

# **PUBLIC SECTOR ACCOUNTING STANDARDS AND FINANCIAL REPORTING IN CENTRAL REGION COUNTY GOVERNMENTS, KENYA**

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## **ABSTRACT**

Over the years, through the Institute of Certified Public Accountants of Kenya, practitioners have championed the adoption of Public sector accounting standard (IPSAS) in Kenya. However, much of this took place in boardrooms, conferences and seminars. It was not until 2014 when treasury, the auditor general and Ernest and Young teamed up to steer the IPSAS adoption in the central government, that the implementation actually commenced. This research assessed the impact of implementation of International Public Sector Accounting Standards on financial reporting in the public sector in Kenya and more specifically the status of implementation of IPSAS on the basis of accountability, comparability and reliability of financial reporting in county governments in the central region of Kenya. This study was premised on a theoretical foundation based on the organizational theory of the firm, stakeholder's theory and positive accounting theory. The general objective of this study was to establish the effect of public sector accounting standards on financial reporting of county governments in the central region of Kenya. The specific objectives were: to establish how preparation of public sector financial information affected financial reporting in the central region county governments in Kenya, to examine how the disclosure of public sector financial information affected financial reporting in the central region county governments in Kenya, to determine the upshot of presentation of budget information in financial statements on financial reporting in the central region

county governments in Kenya and further to explore the relevance of service concession agreements on financial reporting in the central region county governments in Kenya. The study targeted lower, middle and top level managers in the central region county governments in Kenya. The study employed a descriptive research design and the researcher relied on both primary and secondary sources of data. The researcher sought permission from the public relations officers of county governments, before embarking on collection of primary data from respondents and secondary data from the records of the accounting departments. A questionnaire designed with both open and closed structured questions being employed to collect data from 266 respondents selected using the stratified random sampling method. The data collected was analyzed using Statistical Package of Social Sciences (SPSS). Descriptive and inferential methods of data analysis were used to interpret the data. The analyzed data was presented using charts, tables, graphs, frequencies and percentages. It was discovered that the counties have limited access to financial information sources which can enlighten the stakeholders and the general public on how their funds are being utilized. The information contained in financial reports of the county governments of Kenya is very useful in terms of investment decision making and monitoring. The study realized that the financial reporting standardization has enhanced budget information reporting in the public sector in Kenya. IPSASB's standardization of presentation of financial statements was found to have a significant contribution to

accountability and transparency enhancement, reducing complexity of current financial reporting and improving decision usefulness of financial information to the stakeholders. The study concluded that IPSASB's standardization of service concession agreements has improved financial reporting among the devolved units in Kenya. Further it was realized that the PFM Act has greatly improved financial reporting in the public sector and it is crucial

in management of public funds and transparency. The study recommends public participation in financial management, disclosure and proper presentation of financial information that is easily understood by the consumers of the information.

**Key Words:** *public sector, accounting standards, financial reporting, central region, County governments, Kenya*

## **INTRODUCTION**

Internationally there is a systematic ignorance of the critical value of good accounting to governments. In the public sector, the lack of transparency presents a major risk to the efficiency of capital markets, global financial stability, and long term sustainability. It follows that without transparency there can be no trust and accountability in public sector financial reporting and management. An important element of transparency in the public sector is accrual accounting (IASB, 2011). There is need to sensitize the public to take greater interest in the management of their resources. From world leaders to policymakers and citizens, people must gain a better understanding of the importance of financial reporting in the public sector. (Hoogervorst, 2011)Public financial reporting is not a new phenomenon. In fact, the need for financial reporting can be traced to the 13th century England administration that acknowledged that it was incumbent for governments to give an account of the expenditure of the money they collected from the citizens in form of taxes.

In a research conducted by Krambia-Kapardis and Clark (2010) to ascertain financial reporting in the public sector in Cyprus, it was established that there was a need for uniformity in financial reporting within the three arms of the economy; the central government, local authorities, and public sector. Moreover, the findings of the research established a number of issues that affected financial reporting in the public sector including lack of information being provided by governments. More specifically, the research identified that there was a deficit of information on debt incurred by the governments, pension funds, and budget achievement among others. In addition, the findings indicated that information was presented after a substantial duration of time and therefore was stale in some instances and therefore useless to the recipients. In South Korea, the Budget Office presented huge monetary administration (PFM) changes in 2003, including a medium term expenditure structure, performance based planning and an incorporated budgetary administration framework. This enhanced the spending procedure yet represented a potential issue. Without solid components for setting multi-year spending roofs and adhering to them they could undoubtedly be undermined. With a specific end goal to help make the spending

roofs viable, the experts built up a procedure of open investment in the spending plan process. This enables the administration to affirm that a reasonable consumption roof has been set up and advance that the administration's situation is practically hopeless in any endeavor to renegotiate the roof. Resident's inclusion has likewise been urged to enhance the execution of the financial plan and to upgrade monetary straightforwardness between national and local governments. (International Budget Partnership, 2012)

There are six fundamental instruments for investment; formalized Open Discussions, field trips for focal government authorities to meet neighborhood government authorities, a monetary arrangement counseling gathering made up of common society agents and authorities from national and nearby government, a get together of specialists, a spending waste report focus and open cooperation in review. These procedures are incorporated into the yearly spending detailing cycle. (National Assembly Act, 2002). Through the Budget Waste Report Center, nationals can report any associated cases with spending waste utilizing an online frame or a phone hotline. Natives can propose inventive approaches to spare spending assets. Resigned Budget Officials deal with the hotline; sending cases to significant offices. Promoting has been utilized to expand mindfulness and support investment. South Korea has also introduced tough sanctions for economic crimes. For example, where business extortion identifies with a pending government, the agreement can be ended and the administration can document a different common claim for harms against the contractual worker. Under the tenets overseeing government contracts, parties who utilized extortion, uncalled for exercises, or other dishonest means will be suspended from offering for government contracts for a period extending from one month to two years. (International Budget Partnership, 2012).

People who were discovered to have committed fraud were punished by detainment for up to ten years or a fine of up to \$20,000 (Article 347, Criminal Code). Notwithstanding, when the benefits increased through extortion are \$50,000 or more, people might be liable to exasperated authorizations including yet not restricted to a ten year jail term. Notwithstanding the jail term, the individual guilty party may likewise be fined up to the measure of benefit picked up. Finally, any individual offender found guilty is prohibited from being employed by government institutions.

## **STATEMENT OF THE PROBLEM**

The theoretical establishment of corporate monetary reporting is the hypothesis of the firm that underscores the part of managers as representatives of the proprietors of the firm. Then again, government book keeping needs a broader extent of responsibility, which can be borrowed from Herbert Simon's association hypothesis (1945). At the point when connected to people in general segment, the substance of the hypothesis expresses that an assortment of partners have a personal stake in a fiscally feasible government. Their motivation to get to an administration's money related explanations is prefaced on their want to know the sum, timing and level of certainty of the advantages they hope to get from government. Universally useful money related detailing

diminishes the data asymmetry between the partners and government authorities responsible for the administration monetary bookkeeping framework. The last few years have seen dramatic development and changes on the International standards setting scene. There has been rapid adoption of IPSAS in a number of countries which previously had their own National standards and financial reporting framework. A number of developing countries have either adopted or are in process of adopting IPSAS standards including but not limited to Southern Africa, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. There is therefore a need to review this process with a view of comparing and contrasting various implementation approaches adopted by these countries and development of a uniform framework for adoption of IPSAS in these developing countries. According to (Hamisi 2010), in Kenya it is broadly recognized that there are fundamental problems that hinder the productivity and viability of the Kenyan government's bookkeeping capacity. He found this so because of poor execution of fundamental money related capacities, poor supervision, deficient budgetary data, low staff morale and poor attitude towards accounting and responsibility. Hamisi (2010), tried to build up factors influencing the usage of IPSASs in Kenya. He concluded that there are several factors, key among them: adoption of technology, lack of trained personnel and lack of a legal framework. Since then the legal framework is in place under the PFM Act 2012 enacted by parliament. This study sought to establish the extent to which public sector reporting standards influenced financial reporting among County Governments in Kenya.

## **GENERAL OBJECTIVE**

The objective of this study was to evaluate the effect of international public sector accounting standards on financial reporting in the county governments of Kenya.

## **SPECIFIC OBJECTIVES**

1. To establish the effect of preparation of public sector financial information on financial reporting in the central region county governments in Kenya.
2. To determine the effect of disclosure of public sector financial information on financial reporting in the central region county governments in Kenya.
3. To explore the effect of presentation of budget information in financial statements on financial reporting in the central region county governments in Kenya.
4. To determine the effect of service concession agreements on financial reporting in the central region county governments in Kenya.

## **THEORETICAL REVIEW**

### **Stakeholder's Theory**

Ansoff (1965) was the first author to coin the term stakeholder theory in defining the objectives of the firm. The theory states that the major objective of a firm is to balance the conflicting

demands of the various stakeholders in the firm. Stakeholders of government financial reports include voters, taxpayers, fee payers, grantors and donors, lenders and creditors, employees and contractors. The stakeholders' theory tends to explain the structure and operations of established corporations in preparing accounting information that meets the needs of stakeholders (Omor, 2014).

Stakeholder's theory has been mostly applied in the social context in the private sector. However, it is equally applicable in public sector context. Stakeholders' theory provides the basis for identifying the groups/parties which constitute the external socio-political forces for the entity regardless of whether the entity is in the private or public sector. Stakeholders' theory has received criticism from shareholder theorists. Friedman (1962) argued that managers should serve the interests of firm's owners by making good on contracts, obeying the law and adhering to ordinary moral expectations. Marcoux (2000) argued that obligations to non-shareholders stand as side constraints on the pursuit of shareholder interests.

In this context, the public sector institutions have to win confidence of their stakeholders (The general public, the national government, the trade unions, employees, suppliers and the donor community) through assurance of transparency, accountability and reliability of financial reporting through adoption and implementation of international public sector accounting standards. Accountability is an important aspect that determines the sustainability of any public institution since it depends on taxpayers' support for survival (Carie, 2010). In addition, these organizations have to comply with the law as contained in the PFM Act of 2012. Stakeholders of public institutions may not get involved with the day to day affairs and therefore rely solely on financial disclosure to assess performance, compliance and prudence in the usage of public resources. This theory indicates that stakeholders' interests should always be given the first priority. In the public sector they include: citizenry, government, donors, government agencies and international agencies. The preparation, presentation, reporting and concessions should always put them first.

### **Positive Accounting Theory**

This theory was postulated by Ross Watts and Jerold Zimmerman (in 1978 and 1986). Positive accounting theory (PAT) Positive Accounting Theory tries to make good predictions of real world events and translate them to accounting transactions. While normative theories tend to recommend what should be done, positive theories try to explain and predict. Jensen (1976) asserts that the PAT has managed to explain why accounting is what it is, why accountants do what they do and the effect these phenomena has on people and resources utilization.

For instance, Zimmerman and Watts (1978) on their paper towards a positive theory of determination of accounting standards, noted that management's attitude towards accounting standards is affected by the influence the standards will have on the cash flow of the firm. Different types of hypothesis exist to show why managers choose one accounting method over

the other. The bonus plan hypothesis states that managers of companies that pay bonuses are likely to shift reported earnings from future to current period to increase their bonuses for the year. The debt-equity hypothesis states that managers will tend to report higher profits with the intention of having a better liquidity position to settle the principal and interest of the debt the business has accumulated overtime. Finally, the political cost hypothesis states that managers whose entities bear political obligations will tend to shift reported earnings from the current to a future period. This theory was critical to this study in seeking to understand the motivation behind the financial reporting tools and the basis of accounting policies adopted by the county governments.

## **EMPIRICAL REVIEW**

### **Preparation of public sector financial information and financial reporting in the county governments in Kenya**

New Governance structures at the county level with corresponding new PFM requirements have been engagements that the National Treasury, IPSASB and the county government treasuries have joined hands to undertake, in order to ensure public sector financial statements are well prepared and reported. Uptake of financial reporting standards has been hampered by challenges faced in trying to entrench devolution in to the overall system of governance.

Sections 163,164 and 165 of the Public Finance Management Act, 2013 requires that, at the end of each financial year, the County Treasury shall prepare financial statements of each County Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board. The County Executive Committee (CEC) member for finance is in charge of the preparedness and introduction of the County Government's money related proclamations, which give a genuine and reasonable perspective of the situation of the County Government for and as toward the finish of the financial year. This duty incorporates: (i) keeping up satisfactory budgetary administration courses of action and guaranteeing that these keep on being implemented (ii) keeping up legitimate records, which uncover with sensible exactness the money related position of the County Government; (iii) planning, executing and keeping up inside controls significant to the arrangement and reasonable introduction of the monetary articulations, and guaranteeing that they are free from material misquotes (iv) defending the assets of the County Government; (v) choosing and applying suitable bookkeeping approaches and (vi) making bookkeeping gauges that are sensible in the conditions.

The CEC member for finance accepts duty regarding the County Government's monetary explanations, which have been set up on the Cash Basis Method of Financial Reporting, utilizing proper bookkeeping approaches as per International Public Sector Accounting Standards (IPSAS). The CEC should be of the supposition that the County Government's money related explanations give a genuine and reasonable perspective of the condition of the County Government's exchanges every financial year. The CEC further affirms the culmination of the bookkeeping records kept up for the County Government which have been relied upon in the

preparation of the its money related proclamations and in addition the completeness of the framework of budgetary control.

The CEC member for finance confirms that the County Government has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the County Government's funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the CEC member for finance confirms that the County Government's financial statements have been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

Klai and Omri (2011) examined the attributes of the board and discovered that influence of families and outsiders diminish the credibility of money related disclosures. Since the state and institutional users have interest in the statements, they have the likelihood to influence the extent of disclosure. Then again, the influence of families in the nature of reporting demonstrates the need to protect their wealth and take choices that are premised individual objectives (Klai &Omari, 2011).

### **Disclosure of public sector financial information and financial reporting in the county governments of Kenya**

Opanyi (2016) explored the impact of appropriation of worldwide public bookkeeping measures on the nature of fiscal reports in the public segment in Kenya. The target of his research was to assess the impact of appropriation of IPSAS on nature of fiscal reports in meeting the criteria for decision usefulness. The key factor in this study was the universal bookkeeping principles, while the dependent variable was the nature of money related reports in the general corporate sector of Kenya. The research utilized the illustrative overview plan and the target population was the 18 ministries of the national government in Kenya. Information was gathered utilizing auxiliary means and dissected utilizing illustrative insights and t-test for contrasts (Opanyi, 2016).

The inquiry discovered positive change in the parts of likeness, pertinence and reliability in the appropriation of IPSAS, while the subjective normal for understanding declined. The investigation additionally demonstrated no noteworthy contrast in the parts of straightforwardness and responsibility. Utilizing a 5 point likert scale, the investigation additionally uncovered that the reception of IPSAS is pronounced to have had direct impact on nature of budgetary reports in public sector in Kenya. The study concluded that adoption of IPSAS did not seem to have a significant impact on disclosure of financial information. However, the study did not seek to explore the reasons behind poor accountability and further its effect on the quality of financial reporting in the public sector as a whole. County government financial reports contribute to the overall reporting structure in the public sector. The current study explored the level of disclosure of financial information in the public sector and its effect on financial reporting in the county governments in Kenya. Lang and Lundholm (2010) investigated corporate disclosure around prepared value offerings and its relationship to stock



costs. They discovered proof that organizations increase their level of disclosure over an expanded timeframe. (Six to nine months ahead of time of prepared value offerings or external audits in order to diminish data asymmetry)

### **Presentation of Budget information in financial statements and Financial Reporting In the county governments of Kenya**

Hassan (2013) explored the theory and practice of accrual accounting in the public sector. This study's main objective was to revisit the debate surrounding how budget information should be presented in the public sector financial reports and to establish why difference of opinion occurs in view of the practitioners. The investigation began by looking at journals written on the utilization of bookkeeping principles in the general public sector in view of the sources and the findings. Secondary data was gathered from 1980 to 2012, when stage for comprehensive fund drove the change from money to collection bookkeeping. Writing from non-serial productions, official reports, and gatherings has been incorporated, especially, in the event that they have been referred to by different references as far as public sector accumulation bookkeeping goes. Altogether, 224 sources composed by the two specialists and academicians were inspected, distinguished, and sorted in light of the sources and the view with respect to public sector bookkeeping positions (Stage for comprehensive back, 1980).

The study discovered that money premise and gathering premise have been known as two end purposes of a range in introduction of monetary explanations. Preceding the reception of accumulation premise, bookkeeping generally depended on consumption premise of bookkeeping which is at the money end of the range (Hassan, 2013). Findings demonstrate that most sources from experts choose accumulation bookkeeping while most academicians were in favour of gathering bookkeeping. This finding proposes that there is a missing connection between scholastic bookkeeping exploration and expert practice in the general population segment. This result proposes that there is a missing connection between scholastic bookkeeping views and expert practice in general. Academicians and experts should cooperate to add to the improvement of gathering bookkeeping. The present investigation endeavored to bridge the differences between academicians and professionals. This study sought to establish whether stakeholder participation in development of standards actually improved communication and coordination between accounting practitioners and academicians. The researcher further sought to explore whether involvement of stakeholders in the standard development process eventually yielded consistency in the application of IPSAS and further in generating accurate financial reports and ensuring compliance with the PFM Act, which requires the accounting officer of a county government to prepare financial statements that are clear and easy to comprehend (NCLR, 2012).

According to Omelehinwa (2010), an accounting system is a set of rules, regulations and procedures which are supported by appropriate theoretical grounding. This definition of accounting system is rather instructive. He maintained that accounting system processes data into

information which is received as input in the decision making process of the organization. The four chief subjective qualities are understandability, pertinence, unwavering quality and equivalence. These standards guarantee that the users of budgetary explanations are furnished with helpful data for basic decision making. One of the advantages of IPSASs is the use of consistent and lucid budgetary reporting frameworks, both in a nation and amongst nations, and the potential harmonization of monetary reporting crosswise over purviews (Adhemar, 2006). Consistency in financial reporting enhances comparability both from year to year and with the private sector for performance measurement and outsourcing purposes (Boxall, 2008).

### **Service concession agreements accounting and Financial Reporting in the county governments of Kenya**

(IPSASB, 2008) developed a consultation paper to guide the accounting of service concession agreements. This paper describes public-private partnership (PPP) as an arrangement between a public sector entity and a private sector entity to deliver a public asset; normally infrastructure or a public facility and/or service. The objective of this paper was to bring out the effect of accounting for service concession agreements on financial reporting in the public sector. The paper found that the use of PPP arrangements by the public sector has continued to grow worldwide over recent years.

A particular subset of PPP courses of action is normally alluded to as administration concession game plans (SCAs). SCAs vary from different sorts of PPP courses of action in that the dangers and advantages related with developing, owning and developing the property, alongside the control over the property, are shared to a more noteworthy degree by the general population. The sharing of these parts of the property, and the general complexity of these transactions, has made the budgetary reporting of the property for people in general and private sector players necessary. (IPSASB, 2008)

This absence of a particular guideline for SCAs has caused difference in how the property in these courses of action is accounted for, even periodically bringing about the property not being accounted for as property, plant and machinery either in the public or private sector. This absence of clarity is in light of the fact that, up to this point, there was little by way for bookkeeping principles and money related disclosure to guide reporting of SCAs. The UK Accounting Standards Board issued an alteration to its Financial Reporting Standard (FRS) 5, Reporting the Substance of Transactions, which is specific to SCAs. Moreover, the European Commission issued direction on representation of SCAs for measurable accounting purposes.

In Kenya, the Public Private Partnership Unit (PPPU) established under section 8 of the Public Private Partnership (PPP) Act, 2013 was mandated with assessing and improving PPP projects in the country. This study sought to establish whether the PPP act is aligned to the guidelines provided by IPSASB on SCAs. Further, the research endeavored to determine the level at which the PPP Act provisions were being implemented by county governments. (PPP Act, 2013)

## **RESEARCH METHODOLOGY**

### **Research Design**

Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kothari, 2004). The study will employ a descriptive research design. Descriptive survey research designs can be used in preliminary and exploratory studies to allow researchers to gather information and summarize, present and interpret data for the purpose of clarification (Orodho, 2003). The research design was guided by four independent variables; preparation of public sector financial accounting statements, disclosure of public sector financial information, presentation of budget information in financial statements and the effect of service concession agreements on financial reporting in the central region county governments in Kenya. The PFM Act, 2012 was used as the control variable and financial reporting as the dependent variable.

### **Target Population**

Target population in statistics is the specific population about which information is desired. According to Ngechu (2004), a population is a complete enumeration of well-defined set of people, services, elements, and events being investigated. The target population of this study was based at the respective sampled counties. The employees of the counties in the line ministry of finance held key information regarding financial reporting in Kenya. The study focused more on the top, middle and lower level management staff who are directly dealing with the day to day financial management in 4 central region county governments in Kenya. The researcher targeted 266 staff drawn from the treasury departments of the 4 central region counties which included Kirinyaga, Nyeri, Murang'a and Kiambu counties. A target population should always have some observable characteristics, to which the researcher intends to generalize the results of a specific study (Mugenda and Mugenda, 2003).

### **Sample Design**

The sampling frame describes the list of all population units from which the sample was selected (Cooper & Schindler, 2003). Ngechu (2004) underscored the importance of selecting a representative sample through making a sampling frame. From the population frame, the required number of respondents was selected in order to form a sample. In addition, it is important to note that number of samples in this research were selected based on personal judgment, convenience and availability of the target audience. The study grouped the population into three strata i.e. Top level managers, middle level managers and bottom line managers. From each stratum, the study used simple random sampling to select 266 respondents. Kotler (2011) also argues that if well chosen, samples of about 30 percent of a population can often give good reliability, therefore, the study's sample size was 80.

## **Data Collection Procedure and Instruments**

Primary data was collected using self-administered questionnaires. This was preferred because of the technical nature of the items in the scale and the need to ensure reliability of feedback from the respondents. The questionnaire designed in this study comprised of two sections. The first part included the demographic and operational characteristics designed to determine fundamental issues including the demographic characteristics of the respondent. The second part dealt with the study variables. Secondary data was extracted from online platform, for instance, databases and internet findings. Journal articles from select libraries were also considered. The structured questions were used in an effort to save on time and money as well as to facilitate ease of analysis as they were in immediate usable form. Unstructured questions were used to encourage the respondent to give open and in-depth feedback. Each questionnaire was coded; only the researcher knew how each person responded. The coding technique was used for the purposes of matching returns i.e. completed questionnaires against those delivered to the respondents. The researcher first contacted the County governments' corporate affairs departments with an introduction letter from the university, requesting for permission to collect data. The researcher recruited and trained three research assistants in an effort to ensure that the exercise was carried professionally. The questionnaires were then delivered by the researcher and his assistants to the respondents. The respondents then completed the questionnaires. Those who were not in a position to respond immediately were extended a further two weeks to complete the questionnaires.

## **Data Analysis and Presentation**

Descriptive statistics such as mean scores, standard deviations, percentages, and frequency distribution was computed to describe the characteristics of the variables of interest in the study. These tools were employed to bring out the basic features of the data collected on the variables under study and provide the impetus for conducting further analysis (Mugenda, 2008). The data was broken down into the different financial reporting standards employed by the institutions under study. This offered quantitative and qualitative description of the objectives under study. Data collected was analyzed using the Statistical Package for Social Sciences (SPSS) software. A descriptive and inferential approach was used to analyze the data collected. Data analyzed was presented using graphs, tables, charts, and figures. Relationship between variables was evaluated through the regression analysis method. Pearson correlation analysis was used to determine how international public sector accounting standards contribute to financial reporting in county governments in Kenya. In addition, the researcher carried out a multiple regression analysis so as to determine the relationship between public sector accounting standards and financial reporting among central region counties in Kenya. The regression equation was:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Where: Y = Financial Reporting; X<sub>1</sub> = Preparation of public sector financial statements; X<sub>2</sub> = Disclosure of the public sector financial information; X<sub>3</sub> = Financial statements

presentation;  $X_4$  = Service concession agreements;  $\beta_1, \beta_2, \beta_3, \beta_4$  =Regression Coefficients;  
 $\varepsilon$  = Error term

## **RESEARCH RESULTS**

The study sought to establish the influence of public sector accounting standards on financial reporting of County governments in Kenya. It was guided by the following specific objectives which included establishing the effect of preparation of public sector financial information, disclosure, presentation of budget information and service concession agreements on the financial reporting among county governments in Kenya with a special reference to Central Region County.

This study has revealed that the county governments have limited financial information sources. The main sources of information were entity announcements and annual reports, communication with management on financial matters, newspapers, magazines and journals. This greatly impacted on the financial reporting of the recently established devolved units. This is in tandem with a study by Klai and Omari (2011) which indicated that limited financial information orchestrated by poor preparation of public sector financial information statements leads to poor or no financial reporting.

Liabilities, assets and changes in capital were found to be crucial information in financial reports among county governments while earnings, changes in capital, turnover or income were less useful to the users among the county governments in Kenya however their disclosure was limited rendering financial reporting a difficult task. The study realized that technical nature of language of presentation of the reports was a major hindrance at 65 percent, while the format of presentation was rated as being a major challenge at 28 percent. Some respondents indicated that the two were challenges at 7 percent. This concurs with Opanyi (2016) who on a survey of government ministries indicated that fair and just disclosure of public assets and information was an impediment to transparency and accountability in public sector financial reporting.

The county governments mostly adopted the fair value financial measurement approach for financial reporting as opposed to accrual-based and mixed approach. The presentation of budget information statements which aid in preparation of financial statements and hence reporting, were not well done hence undermining the quality and accuracy of the financial reporting procedures of the public sector entities. This is in line with a study by Hassan (2008) who equally did a study among developing countries and established that poor preparation of budget information statements leads to poor financial reporting and misreporting.

Most of the respondents indicated that the objective of IPSASB's standardization of financial reporting in the public sector was to improve decision usefulness of financial information, to help in reducing complexity of current financial reporting in the public sector and to increase accountability. A huge number of respondents indicated that IPSASB's standardization increased transparency in financial reporting in the public sector. Majority of the respondents indicated that

IPSASB's standardization of budget information on financial reporting improved decision usefulness of information, reduced complexity of financial reporting, increased accountability and transparency.

The study further realized that service concession agreements aided in facilitating Public Private Partnership agreements which aided in enhancing County and government resource base and development. However the county governments to a limited extent understood the nature and use of the agreements. This made it hard for the devolved units to enter into financial agreements and partnerships and hence documenting them. As indicated by IPSASB (2008) poor preparation of service concession agreements compromises financial reporting since they may be excluded leading to misreporting.

IPSASB's standardization of service concession agreements among county governments in Kenya has led to improved decision usefulness of information regarding service concession agreements, reduced complexity of current financial reporting of the agreements, increased accountability among stakeholders and also increased transparency at 81.33%.

The study realized that the PFM Act of 2012 has improved decision usefulness of information, reduced complexity of current financial reporting, increased accountability and increased transparency to a great extent. The PFM Act of 2012 has increased accessibility to information among the devolved units, enhanced timeliness in financial reporting, increased transparency, enhanced accountability, and reduced complexity of financial reporting and also improved the decision usefulness of information.

The study established that IPSAS play a great role in promoting accountability of use of public funds by the county governments in Kenya. The standards play a role in fulfilling the citizen's right to know how public resources have been spent, the standards have increased confidence in public sector financial management. IPSAS provides information useful in identifying opportunities for future use of resources and also provides information used to evaluate performance among government units.

## **REGRESSION ANALYSIS**

The researcher conducted multiple regression analysis to establish the influence of public sector accounting standards and financial reporting in county governments in Kenya. The findings are indicated in subsequent sections;

**Table 1: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.956	0.961	0.808	0.496

The table above indicates the model summary. From the findings, R was 0.956, R square was 0.961 and adjusted R squared was 0.808. The adjusted R-squared in this study is less than the R square which indicates that the independent variables improve by less than expected by chance. An R square of 0.961 implies that 96.1% of changes in financial reporting in county governments in Kenya are explained by the independent variables of the study. There are however other factors that influence public sector financial reporting Kenya that are not included in the model which account for 3.9%. An R of 0.956 on the other hand signifies strong positive correlation between the variables of the study.

**Table 2: ANOVA**

Model	SS	df	MS	F	Significance
Regression	568.24	5	570.4	676.015	0.0812
Residual	351.40	431	0.950		
Total	919.64	436			

From the ANOVA table above, the value of F calculated is 676.015 while F critical is 499.465. Since the value of F calculated is greater than F critical, the overall regression model was significant and therefore a reliable indicator of the study findings. In terms of p values, the study indicated 0.001 which is less than 0.05 and therefore statistically significant.

**Table 3: Regression Coefficients**

Model	Unstandardized coefficients		Standardized Coefficients	t	Sig
	B	Std Error	Beta		
Constant	8.28	0.574		8.012	0.000
Preparation of financial reports	0.955	0.022	0.811	14.15	0.00
Disclosure of public sector financial information	0.876	0.033	0.120	11.04	0.000
Presentation of budget information	0.745	0.029	0.127	1.15	0.000
Service concession agreements	0.860	0.031	0.384	4.42	0.000

The resultant regression equation becomes;

$$Y = 8.28 + 0.955X_1 + 0.876X_2 + 0.745X_3 + 0.860X_4$$

Where Y is the financial reporting of county governments in Kenya;  $\beta_0$ ,  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$  and  $\beta_4$  are the regression coefficients and  $X_1$ ,  $X_2$ ,  $X_3$  and  $X_4$  represent preparation of financial statement, disclosure, presentation of budget information and service concession agreements respectively.

This implies that when all the variables of the study are held constant, financial reporting in county governments in Kenya will be at the intercept which is 8.28. A unit improvement in preparation of financial statement while all other factors held constant results in 0.955 increase in effective financial reporting among the devolved units, a unit increase in disclosure of public sector financial information with other factors *ceteris paribus* leads to 0.876 increase in effective financial reporting. Similarly a unit increase in presentation of budget information while other factors *ceteris paribus*, translates to a 0.745 increase in efficient public sector financial reporting in Kenya while a unit increase in accounting for service concession agreements with other factors held constant leads to a 0.860 improvement in financial reporting among county governments in Kenya.

## **CONCLUSIONS**

The county governments of Kenya have limited access to financial information sources which can shed light to the stakeholders and the general public on how their funds are being utilized. It was concluded that financial information contained in financial reports of the county governments of Kenya is very useful in terms of investment decision making and monitoring. County governments, being public entities, do not majorly focus on profit, but service provision to the people. Although county governments are involved in a few income generating activities, information regarding assets, liabilities and capital were mainly given the focus in financial reporting. The study concluded that the financial reporting standardization has enhanced budget information reporting in the public sector in Kenya. IPSASB's standardization of financial reporting also has significant importance to the accountability and transparency enhancement, thereby reducing complexity of current financial reporting and improving decision usefulness of financial information to the users and stakeholders. The study concluded that IPSASB's standardization of service concession agreements has improved financial reporting among the devolved units in Kenya. Further it was realized that the PFM Act has greatly improved financial reporting in the public sector and it is crucial in prudent management of public resources.

## **RECOMMENDATIONS**

The study recommended that for the public sector accounting standards to be enhanced, there is need for proper preparation of financial statements, disclosure of public sector financial information, simple and accurate presentation of budget information and fair reporting of service concession agreements in order to improve the financial reporting in county governments in Kenya. There is need for the financial information and reports to be made available to the users in timely fashion and in the right format and language that can make it easy for them to analyze and interpret.



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