing a way but draw the basic principle while stating the situation. The purpose is to text all particular resources and broad procedures, so that another person may use some or all of the methods in one more study or referee the scientific value of your work. It is not to be a step by step report of the whole thing you did, nor is a methods section a set of orders.

Materials:

- Explain materials individually only if the study is so complex that it saves liberty this way.
- Embrace particular materials, and any tools or provisions that are not frequently found in laboratories.
- Do not take in frequently found.
- If use of a definite type of tools.
- Materials may be reported in a part section or else they may be recognized along with your measures.

Methods:

- Report the method (not particulars of each process that engaged the same methodology)
- Describe the method entirely
- To be succinct, present methods under headings dedicated to specific dealings or groups of measures
- Simplify - details how procedures were completed not how they were exclusively performed on a particular day.
- If well known procedures were used, account the procedure by name, possibly with reference, and that's all.

Approach:

- It is embarrassed or not possible to use vigorous voice when documenting methods with no using first person, which would focus the reviewer's interest on the researcher rather than the job. As a result when script up the methods most authors use third person passive voice.
- Use standard style in this and in every other part of the paper - avoid familiar lists, and use full sentences.

What to keep away from

- Resources and methods are not a set of information.
- Skip all descriptive information and surroundings - save it for the argument.
- Leave out information that is immaterial to a third party.

Results:

The principle of a results segment is to present and demonstrate your conclusion. Create this part a entirely objective details of the outcome, and save all understanding for the discussion.

The page length of this segment is set by the sum and types of data to be reported. Carry on to be to the point, by means of statistics and tables, if suitable, to present consequences most efficiently.You must obviously differentiate material that would usually be incorporated in a study editorial from any unprocessed data or additional appendix matter that would not be available. In fact, such matter should not be submitted at all except requested by the instructor.

Content

- Sum up your conclusion in text and demonstrate them, if suitable, with figures and tables.
- In manuscript, explain each of your consequences, point the reader to remarks that are most appropriate.
- Present a background, such as by describing the question that was addressed by creation an exacting study.
- Explain results of control experiments and comprise remarks that are not accessible in a prescribed figure or table, if appropriate.
- Examine your data, then prepare the analyzed (transformed) data in the form of a figure (graph), table, or in manuscript form.

What to stay away from

- Do not discuss or infer your outcome, report surroundings information, or try to explain anything.
- Not at all, take in raw data or intermediate calculations in a research manuscript.
- Do not present the similar data more than once.
- Manuscript should complement any figures or tables, not duplicate the identical information.
- Never confuse figures with tables - there is a difference.

Approach

- As forever, use past tense when you submit to your results, and put the whole thing in a reasonable order.
- Put figures and tables, appropriately numbered, in order at the end of the report
- If you desire, you may place your figures and tables properly within the text of your results part.

Figures and tables

- If you put figures and tables at the end of the details, make certain that they are visibly distinguished from any attach appendix materials, such as raw facts
- Despite of position, each figure must be numbered one after the other and complete with subtitle
- In spite of position, each table must be titled, numbered one after the other and complete with heading
- All figure and table must be adequately complete that it could situate on its own, divide from text

Discussion:

The Discussion is expected the trickiest segment to write and describe. A lot of papers submitted for journal are discarded based on problems with the Discussion. There is no head of state for how long a argument should be. Position your understanding of the outcome visibly to lead the reviewer through your conclusions, and then finish the paper with a summing up of the implication of the study. The purpose here is to offer an understanding of your results and hold up for all of your conclusions, using facts from your research and generally accepted information, if suitable. The implication of result should be visibly described. Infer your data in the conversation in suitable depth. This means that when you clarify an observable fact you must explain mechanisms that may account for the observation. If your results vary from your prospect, make clear why that may have happened. If your results agree, then explain the theory that the proof supported. It is never suitable to just state that the data approved with prospect, and let it drop at that.

- Make a decision if each premise is supported, discarded, or if you cannot make a conclusion with assurance. Do not just dismiss a study or part of a study as "uncertain."
- Research papers are not acknowledged if the work is imperfect. Draw what conclusions you can based upon the results that you have, and take care of the study as a finished work
- You may propose future guidelines, such as how the experiment might be personalized to accomplish a new idea.
- Give details all of your remarks as much as possible, focus on mechanisms.
- Make a decision if the tentative design sufficiently addressed the theory, and whether or not it was correctly restricted.
- Try to present substitute explanations if sensible alternatives be present.
- One research will not counter an overall question, so maintain the large picture in mind, where do you go next? The best studies unlock new avenues of study. What questions remain?
- Recommendations for detailed papers will offer supplementary suggestions.

Approach:

- When you refer to information, differentiate data generated by your own studies from available information
- Submit to work done by specific persons (including you) in past tense.
- Submit to generally acknowledged facts and main beliefs in present tense.

Please carefully note down following rules and regulation before submitting your Research Paper to Global Journals Inc. (US):

Segment Draft and Final Research Paper: You have to strictly follow the template of research paper. If it is not done your paper may get rejected.

- The **major constraint** is that you must independently make all content, tables, graphs, and facts that are offered in the paper. You must write each part of the paper wholly on your own. The Peer-reviewers need to identify your own perceptive of the concepts in your own terms. NEVER extract straight from any foundation, and never rephrase someone else's analysis.

- Do not give permission to anyone else to "PROOFREAD" your manuscript.

- Methods to avoid Plagiarism is applied by us on every paper, if found guilty, you will be blacklisted by all of our collaborated research groups, your institution will be informed for this and strict legal actions will be taken immediately.)
- To guard yourself and others from possible illegal use please do not permit anyone right to use to your paper and files.

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Topics	Grades		
	A-B	**C-D**	**E-F**
Abstract	Clear and concise with appropriate content, Correct format. 200 words or below	Unclear summary and no specific data, Incorrect form Above 200 words	No specific data with ambiguous information Above 250 words
Introduction	Containing all background details with clear goal and appropriate details, flow specification, no grammar and spelling mistake, well organized sentence and paragraph, reference cited	Unclear and confusing data, appropriate format, grammar and spelling errors with unorganized matter	Out of place depth and content, hazy format
Methods and Procedures	Clear and to the point with well arranged paragraph, precision and accuracy of facts and figures, well organized subheads	Difficult to comprehend with embarrassed text, too much explanation but completed	Incorrect and unorganized structure with hazy meaning
Result	Well organized, Clear and specific, Correct units with precision, correct data, well structuring of paragraph, no grammar and spelling mistake	Complete and embarrassed text, difficult to comprehend	Irregular format with wrong facts and figures
Discussion	Well organized, meaningful specification, sound conclusion, logical and concise explanation, highly structured paragraph reference cited	Wordy, unclear conclusion, spurious	Conclusion is not cited, unorganized, difficult to comprehend
References	Complete and correct format, well organized	Beside the point, Incomplete	Wrong format and structuring

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