FACTORS INFLUENCING COMPLIANCE WITH ACCOUNTANTS CODE OF ETHICS IN COUNTY GOVERNMENTS OF KENYA.

(A CASE OF ACCOUNTANTS IN SELECTED COUNTY GOVERNMENTS)

BY

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DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

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ABSTRACT

Financial Scandals continue to rock businesses all over the globe. In Kenya, the situation is no different. The Finance dockets of these businesses are manned by accountants who are members of professional bodies and are governed by a code of ethics whose compliance remains a mirage. This research sought to find reasons as to why accountants fail to adhere to their code of ethics; with a specific focus on County Governments. The general objective of the study was to establish Factors Influencing Compliance with Accountants Code of Ethics in County Governments of Kenya. The specific objectives of the study was to establish the effects of internal controls on the compliance with Accountants' code of ethics in county governments of Kenya, determine the effects of remuneration on the compliance with Accountants' code of ethics in county governments of Kenya and assess the effects of independence on the compliance with Accountants' code of ethics in county governments of Kenya. Four Counties with a fairly large number of registered accountants as per the ICPAK website was researched on; Nairobi, Kiambu, Murang'a and Machakos Counties. The sampling frame of accountants used for this research will be 151 out of a population of 245. The sample was picked randomly from the ministry of finance of the four counties. A questionnaire was administered comprising of both closed and open ended questions. The collected data was analyzed by use of frequency distributions, percentages, mean and standard deviation and Regression analysis .The analyzed data was presented in the form of tables. From the findings of the study it was established that internal controls, remuneration and independence of accountants influenced compliance with accountants' code of ethics by 72.3%. The study established a positive significant relationship of internal controls, remuneration and independence of accountants on compliance with the code. This was indicated with regression co-efficient of the variables. Thus the study concluded that the three independent variables influence compliance of accountants with their code of ethics. The study recommends the need for county governments and other stakeholders to upgrade, digitalize, maintain strong internal controls, equitably pay accountants as well as involve them in decision making.

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DEDICATION

To my dear Richard, Kyler and the Myles for all their support, endurance and love all through this worthy cause. And most of all to God for His favor, strength and comprehension throughout the process.

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ACRONYMS AND ABBREVIATIONS

KENAO	Kenya National Audit Office
PAI	Perceptions of Auditor Independence
MAS	Management Advisory Services
ICPAK	Institute of Public Accountants of Kenya
IFAC	International Federation of Accountants
AICPA	American Institute of Certified Public Accountants
IESBA	International Ethics Standards Board for Accountants
CPA	Certified Public Accountant
CPA (K)	Certified Public Accountant of Kenya
PFM	Public Financial Management
IFMIS	Integrated Financial Management Information Systems
MCA	Member of County Assembly
AICPA	American Institute of Certified Public

OPERATIONAL DEFINITION OF TERMS

Accountants Qualified person who is trained in bookkeeping and in preparation, auditing and analysis of accounts. Prepares annual reports and financial statements for planning and decision making, and advise on tax laws and investment opportunities (business dictionary, 2017)

Code of Ethics A written set of guidelines issued by an organization to its workers and management to help them conduct their actions in accordance with its primary values and ethical standards (business dictionary, 2017).

Compliance Act of obeying an order, rule, guidelines, regulations or request (business dictionary, 2017).

Internal Controls Methods put in place by a company to ensure the integrity of financial and accounting information, meet operational and profitability targets, and transmit management policies throughout the organization (business dictionary, 2017).

Independence Not influenced or controlled by others in matters of opinion, conduct; thinking or acting for oneself (business dictionary, 2017).

Remuneration Amount of money paid to someone for the work that person has done

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Unethical business practices harm organizations and economies. Large-scale business failures such as Enron as well as the more recent failures related to the global financial crisis highlight the consequences of unethical business practices and management. Professional accountants, as stewards of transparency and trust, and subject to a professional code of ethics, have a key role to play not only in upholding but in encouraging and influencing ethical behavior and decision making within their organizations (IESBA Code, 2016).

According to Encyclopedia Britannica (1998), Ethics is concerned with what is morally good and bad, right and wrong. Ethics is the set of moral principles that distinguish what is right from what is wrong. It is a normative field because it prescribes what one should do or abstain from doing. Further Business Dictionary (2017), defines Code of Ethics as a written set of guidelines issued by an organization to its workers and management to help them conduct their actions in accordance with its primary values and ethical standards.

Yew (2012), identified global drivers of accounting code of ethics. Continued globalization has increased pressures on the accountancy profession to strengthen its public image and go beyond current financial reporting practices to provide a more transparent, simplified but holistic picture of a firm's health and prospects. Growing business and regulatory complexity coupled with intensified global competition and short business cycles could drive up the cost of compliance. Rapid advances in science and technology are driving disruptive innovation, overhauling industry structures, challenging and reinventing business models and spawning new sectors requires globalized accounting standards and practices. Changing social values and expectations of work, an increasing global population and an ageing society working well past current retirement age are creating challenges for how technology is managed and leveraged to integrate a diverse multigenerational, multicultural and multinational work force has transformed both the operational and interpretative elements of accountancy. The structure, techniques, distribution channels and costs of providing education and training are being transformed, with a growing trend towards online courses and accelerated learning has increased expectations that the CFO and accountancy function should play a far greater role in everything from strategic decision making to the design of new revenue models.

Standard setting organizations in more than 100 countries have adopted the International Federation of Accountants' (IFAC) Code of Ethics for Professional Accountants, promoting the efficiency of global capital markets, while others are in the process of converging with the code. The code applies to professionals in public practice, business, academia and government, (Allen & Bunting, 2008).

The Institute of Certified Public Accountants of Kenya (ICPAK) is a professional organization that regulates the activities of all Certified Public Accountants (CPA (K) s) in Kenya. It was established in 1978 by the laws of Kenya under Accountants Act, CAP 531. Since then, ICPAK has been dedicated to development and regulation of the Accountancy Profession in Kenya so as to enhance its contribution and that of its members to national economic growth and development. The ICPAK Strategic plan 2016-2018 identifies one of its weaknesses as failure by members to comply with the code of ethics for professional Accountants hence the rising cases of corruption and institutions engaging in fraudulent accounting practices (www.icpak.com, 2016).

According to ICPAK, Code of ethics for professional accountants(2006), a professional accountant is required to comply with the following fundamental principles: Integrity - A professional accountant should be straightforward and honest in all professional and business relationships; Objectivity - A professional accountant should not allow bias, conflict of interest or undue influence of others to override professional or business judgments; Professional Competence and Due Care - A professional accountant has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques. A professional accountant should act diligently and in accordance with applicable technical and professional standards when providing professional services; Confidentiality - A professional accountant should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and business relationships should not be used for the personal advantage of the professional accountant or third parties; and Professional Behavior - A professional accountant should comply with relevant laws and regulations and should avoid any action that discredits the profession.

Most countries have differing focuses on enforcing accounting laws. For instance, in Germany, accounting legislation is governed by tax law while in Sweden, by accounting law; and in United Kingdom by the company law. In addition, countries have their own organizations which regulate accounting. For example, Sweden has the Bokforingsnamden (BFN – Accounting Standards Board), Spain the Instituto de Comtabilidady Auditoria de Cuentas (ICAC), United States the Financial Accounting Standards Board (FASB) and Kenya by ICPAK (Weiss, 2015).

The IFAC Code of Ethics for Professional Accountants has been prepared by the Ethics Committee of the International Federation of Accountants. The mission of the International Federation of Accountants (IFAC), as set out in its constitution, is “to serve the public interest, strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession’s expertise is most relevant.” In pursuing this mission, the IFAC Board has established the Ethics Standards Board for Accountants to develop and issue, under its own authority, high quality ethical standards and other pronouncements for professional accountants for use around the world (IFAC, 2006).

The mission of the Institute of Certified Public Accountants of Kenya (ICPAK) is to develop sustainable institutional capacity to support the competence and integrity of its members and to enhance the contribution of the accountancy profession globally. In pursuing this mission it has issued high quality ethical standards applicable to professional accountants in Kenya. The Code of Ethics for Professional Accountants includes the entire IFAC Code together with specific requirements under Kenyan context. There are over 13,000 registered members of ICPAK both from public and private sectors. (www.icpak.com, 2016)

Finance and accounting are the lifeline of companies since they are formed to make money. Money, finance and proper recording of transactions is what keeps a company going. With respect to ethics, it’s an integral part of the accounting profession if a gatekeeper, the recorder of transactions allows lapses in judgement, there is nothing to be trusted about the operations of the company: contracts will be questioned, valuations will be inaccurate, revenues will be shady and expenses cannot be compared to anything in existence (Weiss, 2015).

The Code of Ethics of Professional Accountants requires its membership to adhere to its laid down principles. Ethics covers moral principles and norms by which human actions may be judged. Business ethics is about managing ethics in an organizational context and involves applying principles and standards that guide behavior in business conduct. Business ethics applies to all aspects of business practices from how organizations develop, produce, and deliver products and services, to interactions with customers, suppliers, employees, and society. It encompasses human rights; labor and employment practices, such as training, diversity, gender equality, and employee health and well-being; and bribery and corruption. Some organizations also use the term to cover environmental sustainability issues, such as climate change and resource efficiency (www.icpak.com, 2016).

Practice ethics concerns the professional ethics that arise in the context of an accounting firm rendering professional services, encompassing assurance through to advisory, and to clients. Accountants appointed to senior management positions, both in business and practice, have a particular responsibility to provide ethical and trusted leadership. They are not only expected to be technically competent but to also use their position of influence to encourage ethical behavior and decision making throughout their organization (www.icpak.com, 2016).

Knowledge of ethics can help accountants and auditors to overcome ethical dilemmas, allowing for the right choice that helps the company and the public who relies on the accountants/auditor's reporting. Unfortunately, the headlines in newspapers recently have been awash with many stories of corruption permeating the Country and more so, in the Counties. In most of these instances, an Accountant as defined under the Accountant's Act, No. 15, 2008 is involved. This research will seek to address the concern on why all these cases are happening yet the Members involved are governed by a Professional Code of Ethics which provides guidelines on the do's and don'ts of a Professional Accountant.

1.1.1 Factors influencing compliance with accountants code of ethics

Business leaders today are well aware of the ethical issues and hence they want to improve the ethical standards of the business. Existence of accountants' code of ethics, corporate ethical values and accountants' personal judgments' in situations involving ethical issues are major factors influencing compliance with accountants code of ethics. Self-regulation is, of course, better and produce impressive results. Besides, there are also a number of factors, which significantly influence the managers to take ethical decisions (http://accountlearning.com, 2017).

According to accountlearning.com, (2016), factors influencing ethical behaviour include Personal Code of Ethics, Legislation, Government Rules and Regulations, Ethical Code of the Company: Social Pressures and Ethical Climate of the Industry. Mosteut et al, (2000) identified Legal Interpretations, Organizational Factors and Individual Factors as the factors that influence ethical behaviour in business. Byrnes, (2013), has analyzed various factors influencing ethical behaviour to include desire for money, religious beliefs, political views and personal conscience.

1.1.2 County governments in Kenya

Majority of Kenyans demanded a devolved government to check widespread alienation due to the concentration of power in the national government. The Provincial Administration was accused of abuse of powers bestowed upon its officers. The local authorities had failed to deliver services and had been turned into dens of corruption. The feeling of being marginalized and neglected, deprived of resources and victimized for political or ethnic affiliations intensified the push for devolution (http://softkenya.com, 2014)

The passing of the current constitution in 2010 ushered Kenya into a new system of governance, replacing the old centralized system with a new devolved system of governance. The new system consists of a national government and 47 county governments. The counties of Kenya are geographical units envisioned by the 2010 Constitution of Kenya as the units of devolved government, (Constitution of Kenya, 2010).

The powers are provided in Articles 191 and 192, and in the fourth schedule of the Constitution of Kenya and the County Governments Act of 2012. The counties are also single member constituencies for the election of members of parliament to the Senate of Kenya and special women members of parliament to the National Assembly of Kenya. As of 2013 general elections, there were 47 counties whose size and boundaries are based on the 47 legally recognized Districts of Kenya. Following the re-organization of Kenya's national administration, counties were integrated into a new national administration with the national government posting county commissioners to represent it at the counties. (Kenyan County Commissioners Re-Organized under New Structure, http://allafrica.com/stories/201307230067.html, 2013).

County governments are responsible for county legislation (outlined in article 185 of the Constitution of Kenya), executive functions (outlined in article 183), functions outlined in the fourth schedule of the constitution of Kenya, functions transferred from the national government through article 187 of the constitution of Kenya, functions agreed upon with other counties under article 189(2) of the constitution of Kenya, and establishment and staffing of a public service (under article 235 of the Constitution of Kenya). The functions of governments assigned to counties by the fourth schedule of the Constitution of Kenya are: Agriculture; County health services; Control of air pollution, noise pollution, other public nuisances and outdoor advertising; Cultural activities, public entertainment and public amenities; County transport; Animal control and welfare; Trade development and regulation; County planning and development; Pre-primary education, village polytechnics, home craft centres and childcare facilities; Implementation of specific national government policies on natural resources and environmental conservation; County public works and services; Firefighting services and disaster management; Control of drugs and pornography; and Ensuring and coordinating the participation of communities and locations in governance at the local level and assisting communities and locations to develop the administrative capacity for the effective exercise of the functions and powers and participation in governance at the local level (Constitution of Kenya, 2010).

1.1.3 Compliance Level with Code of Ethics for Accountants in county governments

"Compliance refers to a change in behavior that is requested by another person or group; the individual acted in some way because others asked him or her to do so (but it was possible to refuse or decline.)" (Wiggins et al, 2006). Compliance is meeting specified standards by acting ethically and professionally as per the code.

As Weiss (2015) observed, the nature of work carried out by accountants and auditors requires a high level of ethics. Shareholders, potential shareholders and other users of financial statements rely heavily on the yearly financial statements of a company as they can use this information to make an informed decision about investment. They rely on the opinion of the accountants who prepare the statements, as well as the auditors that verified it, to present a true and fair view of the company.

The recent financial crisis in banking sector, collapse of giant co-operative societies as well as fraudulent acts in national and county governments is a proof of lack of compliance with accountants' code of ethics in the institutions. Accountants are engaged in unethical behavior and do not always act in the best interest of the organization. Corruption, a moral hazard which is practised by many institutions is sliding out of control at the watch of professional accountants.

The rise of finance and accounting professionals in Kenya has given rise to a number of unethical business practices that violates codes of conduct. For instance when transactions involving finances are not executed in a transparent manner, then parties involved in the transactions may have a way to embezzle or divert some of the resources to personal gain. (Huang 2008).

There is need to ensure that ethical accounting remains to be a primary practice among all practicing accountants in Kenya. This will be a requisite to prudent and responsible financial managers both in public and private institutions. Well-known scandals in Kenyan public institutions as well as private based institutions coupled with alleged unethical acts have aroused the conscious of the public and stakeholders as to the moral decline and unethical posture of public accountants unveil a decline in moral reasoning and ethical standards of public accountants (Gichure 1997).

In Kenya, budgeting has posed the biggest challenge for the county governments. Many of the counties have been accused of allocating huge sums of money to projects which have not been approved by the office of the Controller of Budget. Some have failed to spend the money allocated to them and others have budgetary allocations on non-core activities, contrary to the Public Finance Management Act. (softkenya.com, 2014). According to Auditor General Report for the first half of the year 2014/15 six counties (Nairobi, Homa Bay, Machakos, Murang’a, Meru and Trans Nzoia) were cited to have reportedly had higher expenditure than the amounts approved by the Controller of Budget.

The county governments highly depend on finances from the national government to enable them cope with numerous developmental activities within their jurisdiction. Nevertheless, many of them are coupled with dwindling revenue generation, remaining overwhelmingly dependent on central government for its financial resources, with limited revenue raising ability (Oyugi, 2000).

As noted by the Vice Chairman of ICPAK, (Standard Media, 2015) the absence of internal audit committees in the counties constrained the process of monitoring how public money is spent by devolved units. The advice by the controller of budget and the auditor general is largely ignored and most devolved units continue to use public funds in total disregard to Public Finance Management Act and other existing laws.

There is also non-compliance with salary and remuneration commission’s circulars on remuneration and benefits of public officers in the counties (Sanga, 2015). According to the Auditor General Report, some officers are paid monthly commuter allowance despite having been assigned official vehicles.

Though devolution was meant to bring resources closer to the people and alleviate the challenges caused by central government way of administration, little has been achieved in the performance of counties while in others moral decay is evident. The Report from the Controller of Budget 2013-2014 on Kirinyaga County identified challenges which included among others weak financial internal controls, low absorption of development funds, low local revenue collection, IFMIS implementation challenges and a bulging wage bill which has a likely effect of threatening service delivery (County Government Budget Implementation Report, 2014).

The report recommends adoption of appropriate measures to contain the huge wage bill, increasing capacity in procurement and project management to improve absorption of development funds, deepening of local revenue streams through legislation and strengthening controls over collections through target setting, proper supervision and proper control of receipt books (County Government Budget Implementation Review Report, 2014).

In the 2013-2014 Consolidated County Reports, the Controller notes that there were also large expenditures on activities such as refurbishment of offices and renovations which appeared to be exaggerated. These expenditures need to be audited by the Auditor General and action taken to prevent further misuse of public funds. She concludes by stating that to realize the purpose of the devolution in Kenya, there is a need to adhere to the principles of public finance as guided by the constitution and the PFM Act. She also asserts that all revenue collected at the county level should be remitted to the county revenue fund, such that the funds are budgeted and spent for the purpose intended for.

In the 2013-2014 report on Kiambu County executive, records availed for audit review indicated that the Assembly spent Kshs.57, 473,542 on training and seminars. However, the expenditure could not be verified as the payment vouchers were not availed for audit verification. Further, it was also not possible to tell who was trained, the nature of the training and even the venue as no documentary evidence was availed for audit review (Report of the Auditor-General on the financial operations of Kiambu County Executive, 2014). It was therefore not possible to confirm the validity of the payments.

He further observed that, examination of imprest warrants revealed that Kshs.512, 000 was paid to 16 nominated MCAs on an induction course. However, documents availed for audit review indicated that the course was fully catered for since accommodation and training expenses were paid for by the International Republican Institute (IRI). Therefore the per diem payment was irregular (Report of the Auditor-General on the Financial operations of Kiambu County Executive, 2014).

In the 2013-2014 report on Embu County Assembly, the Auditor general observed that, the County Assembly paid travelling and subsistence allowances totaling Kshs.1,783,500 to Members of the County Assembly (MCA's) and members of staff during the period under review. However, the expenditure was not supported. In his 2013-2014 report on Mombasa County Assembly, the auditor noted that, examination of imprest warrants revealed that Kshs.512, 000 was paid to 16 nominated MCAs on an induction course. However, documents availed for audit review indicated that the course was fully catered for since accommodation and training expenses were paid for by the International Republican Institute (IRI). Therefore the per diem payment was irregular (Report of the Auditor-General, 2014).

1.2 Statement of the problem

Ethics embraces universal core values such as integrity, honesty, truthfulness, accountability and transparency which every Accountant is expected to have and practice (Mathenge, 2012). Even though ethics is an individual moral decision, compliance on the code of ethics for accountants have proved to be a challenge to some accountants (ICPAK, 2006).

Unethical accountants could easily alter company financial records and maneuver numbers to paint false pictures of company successes. This may lead to short-term prosperity, but altered financial records will ultimately spell the downfall of companies when the Securities and Exchange Commission discovers the fraud (Lister, 2016).

Syed et al, (2012) did a research in Malaysia to understand professional accountants' behavioral intention to comply with code of ethics in the context of a developing country accounting profession which was triggered by incidents of anomaly with respect to compliance to code of ethics by professional accountants. Variability in their behavioural intention is due to the limitations faced by professional accountants in certain designations and category of practice. Kwame et al, (2016) identified lack of inadequate ethical education, organizational climate and top management support as major causes of non-compliance with accountants' compliance with the Code of Ethics in Ghana.

As noted by Maree (2007) "the start of the twenty-first century was marred by a spate of company collapses that involved fraudulent accounting activity. In many cases, company executives, many of whom belonged to the accounting profession, perpetrated the fraud. As a result, internationally, the accounting profession has suffered an enormous loss of goodwill, and its reputation as a profession with integrity having been severely harmed. Accounting professionals are no longer accorded the high regard they commanded in the past. The consequences for the profession have been far-reaching: accounting now faces a long, uphill battle to restore its reputation and to regain the trust of international business community.

Kenya has witnessed the collapse of many business enterprises and incurred tremendous costs due to weak corporate governance structures within the organizations. Despite the good laws that exist in theory, there is still a window for senior managers to misappropriate shareholders wealth (Wairimu, 2010). Ayoyi & Mukoswa (2015) notes that ethical procedures should comprise clear and transparent rules as well as clear behavioral rules for all the parties in the procurement process. The corruption Prevention Guidelines in public procurement need frequent review to cope with changing trends in procurements procedures (Ayoyi &Mukoswa, 2015).

The above studies present a mixture of findings on the factors influencing compliance with accountants' code of ethics. These studies did not address specific scenario of devolved governments in developing countries like Kenya. Furthermore, despite the noble aim of devolution which is improved service delivery, there is insufficient information on why accountants, in counties are perpetrators of fraud yet are professionals governed by code of ethics. This study therefore seeks to provide information relevant for factors influencing compliance with accountants’ code of ethics in county governments in Kenya.

There have been many incidents of anomalies with respect to compliance to accountants’ code of ethics by county governments in Kenya which triggered the research idea. Examples of scandals mentioned are face book installation of kshs 2 million in Kirinyaga county, wheel barrows costing kshs 109,000 in Bungoma county, hospital gate costing millions in Nyamira county and county offices gate worth millions in Embu. Despite the big concern, literature on the factors influencing compliance of the same is scanty. The study is set to identify factors that influence accountants' compliance with the Code of Ethics.

1.3 Objectives of the Study

1.3.1 General objective

To Establish Factors Influencing Compliance with Accountants Code of Ethics in County

Governments of Kenya.

1.3.2 Specific objectives

i) Establish the effects of internal controls on the compliance with Accountants’ code of ethics in county governments of Kenya.

ii) Determine the effects of remuneration of accountants on the compliance with Accountants’ code of ethics in county governments of Kenya.

iii) Assess the effects of independence of accountants on the compliance with Accountants’ code of ethics in county governments of Kenya.

1.4 Hypothesis of the study

H_{01}: There is no relationship between internal controls and compliance with the Accountants' code of ethics in county governments of Kenya.

H_{02}: There is no relationship between remuneration of accountants' and compliance with the Accountants' code of ethics in county governments of Kenya.

H_{03}: There is no relationship between independence of accountants' and compliance with the Accountants' code of ethics in county governments of Kenya.

1.5 Significance of the study

Upon completion of this study, the following are expected to benefit:

First, the findings will provide information to the policy makers and in particular The Institute of Public Accountants of Kenya and International Federation of Accountants to develop policies that address the shortcomings attributed to compliance with the Code of Ethics for Accountants.

Secondly, the findings will help the serving officers to understand the influence of Internal Controls on compliance with the Code of ethics.

In addition, the findings will help the government understands the challenges that confront serving officers on matters relating to compliance with the code hence put more structures that will facilitate compliance with the Code. Finally, the findings will form a precedent for future research on compliance with the Code of Ethics for Accountants.

1.6 Scope of the study

This study assessed factors influencing compliance with Accountants' code of ethics in county governments of Kenya. The study was delimited by focusing on three factors; internal controls, remuneration of accountants' and independence of accountants'. The study also focused on four counties; Nairobi, Kiambu, Murang'a and Machakos due to ease in data collection and having largest number of Accountants as per ICPAK database making it more economical, valid and efficient.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter is set out to explain empirical literature on factors influencing compliance with the accountants' code of ethics in county governments of Kenya as per the study objectives. It also highlights the theory on which the study is based and conceptual framework.

2.2 Theoretical Review

Ethics embraces universal core values such as; integrity, honest, truthfulness, accountability and transparency, fairness, justice, tolerance, citizenship which every human being is expected to have and practice (Mathenge, 2012). Even though ethics is an individual moral decision, compliance has proved to be a challenge to many. The theoretical review of this study presents the Code of Ethics for Accountants, Agency Theory and the Compliance Theory.

2.2.1 Agency Theory

The first scholars to propose, explicitly, that a theory of agency be created, and to actually begin its creation, were Stephen Ross and Barry Mitnick, independently and roughly concurrently in 1972 (Mitnick, 2006). Ross is responsible for the origin of the economic theory of agency, and Mitnick for the institutional theory of agency, though the basic concepts underlying these approaches are similar. Indeed, the approaches can be seen as complementary in their uses of similar concepts under different assumptions. In short, Ross introduced the study of agency in terms of problems of compensation contracting; agency was seen, in essence, as an incentives problem. Mitnick introduced the now common insight that institutions form around agency, and evolve to deal with agency, in response to the essential imperfection of agency relationships (Mitnick, 2006).

Agency Theory explains how to best organize relationships in which one party determines the work while another party does the work. In this relationship, the principal hires an agent to do the work, or to perform a task the principal is unable or unwilling to do. For example, in corporations, the principals are the shareholders of a company, delegating to the agent; the management of the company, to perform tasks on their behalf. Agency theory assumes both the principal and the agent are motivated by self-interest. This assumption of self-interest dooms agency theory to inevitable inherent conflicts. Thus, if both parties are motivated by self-interest, agents are likely to pursue self-interested objectives that deviate and even conflict with the goals of the principal. Yet, agents are supposed to act in the sole interest of their principals (Bruce et al., 2005).

The first regular, non-proceedings journal article on agency as a general theoretical approach was published by Mitnick (1975) in Public Choice Winter issue. The widely-cited work by Jensen and Meckling (1976) that proposed an agency theory of the firm was not published until almost a year later. In 1976 Mitnick published another article that made use of his agency approach, this time applied to agency in the public sector, specifically in the context of the public interest and the use of public interest rhetoric in advocacy.

Eisenhardt (1989), States that Agency theory is an important, yet controversial, theory. Her paper reviewed agency theory, its contributions to organization theory, and the extant empirical work and develops testable propositions. The conclusions were that agency theory offers unique insight into information systems, outcome uncertainty, incentives, and risk and is an empirically valid perspective, particularly when coupled with complementary perspectives. The principal recommendation is to incorporate an agency perspective in studies of the many problems having a cooperative structure.

This theory will be important in this study as it will bring to the fore the relationship between the agents (accountants) and the principal (employer) and how it influences compliance with accountants code of ethics. As noted by Wairimu (2010), despite the good laws that exist in theory, there is still a window for senior managers to misappropriate shareholders wealth.

2.2.2 Compliance Theory

Adam's bite of forbidden fruit marked the first recorded compliance violation, but not the last. Corporations perpetually struggle to stay compliant with the ever-increasing complexity of laws, rules, and regulations **(**MacKessy, 2010).

According to Markowitz (2008), Compliance is defined as "being in accordance with established guidelines, specifications, or legislation, or the process of becoming so". Compliance (and its organizational structure) is viewed as the relationship that is established by senior management's control of the company's business activities and by the orientation of company employees to this power of senior management.

Compliance theory explains how regulations and power influences compliance decisions. Compliance theory focuses on how public regulation influences regulatees' motives (goal set) and alternatives (option set), thus influencing the way their preferences become structured, (Etienne 2011). According to compliance theory, organizations can be classified by the type of power they use to direct the behavior of their members and the type of involvement of the participants, (Lunenburg 2012).

The growth of the United States in the 1950s and 1960s prompted the development of modern management culture and organizational structures. In the 1960s, organizational sociologists such as Amitai Etzioni began to study and identify management structures and sources of power for compliance controls. **(**MacKessy, 2010).

Etzioni identified normative or identitive power, whereby an organization creates compliance by using symbolic images and intrinsic rewards to build loyalty. Although firms with powerful cultures and brand names may employ identitive power to a limited degree, it is more commonly linked with universities, not-for-profit corporations, and professional organizations. He also discussed coercive power, in which compliance is established by the use or threat of physical force. Coercive power pertains to prisons and military units rather than the business environment. **(**MacKessy, 2010).

Finally, Etzioni studied remunerative or utilitarian power, which relates directly to business and is rooted in an organization's control over material resources and extrinsic rewards such as salaries, bonuses, and benefits. Today's firms commonly link their performance management processes with incentive-based performance measurements that in turn establish minimal compliance thresholds for year-end bonus eligibility (Marshall 1998).

The distinction between compliant actions and unethical business behavior has become increasingly difficult to distinguish. Enron and WorldCom marked the beginning of escalating prosecutions of corporations and individuals for acts that were interpreted as unethical and illegal only after the fact, with the benefit of hindsight. **(**MacKessy, 2010).

Although the growth of organized labor reduced the role of centralized oversight, the public model for compliance enforcement was predominant until the 1970s. (Marshall 1998). Several events during this period, such as the Watergate scandal and foreign corruption investigations, transferred the responsibility for compliance to private industry. Corporations recognized the need to become increasingly knowledgeable about their sales practices, manufacturing processes, and the overall business conduct of their industries.

Usage of this theory in the study will increase understanding of how individual and organizational factors, regulations, power and leadership influence compliance with the Code of ethics. This theory provides adequate information relating to the three objectives of the study.

2.3 Empirical Review

2.3.1 Internal controls and compliance with code of ethics

Moeller (2013) stated that Internal controls consist of the plan of organization and all of the coordinate methods adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. He recognizes that a system of internal controls extends beyond those matters that relate directly just to the functions of the accounting and financial departments. Rather, an internal control is a business practice, policy, or procedure that is established within an enterprise to create value or minimize risk. Although enterprises thought of internal controls in terms of fair and accurate accounting processes and effective operational management, information technology (IT) controls are also a very important subset of internal controls today. They are designed to ensure that the information within an enterprise operates as intended, that data is reliable, and that the enterprise is in compliance with all applicable laws and regulations. We should think of internal controls not as just one solitary activity but as a series of related internal system actions.

A lot has been written about internal controls and fraud, following the revelations at the turn of events regarding Enron, WorldCom, Tyco, Global Crossings, and others. According to Graham & Lynford (2007), Common organizational control gaps in entities include the lack of controls documentation, the lack of accounting expertise, and the inability to properly accrue for expenses and prepare financial statements. More and more oversight groups, private equity lenders, bankers, and regulators are asking that these communications be made explicitly and are asking that they be informed of such issues. For many of these entities, it is simply a matter of self-protection. They need to know if such risks exist, so they can decide how to address them. The management and the auditors of failed organizations are often challenged as to why such information was not shared on a timely basis. Oral communications are quickly forgotten. Such information, clearly articulated and communicated, might have signaled the condition leading to the business failure and led to remedial actions.

Saleemi N.A. and Ajowi E. (1997), " Internal Control is the whole system of controls, financial or otherwise established by management in order to carry on the business of the enterprise in an orderly and efficient manner, safeguarding the assets and secure as far as possible the completeness and accuracy of records." The features of internal control system are organization plan, record keeping, segregation of duties, authorization and approvals, supervision, safe guarding of assets, internal audit, competence of staff, arithmetical and accounting controls.

Counties in Kenya are faced with problem of inadequate budgets to support their operations. Counties get insufficient funds from national government in addition to its local revenue collections being inadequate. Financial challenge posing as the major factor leading to poor performances and service delivery to the public has resulted from weak internal controls which encourage defrauding of funds. To achieve the desired results, counties must design strategies towards enhancing revenue collection and reduce expenditure by curbing wastage of resources. Strathmore University carried out extensive research in the Kiambu County around how it collected revenue in the past and gave a draft of recommendations on Automation, Seal loopholes, Improve decision making, Modernize revenue collection methods and Broaden revenue collection methods. Though the county Pro system which was supplied by @iLabAfrica IT Research Centre of Strathmore University has made immense improvements in revenue collection, a lot need to be done to upgrading County Pro System to accommodate all the revenue sources as well as curbing wastage (2016)

The Accountants profession watchdog (ICPAK) wants county governments to establish internal audit committees as provided for by the law; PFM Act Section 155 to ensure public finances were utilized prudently and efficiently. The PFM Act sets the rules for how government at national and county levels can raise and spend money and the internal audit units play an important role on the same (Sanga, 2015).

ICPAK (2015), observed that although many county treasuries have adopted the Integrated Financial Management Systems (IFMIS), financial operations in some county assemblies still remain manual limiting transparency of financial management and standard financial reporting as contemplated by Articles 226 of the constitution.

Internal controls consists of all the measures taken by the organization for the purpose of; (1) protecting its resources against waste, fraud, and inefficiency; (2) ensuring accuracy and reliability in accounting and operating data; (3) securing compliance with the policies of the organization; and (4) evaluating the level of performance in all organizational units of the organization. Internal controls are simply good business practices which should reduce the risks associated with undetected errors or irregularities, Manhattan (2015).

In accounting and auditing, internal control is defined as a process affected by an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives (Devra, 2015). The core of any effective corporate compliance program is a strong and well-communicated code of ethics (Minner & Marion, 1997).

In Kenya, the World Bank report of 2011 found out that Professional ethics for accountants is not taught in prequalification educational programs, as required by IFAC guidelines. This makes it more difficult for professional accountants to be aware of ethical dimensions or conflicts in their work, or informed about the views and expectations of their professional body and the public relating to the application of professional ethics. It can also contribute to perceptions in Kenya that professional accountants do not comply with the ICPAK's professional code of ethics (World Bank, ROSC 2001). International experience suggests that one of the major benefits of codes of best practice is their utility in "test marketing" corporate governance legal reforms; many provisions introduced in codes are later migrated to the law. (World Bank, ROSC 2011).

The most important influence on ethical behavior in the workplace is overall company culture, which determines whether employees are valued or belittled and whether stakeholders are treated with trust or suspicion. A company that bases its policies and decisions on deeply rooted ethics will create a culture in which employees are naturally disposed to act ethically, too. The type of integrity that is at the root of an ethical company culture cannot be faked or taught, but it can be contagious and inspiring (Devra, 2015).

The findings of the study by Bonner et al (1990), conclude that competence affects audit quality with professional skepticism as a mediator. This is because auditors with good auditing skills will tend to be skeptical in a better way. When an auditor feels that she/he is an expert, the auditor will be more cautious with the audit process and thus it will have an impact on the audit.

Other studies that are consistent with this study are the research by Carcello, et al. (1992), that one of the attributes of audit quality is technical competence and this technical competence has a positive effect on clients' satisfaction.

The research by Indah (2004), concluded that the factors of ethics, auditing situations, experience and expertise of auditing have a positive and significant relationship with professional skepticism of an auditor. The research by Andersen, et al (2008) who conducted a study in which one of the variables was the professional skills that significantly affect the quality of the resulting audit, and the research by Schelker (2009) that competence of auditors affects the quality of the auditors.

It is expected that there is a positive relationship between existence of internal controls and the level of compliance with the Code of ethics.

Though the scholars have identified several internal controls influencing compliance with accountants' code of ethics, they have not addressed the specific internal controls in devolved governments which affect compliance despite the heavy funding by central government.

2.3.2 Remuneration of Accountants and compliance with code of Ethics

Compensation (also called pay or remuneration) can be defined to include "all forms of financial returns and tangible services and benefits employees receive as part of an employment relationship" (Milkovich & Newman, 2008). Compensation packages of the last decade have been trying to address the Principal-Agent problem. The Principal Agent problem as explained by Bruhl (2003) exists when shareholders (the principals) have conflicting interests with the executives (the agents). Put in another light, “Agency theory views top management as self-centered opportunistic agents who would shirk and violate the rights of the shareholders if proper control mechanisms were not developed and enforced” (Carr & Valinezhad, 1994).

Long-term compensation packages make an effort to align the goals of executives with that of the shareholders. However, the effectiveness of such packages is strongly related to the culture of the board of directors and compensation committee. (Bebchuk & Fried 2003).

Corporate boards of directors provide a source of external control over management decisions that could be self-serving; thus, it is expected that members of the board discourage excessive top-management compensation and at least attempt to link that compensation in some manner to company performance (Cheng & Firth, 2005).

If ethical business practice was based on the contents of the code of conduct, Enron would be at the top. However, the executives waived clauses of the code in order to pursue investments that would give them personal benefit. The case of Enron is proof of how long-term stock option compensation has the potential to derail shareholder and executive aligned goals (Perel, 2003).

According to KIPPRA (2013), one of the key issues of public debate and attention in Kenya is public-private wage differentials that have made it difficult for the public sector to attract and retain talent. An additional problem is the perception that there are even wider disparities within the public service itself, with those in the higher cadres earning disproportionately higher salaries. Also, within certain levels in the public service, education and experience do not seem, as they should, to account for differences in the wages. As a result of these perceptions, and coupled with the rising costs of living, several public servants have during 2011-12 “downed their tools” to demand higher wages. It is believed that wage differentials, both within the public service and between the public service and the private sector, lower morale and in effect output in the public sector. It could also lead to unethical behavior. Although law requires counties to ensure all county revenue is deposited intact into county revenue fund before expenditure (CRF), most public officers defraud the county monies due to inequitable remuneration (ICPAK, 2015).

McGuire et al. (2003) sought to determine how salary, bonus, and long term incentives as well as the governance aspects of ownership, and institutional ownership impact CSR dimensions of community, employee relations, environment and product, and business practices. One of his key findings was that there exists a direct correlation between governance and ethical business practices.

According to Murphy (2011), with the growing distrust of business and the increasing levels of misconduct, it will become critically important for businesses and other organizations to do a better job of using incentives as a tool to drive the kind of behavior they expect of employees. By developing appropriate compliance and ethics incentives, management and boards can demonstrate their commitment to compliant and ethical conduct in the organization; they can significantly reduce the risk of illegal or unethical conduct; and they can fulfill their fiduciary obligations to ensure that the organization has an effective compliance and ethics program. For a compliance and ethics program to be effective, it needs to affect the behavior of those acting for the company. Rewards and incentives clearly do this, and need to be included in any program. Without adequate controls and incentives, most of us will (at least occasionally) do the wrong thing.

Literally hundreds of studies and scores of systematic reviews of incentive studies consistently document the ineffectiveness of external rewards (Pfeffer, 1998). Money is the crucial incentive because, as a medium of exchange, it is the most instrumental. No other incentive or motivational technique comes even close to money with respect to its incremental value (Locke et al, 1981). The link between pay and performance [of executives] has increased nearly tenfold since 1980 (Hall, 2000). Research shows only a small relationship between executive compensation in any form and firm performance (Hitt, 2005). On average, the single largest operating cost for an organization is employee compensation (Blinder, 1990; European Parliament, 1999; Bureau of Labor Statistics, 2001). An organization's success depends not only on the magnitude of this cost, but also on what it gets in return for its investment.

Institutional incentives to maintain auditor independence have existed since the times of the English Merchant Guilds, nearly 800 years ago (Watts and Zimmerman, 1983). In the study by Reynolds, et al (2004) they found that relatively larger audit clients those for which the auditor is expected to have the greater financial dependence tend to report significantly lower discretionary accruals when compared to smaller clients.

The study by Craswell, et al 2002, investigated whether fee dependence within the audit firms' offices jeopardises auditor independence. Fee dependence is examined at both the national audit firm level as well as the local office level and in a setting where public disclosure of fees is mandatory. The study's results showed that the level of auditor fee dependence does not affect auditor propensity to issue unqualified audit opinions. The findings remain robust to a number of sensitivity tests including the analyses controlling for the effects of non-audit service fee dependence and other settings in which there is heightened pressure on auditors to confront the effects of fee dependence on exercising independent audit judgement.

Reynolds, et al (2004) provide evidence that financial dependency does not impair auditor independence. An important conclusion was that top management pay and corporate performance are more aligned in companies with outsider-dominated boards and remuneration committees.

It is expected that there is a direct relationship between remuneration and the level of compliance with the Code of ethics. The higher the remuneration, the lower the risk of compliance with the Code of ethics.

Despite the earlier studies addressing how remuneration influences compliance with accountants code of ethics, the differentiation of remuneration in terms of how accountants' individual pay (salary) and how audit fee to the organization affect compliance was scanty.

2.3.3 Independence of Accountants and compliance with code of Ethics

Independence has been described as "avoidance of situations which would tend to impair objectivity or permit personal bias to influence delicate judgement" (Carey et al., 1966). Auditor independence, in particular, implies "absence of influence or control in the matter of the auditor's conduct, action and opinion" (AAA, 1973). It simply refers to the auditor's ability to express his conclusions honestly and impartially. In discussing the foundation of the concept of auditor independence, Pany & Reckers (1980) emphasize that the concept of auditor independence is closely originated from the reason for the existence of auditing itself. According to them, the rationale for the external auditor's work (i.e. independent audit) - indeed a primary justification for the existence of the public accounting profession - arises from the need for reliable financial information.

Auditor independence refers to the independence of the internal auditor or of the external auditor from parties that may have a financial interest in the business being audited. Independence requires integrity and an objective approach to the audit process. The definition of independence in The CPA Handbook in the view of EB Wilcox is an important auditing standard for independent accountants' opinion aimed to increase credibility of a financial statements presented by the management. He further states that if the accountants are not independent of their clients, their opinions therefore will not add anything.

The Accounting Code of 1994 states that independence is the attitude expected from a certified public accountant to have no personal interest in the execution of his/ her duty, contrary to the principles of integrity and objectivity.

AICPA rules state that an accountant's independence will be impaired if the accountant, makes investment decisions on behalf of audit clients or otherwise has discretionary authority over an audit client's investments; executes a transaction to buy or sell an audit client's investment; or has custody of assets of the audit client, such as taking temporary possession of securities purchased by the audit client. Rule 101 of the AICPA Code of Professional Conduct has long required CPAs who perform any attest services to be independent of their clients. Recently the SEC has also issued new rules applicable to SEC registrants. Underlying both the AICPA and SEC rules is the belief that the auditor is engaged to serve the public trust—the interests of investors and creditors. As a consequence, it is vital to the audit function that a CPA engaged in an attestation be independent of the client both in fact and in appearance (Almer and Olazabal, 2001).

In carrying out professional responsibilities, auditors must understand the principles of providing services for public interests and uphold integrity, objectivity, and independence. They must make decisions that are consistent with the public interests in conducting an audit (Symsuddin et al, 2014). In carrying out professional responsibilities, these auditors may face pressure or conflicts from the management of the audited entities, various levels of governmental positions, and other parties that may affect the objectivity and independence of the auditors. To deal with such pressure or conflicts, the auditors must be professional, objective, factual, and impartial.

Symsuddin et al, (2014) states that 'There is an indirect influence between Independence and Audit Quality, with Professional Skepticism as a mediator.'

According to Joint Accounting Bodies (2013), Independence requires an individual member to act with integrity and to exercise objectivity and professional scepticism. Members are obliged to be straightforward and honest in professional and business relationships and not to allow their judgement to be compromised by bias, conflict of interest or the undue influence of others. Members must not only be independent in action but they must also be perceived, by an informed third party, to be independent.

Media comments in the wake of Enron and other corporate scandals including WorldCom and Parmalat to name a few have ended to focus heavily on the issue of auditor independence (Raja, 2002). These financial scandals and corporate failures, thus, are proven to have had a detrimental effect on the public's perception of auditors. More worryingly, as raised by O'Malley (1993), the issues related to independence are threatening the survival of accounting firms of all sizes and indeed it has the power to destroy the accounting profession as a whole. It is therefore, vital that auditors maintain their independence and ensure that they provide a high quality of auditing to ensure the credibility of financial information not only for the purpose of reducing the number of corporate scandals but most importantly the survival of their profession and the development of healthy financial and capital market (Abu Bakar, 2006).

Auditor independence is often defined as the probability that the auditor will report a discovered breach in the financial reports. Requiring auditors to be financially independent of their clients is, in historical terms, relatively new. As recently as 1844 the U.K. Companies act actually required auditors to be shareholders. Thus, financial dependence, per se, does not necessarily threaten auditor independence (Watts and Zimmerman 1983).

To be seen to be independent, an auditor should be able to demonstrate that there is no threat to his or her independence such that an outsider would not doubt the auditor’s objectivity (Messier & Boh, 2002). This notion of independence is one of the cornerstones of auditing theory and the sine qua non of auditing practice (Wolnizer, 1987, as quoted in Patel & Psaros, 2000). Both actual as well as perceived auditor independence are critical elements in the maintenance of public confidence in the auditing profession (Pany & Reckers, 1980). There have been an increasing number of studies on perceptions of auditor independence (PAI) on non-Anglo-American countries. Examples are Dykxhoorn & Sinning (1981) in German, Gul (1989) in New Zealand, Gul & Tsui (1992) and Lau & Ng; (1994) in Hong Kong, Hudaib (2003) in Saudi Arabia and Alleyne et al. (2006) in Barbados to name a few.

In Malaysia, The study by Gul & Teoh (1984) investigated the effects of combined audit and management consulting services by public accounting firms on a sample of the Malaysian public comprising public accountants, bankers, managers and shareholders. They found that the expansion by audit firms into non-audit services reduced their confidence in the auditor’s independence. It was also found that shareholders believe that auditors could still remain independent if the audit firms provide non-audit services, while there are no definite conclusions for other categories of respondents.

On a separate study, Teoh & Lim (1984) investigated the effects of five selected variables on the PAI of Malaysian public and nonpublic accountants. They employed a repeated measures experimental design. Results showed a large audit fee received from a single client is the most important factor leading to the impairment of PAI, followed by the provision of management consultancy services. The non-rotation of audit firms is not a dominant factor. The formation of audit committees was found to have a strong positive impact on enhancing auditor independence, while the positive impact of disclosure of non-audit fees is considerably less.

The study conducted in Malaysia by Abu Bakar et al. (2006) surveyed the users of financial statements in particular 86 commercial loan officers in Malaysian-owned commercial banks using mail questionnaires. Results indicate that factors including (1) smaller audit firms, (2) audit firms operating in a higher level of competitive environments, (3) audit firms serving a given client over a longer duration, (4) larger size of audit fees, (5) audit firms providing Management Advisory Services (MAS), and, (6) the non-existence of an audit committee, are perceived as having a higher risk of losing independence. Audit firm size was found to be the most important factor, followed by tenure, competition, audit committee, MAS and size of audit fee.

In his study on the Influences of Ethics, Independence, And Competence on the quality of an audit through the influence of Professional Skepticism, Syamsuddin (2014) states that there is an indirect influence between Independence and Audit Quality, with Professional Skepticism as a mediator.

Palmrose (1988), drawing on theory from DeAngelo (1981), presents evidence consistent with Big 5 auditors reducing litigation exposure by increasing their independence. This evidence is also consistent with Sparks et al (1996) and Becker et al (1998) who found that Big 5 auditors appear to constrain managers' ability to exercise accounting discretion.

It is expected that there is a positive relationship between independence and the level of compliance with the Code of ethics. The higher the level of independence, the easier it is to comply with the code of ethics.

A lot has been done about accountants' independence and its influence to compliance with accountants' code of ethics but little addresses county governments in Kenya.

2.4 Conceptual Framework

The conceptual framework below explains the relationship between the independent and dependent variables. The dependent variable is compliance with the code of ethics while the independent variables are factors influencing compliance with the code of ethics, which are internal control system, remuneration and independence.

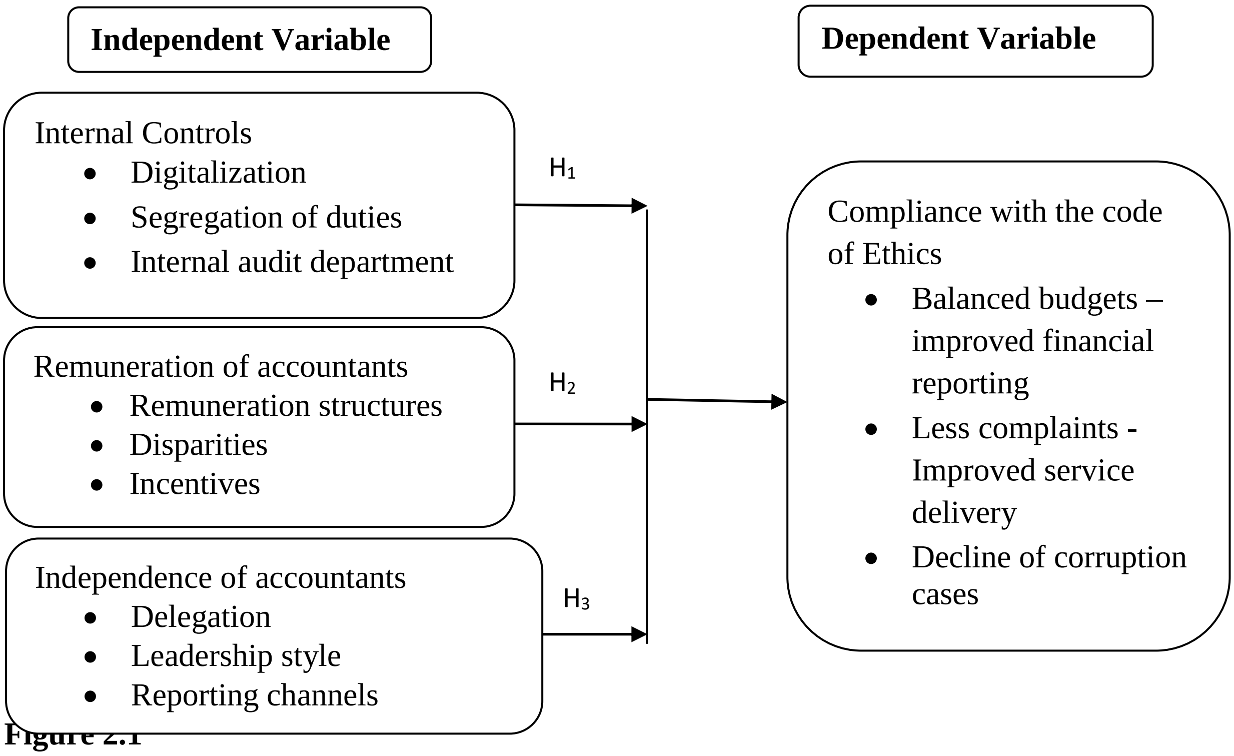

Figure 2.1

2.5 Conclusion

County governments having come into existence in 2013, not very many studies have been done on this topic. Even with the implementation of stricter legislation and more stringent accounting standards in addition to an increased level of state oversight, irregular practices and mismanagement continue to occur. The studies done earlier did not critically analyze the factors influencing compliance with accountants' code of ethics in county governments of a developing economy like Kenya.

It is therefore expected that at the end of the study, the influence of internal controls, remuneration and independence on compliance with the Code of Ethics will be established to bridge the gap created by earlier studies.

2.6 Operationalization

Table 2.1: Operationalization of Variables

Objective	**Variable Type**	**Indicators**	**Type of data**

			analysis
To establish the influence of internal control systems on the compliance with accountants code of ethics in county governments of Kenya.	**Independent** Internal control system.	-Well documented System -Supervision -Digitalization and IT -Segregation of duties	Descriptive Correlation Regression
To determine the influence of remuneration of accountants on compliance with accountants code of ethics in county governments of Kenya.	**Independent** Remuneration	-Remuneration structures -Benefit package policies -Merit and equitable pay	Descriptive Correlation Regression
To establish the influence of independence of accountants on the compliance with accountants code of ethics in county governments of Kenya.	**Independent** Independence	-Work environment -Leadership styles -Individual characteristics	Descriptive Correlation Regression
	Dependent Compliance with Accountants code of ethics in county governments of Kenya.	-Declining corruption cases -Improved Quality of financial reporting -Improved service delivery -Balanced budgets	Descriptive Correlation Regression

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the research design, target population, sampling techniques, procedure, sample size, data collection and research instruments and finally, data analysis and presentation.

3.2 Research Design

The purpose of this study was to investigate factors influencing compliance with the Accountants' Code of ethics. Thus, the study adopted a descriptive survey since it helps in capturing phenomenon as it is by collecting information from a representative sample of the target population. This technique is ideal as it allows the researcher to generate both qualitative and quantitative information from the respondents. Orodho (2008) points out that descriptive survey design allows researchers to gather information from exploratory studies, summarize, interpret and present the information.

3.3 Target Population

The target population for this study was 245 accountants in the ministry of finance for the four counties. The population data was derived from the human resource office of concerned counties. This target population was selected as it is deemed to be representative of the other accountants in the forty seven counties in Kenya taking into account costs and time. The selected department holds most accountants in the counties.

3.4 Sampling Technique and sample size

Sampling is the process of selecting a small number of individuals from a given population to represent the large group from which they are selected (Mugenda & Mugenda, 2003). In this proposed study, stratified sampling is appropriate because the accountants are scattered in various counties.

Sample size was calculated using Israel Formula: $n=N/1+N(e)^2$

Where n = Sample size

N = Population size = 245

e = confidence level (0.05)

Thus n $=245/1+245(0.05)^2 = 151$

The target population being 245 accountants from four target counties, the sample size was 151 accountants. This helps the sample size to be more representative.

Stratified sampling technique was used to select 151 respondents from the population so as to highlight accountants' in ministry of finance from all the four counties. A percentage of the sample (151 accountants) out of a population of 245 was calculated which was 62% to allow for sample size computation in all the four counties. It was more precise, for it ensured each county within the population received equal representation within the sample. This is presented in the table 3.1 below:-

STRATUM	**POPULATION**	**SAMPLE**	**PERCENTAGE**
NAIROBI	73	45	62
KIAMBU	81	50	62
MURANG'A	42	26	62
MACHAKOS	49	30	62
TOTAL	**245**	**151**	

3.5 Instrumentation

The main research instruments that was used in this study will entailed the administration of questionnaire to collect primary data. In developing the questionnaire items, there was closed ended and open-ended questions. This format was used in all categories of the study. The respondent filled the structured and the unstructured items. In the unstructured items the respondents was able to express themselves. Mutai (2000) argues that open – ended questions allows more spontaneity of response and provides opportunities for self –expression. The questionnaire was divided into sections to allow collection of relevant data as per the study objectives. The close ended questions were made of a five pointer Likert scale to allow for standardization.

3.6 Data Collection

Data was collected using primary method through administration of questionnaire to the respondents. The questionnaires were distributed and delivered at the respondents offices' by using drop and pick method. Respondents were allowed a duration of three days to fill in the questionnaires. Upon collection, the researcher and research assistants checked on completeness and consistency.

3.7 Validity & Reliability of Instrument

According to Wallen and Fraenkel (2000) validity refers to the extent to which an instrument can measure what it ought to measure and the extent to which an instrument asks the right questions in terms of accuracy. The content validity of the instrument was determined in three ways. First the researcher ensured that the elements chosen to be measured were addressed in depth in the measuring tools to ensure their representativeness (Cohen, Marion & Morrison, 2000). This was done by listing the variables that related to the three independent variables on a five point likert scale and respondents indicate their agreement level. Secondly, expert judgment where the instrument was discussed with the supervisors and other MBA colleagues from the University. Thirdly, the questionnaire instrument was pre-tested with ten accountants from Kirinyaga County's ministry of finance who gave their recommendations on the format, clarity and comprehension of the questions. This was done to test the effectiveness of the questionnaire in terms validity and reliability. Pilot testing gave room for restructuring of questionnaire to avoid any ambiguity. Kirinyaga County was not included in the main study.

Reliability is the consistence by which instruments used to capture information is interpreted the same by others. According to Mugenda (2003), the reliability of an instrument is the measure of the degree to which a research instrument yields consistent results or data after repeated trials. If the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable. Cronbach's alpha as a measure of internal consistency and reliability of the questionnaire was used, the closer the alpha is to 1.00 the greater the internal consistency and with a score of over 0.7 indicating reliability of the instruments (George and Mallery 2003). This could easily be applicable to another sample to test the reliability of the results.

3.8 Data Analysis

The problem under investigation was social in nature and therefore descriptive survey allowed getting deeper understanding of the factors influencing compliance with accountants' code of ethics. Before processing the data, the returned questionnaires from the field were checked for accuracy, completeness, consistency and reliability. The data was coded to enable grouping of the responses. The study used descriptive statistics such as percentages, frequencies, mean and standard deviation for analysis to help in establishing the findings on the objectives of the study. Regression analysis was used to establish the relationship between the dependent variable; compliance with accountants' code of ethics and the three independent variables; internal controls, remuneration and independence.

The following regression model was used:-

$Y= \beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+ \boldsymbol{\varepsilon}$

Where Y= Compliance with the Code of Ethics

X_1= Internal controls

X_2= Remuneration

X_3 = Independence

$\boldsymbol{\varepsilon}$ = Error of prediction

β_0= Constant. Value of dependent variable; Compliance with the Code of ethics when all the independent variables are held constant at zero

$\beta_1, \beta_2, \beta_3$ = Regression coefficients of independent variable. Rate of change in dependent variable as a result of a unit change in independent variable; X_1, X_2 and X_3.

Some diagonistic tests were performed in the study. A co-efficient of determination (R-squared) was used to show the contribution level of the independent variables to the dependent variable, ANOVA to determine relationship between the independent and dependent variables and Regression Coefficient to indicate the effect of each individual variable. The study analyzed the data with assistance of IBM Statistical Package for Social Science (SPSS) version 20.0. The data was then be presented using tables for ease in understanding and analysis.

CHAPTER FOUR: FINDINGS AND DISCUSSION

4.1 Introduction

In this chapter we present the findings, analysis and discussions of the research. Background information from the respondents was first analyzed and discussed. To respond to the general and specific objectives of the study, descriptive statistics and inferential analysis were performed using Statistical Packages for Social Sciences (SPSS). The results were presented in tables and discussed.

4.2 Response Rate

The target number of respondents was 151 officers working in the finance departments in all the four counties. As shown on Table 4.1 below, 140 officers managed to complete and return the questionnaire, signifying a 93% response rate. According to Mugenda and Mugenda (1999), a response rate of 50% is an adequate representative for analysis and discussion while a 70% response rate is considered excellent. The 93% response rate was therefore excellent and sufficient for this type of study.

Table 4.1 Response Rate

Questionnaire	**Frequency**	**Percentage**
Filled and Returned	140	93
Unreturned	11	7
Total Issued	**151**	**100**

4.3 Reliability Analysis

We use the Cronbach's Alpha test to test reliability of the analysis. To test whether items within a scale measures the same construct we also test for internal consistency using the Cronbach's Alpha test. This measure will test the mean of measurable items and its correlation. For each variable representing the specific objectives, Cronbach's Alpha was established and had the following scale.

Table 4.2: Reliability Analysis

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No. of Likert Items
0.851	**.844**	**20**

The table shows that with the 20 items considered, the Cronbach's Alpha was 0.844. This indicates that the variables were reliable as their reliability values was above the threshold of 0.7 as contended by Field (2009). The average index was 0.844 which exceeds the adopted threshold of 0.7. This result gave the researcher an assurance that the questionnaire used was reliable and yielded consistent results.

4.4 Background information of the respondents

Information on the designation, gender, age, work service in years, highest academic qualification, professional qualifications and the number of trainings attended per annum in their professional bodies was recorded and analyzed.

Table 4.3: Designation in the finance department

	Frequency	Percent
Finance Officer	20	14
Accountant	98	70
Auditor	15	11
Admin/Clerk	5	4
Others	2	1
Total	140	100

According to table 4.3 majority of the respondents were accountants (70%) followed by finance officers (14%). 11% of the respondents worked as auditors while 5% were clerk and other office assistants. This is an indication that all worked in the accounting department of the county governments and therefore were conversant with the department giving credible information related to this study. Thus, the staff well understood all the study objectives.

Table 4.4 Gender

	Frequency	Percent
Male	88	63
Female	52	37
Total	140	100

According to table 4.4 majority of the respondents were males at 63% while females were 37%. This is an indication that the threshold of 30% women representation as per the Kenyan laws has been attained. Therefore the data collected was well gender balanced enhancing credibility.

Table 4.5 Age Bracket

	Frequency	Percent
Below 30 Years	42	30
30-50 Years	88	63
Above 50 Years	10	7
Total	140	100

Table 4.5 indicates that a majority of the respondents (63%) were between the ages of 30 to 50 years. 30% of the respondents were below age 30 while only 7% were above 50 years. This shows that the data was collected from the best age bracket improving credibility. Below 30 years of age have just joined employment, so may not have ample information about county operations while the over 50 years are on the exit and reluctant to give information.

Table 4.6 Work Service in years

	Frequency	Percent
Below 2 years	16	12
2-4 Years	48	34
Above 4 Years	76	54
Total	140	100

According to Table 4.6 majority of the respondents (54%) had worked for more than 4 years. 34% of the respondents had worked for 2-4 years while only 12% had worked for less than 2 years. This indicates that most staff had been in employment since devolution started enabling them comprehend the county operations in accounts departments enhancing credibility of data and study findings.

Table 4.7 Highest Academic Qualifications

	Frequency	Percent
Certificate	6	5
Diploma	34	24
Bachelors Degree	76	54
Masters Degree	24	17
Total	140	100

According to Table 4.7, majority of the respondents (54%) had a bachelor's degree, 24% had a diploma qualification, and 17% had a master's degree while 5% had a certificate. This is an indication that majority of the respondents had relevant qualifications for the roles in the finance departments making the data collected be credible.

Table 4.8 Professional qualifications

	Frequency	Percent
CPA (K)	116	83
Others	24	17
Total	140	100

As shown in Table 4.8, we also observe that 83% of the respondents are qualified accounts while 17% had other professional qualifications. We therefore observe that majority of the respondents had relevant qualifications for the roles in the finance departments. Thus the findings of the study are more representative of the accountancy profession.

Table 4.9 No. of trainings/seminars/workshops organized by professional body attended per annum

	Frequency	Percent
0	22	16
1	39	28
2	30	21
3	20	14
4	29	21
Total	140	100

From the table 4.9, we observe that only 16% of the respondents hadn't attended a professional training. The rest had attended at least 1 training/workshop. This indicates that majority of the respondents were conversant with accountants' code of ethics, thus relevant to the study.

4.5 Internal Controls and Compliance with Accountants' code of ethics in County governments of Kenya

The study sort to establish the effects of internal controls on the compliance with Accountants' code of ethics in county governments of Kenya. Questions relating to internal controls within the county governments were well structured in the questionnaire. In each question, a likert scale of 1-5 where 1= No extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent was used. Descriptive statistics (mean and standard deviation) for each question was also analyzed to establish the average response of the respondents.

Table 4.10: Frequency and Mean Analysis of effects of internal controls on the compliance with Accountants' code of ethics

	No extent	Little extent	Moderate extent	Great extent	Very great extent	Mean	Std. Deviation
Extent of influence of digitalization of dept operations on compliance with code of ethics	0.0	0.0	31.4	49.3	19.3	3.88	.704
Extent of influence of supervision of dept heads on compliance with code of ethics	0.0	0.0	2.9	77.9	19.3	4.16	.443
Extent of influence of flow of communication across the organization on compliance with code of ethics	0.0	0.0	9.3	82.9	7.9	3.99	.415
Extent of influence of risk assessment mechanisms on internal controls on compliance with code of ethics	1.4	0.0	8.6	73.6	16.4	4.04	.616
Extent of influence of existence of independent internal audit dept on compliance with code of ethics	0.0	0.0	4.3	80.7	15.0	4.11	.427

According to Table 4.10, influence of digitalization of department operations on compliance with code of ethics had a mean of 3.88 with a standard deviation of 0.704, influence of supervision by departmental heads on compliance with code of ethics had a mean of 4.16 with a standard deviation of 0.443, influence of flow of communication across the organization on compliance with code of ethics had a mean of 3.99 with a standard deviation of 0.415, influence of risk assessment mechanism on internal controls on compliance with code of ethics had a mean of 4.04 a standard deviation of 0.616 and influence of existence of independent internal audit department on compliance with code of ethics had a mean of 4.11 with a standard deviation of 0.427.

All the mean values and the standard deviation indicate that the respondents agreed with the five statements to a great extent (mean of 4). We therefore conclude that internal controls do influence compliance with accountants' code of ethics.

4.6 Remuneration and Compliance with Accountants' code of ethics in County governments of Kenya

The study sort to establish the effects of remuneration on the compliance with Accountants' code of ethics in county governments of Kenya. Questions relating to remuneration within the county governments were well structured in the questionnaire. In each question, a likert scale of 1-5 where 1= No extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent was used. Descriptive statistics (mean and standard deviation) for each question was also analyzed to establish the average response of the respondents.

Table 4.11: Frequency and Mean Analysis of effects of remuneration on the compliance with Accountants' code of ethics

	No extent	Little extent	Moderate extent	Great extent	Very great extent	Mean	Std. Deviation
Extent of influence of lack of clear remuneration structures on compliance with code of ethics	0.0	4.3	62.1	21.4	12.1	3.41	.759
Extent of influence of disparities in remuneration btwn higher and lower cadres on compliance with code of ethics	0.0	0.0	19.3	70.0	10.7	3.91	.543
Extent of influence of Public private sector wage differentials on compliance with code of ethics	0.0	0.0	8.6	78.6	12.9	4.04	.463
Extent of influence of Promotions based on merit on compliance with code of ethics	0.0	0.0	28.6	50.0	21.4	3.93	.706
Extent of influence of incentives award in our organizations on compliance with code of ethics	0.0	1.4	14.3	40.0	44.3	4.27	.757

According to Table 4.11, influence of lack of clear remuneration structures on compliance with code of ethics had a mean of 3.41 with a standard of 0.759, influence of disparities in remuneration between higher and lower cadres on compliance with the code of ethics had a mean of 3.91 with a standard deviation of 0.543, influence of public private sector wage differentials on compliance with code of ethics had a mean of 4.04 with a standard deviation of 0.463, influence of promotions based on merit on compliance with code of ethics had a mean of 3.93 with a standard deviation of 0.706 and influence of incentives awards in organizations on compliance with code of ethics had a mean of 4.27 with a standard deviation of .0757.

All the mean values and the standard deviation indicate that the respondents agreed with the five statements to a great extent (mean of 4). We can therefore deduce that remuneration of accountants has an effect on the compliance with the Accountants' code of ethics in county governments in Kenya.

4.7 Independence and Compliance with Accountants' code of ethics in County governments of Kenya

The study sort to establish the effects of independence on the compliance with Accountants' code of ethics in county governments of Kenya. Questions relating to independence within the county governments were well structured in the questionnaire. In each question, a likert scale of 1-5 where 1= No extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent was used. Descriptive statistics (mean and standard deviation) for each question was also analyzed to establish the average response of the respondents.

Table 4.12: Frequency and Mean Analysis of effects of independence on the compliance with Accountants' code of ethics

	No extent	Little extent	Moderate extent	Great extent	Very great extent	Mean	Std. Deviation
Extent of influence of Accountants/auditors conversant with the accountants code of ethics on compliance with code of ethics	0.0	0.0	10.0	62.1	27.9	4.18	.591
Extent of influence of employees working without interference on compliance with code of ethics	0.0	0.0	23.6	48.6	27.9	4.04	.718
Extent of influence of accountants independence in their reporting on compliance with code of ethics	0.0	0.0	15.7	57.1	27.1	4.11	.647
Extent of influence of accountants being professional, objective, factual and impartial in their work on compliance with code of ethics	0.0	0.0	14.3	72.1	13.6	3.99	.530
Extent of influence of leadership style enhancing independence on compliance with code of ethics	0.0	0.0	14.3	64.3	21.4	4.07	.595

According to Table 4.12, influence of accountants /auditors conversant with the accountants' code of ethics on compliance with code of ethics had a mean of 4.18 with a standard deviation of 0.591, influence of employees working without interference from bosses on compliance with code of ethics had a mean of 4.04 with a standard deviation of 0.718, influence of accountants independence in their reporting on compliance with the code of ethics had a mean of 4.11 with a standard deviation of 0.647, influence of accountants being professional, objective, factual and impartial in their work on compliance with the code of ethics had a mean of 3.99 with a standard deviation of 0.53 and influence of leadership style enhancing independence on compliance with code of ethics had a mean of 4.07 with a standard deviation of 0.595.

We also observe all the mean values and the standard deviation indicate in the five statements above, the respondents agreed with the five statements to a great extent (mean of 4). We can therefore deduce that independence of accountants has an effect on the compliance with Accountants' code of ethics in county governments of Kenya.

4.8 Compliance with Code of Ethics

Different elements of compliance with the accountants' code of ethics were incorporated in the questionnaire. The respondents indicated the extent of the different elements of compliance with code of ethics at county governments.

Table 4.13 below indicates the analysis of the responses.

Compliance Descriptive Statistics							
	No extent	Little extent	Moderate extent	Great extent	Very great extent	Mean	Std. Deviation
Timely implementation of budgets on compliance with code of ethics	0.0	0.0	17.1	70.7	12.1	3.95	.541
Decline in case of corruption on compliance with code of ethics	0.0	7.1	35.7	50.0	7.1	3.57	.731
Improved service delivery on compliance with code of ethics	0.0	0.0	13.6	51.4	35.0	4.21	.666
Transparency of operations on compliance with code of ethics	0.0	0.0	6.4	57.1	36.4	4.30	.584
Accountability of the officials on compliance with code of ethics	0.0	0.0	23.6	35.7	40.7	4.17	.786

According to Table 4.13, timely implementation of budgets on compliance with code of ethics had a mean of 3.95 with a standard deviation of 0.541, decline in corruption cases on compliance with code of ethics had a mean of 3.57 with a standard deviation of 0.731, improved service delivery on compliance with code of ethics had a mean of 4.30 with a standard deviation of 0.666, transparency of operations on compliance with the code of ethics had a mean of 4.30 with a standard deviation of 0.584 and accountability of the officials on compliance with code of ethics had a mean of 4.17 with a standard deviation of 0.786. The mean value indicate that the respondents generally agreed with the statements which is consistent with Weiss (2015) who pointed out that the nature of work carried out by accountants an auditors requires a high level ethics.

4.9 Regression Analysis

To run a regression analysis a factor analysis was first conducted to the cases for each variable in order to reduce the dimension and determine the variables to be used for regression.

Table 4.14: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.854[a]	.729	.723	0.5259

a. Predictors: (Constant), REGR factor score for Internal controls, REGR factor score for remunerations of accountants, REGR factor score for independence of accountants

The table above shows that Adjusted R Square is 0.723. This indicates that that 72.3% of compliance with Accountants code of ethics in county governments of Kenya could be accounted for by internal controls, remuneration of accountants and independence of accountants.

Using multiple regression analysis, the study sought to establish the three hypothesis:

Ho_1: There is no significant relationship between internal controls and compliance with the Accountants' code of ethics in county governments of Kenya.

Ho_2: There is no significant relationship between remuneration of accountants' and compliance with the Accountants' code of ethics in county governments of Kenya.

Ho_3: There is no significant relationship between independence of accountants' and compliance with the Accountants' code of ethics in county governments of Kenya.

The dependent variable was compliance with accountants' code of ethics and the three independent variables were internal controls, remuneration and independence.

The following regression model was used:-

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon}$$

Where **Y** = Compliance with the Code of Ethics

$\mathbf{X_1}$= Internal controls

$\mathbf{X_2}$= Remuneration

$\mathbf{X_3}$ = Independence

$\boldsymbol{\varepsilon}$ = Error of prediction

$\boldsymbol{\beta_0}$**=** Constant. Value of dependent variable; Compliance with the Code of ethics when all the independent variables are held constant at zero

$\boldsymbol{\beta_1, \beta_2, \beta_3}$ = Regression coefficients of independent variable.

Table 4.15: Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.000E-013	.044		.000	1.000
	REGR factor score for Internal controls	.225	.046	.225	4.862	.000
	REGR factor score for remunerations for accountants	.147	.046	.147	3.199	.002
	REGR factor score for independence of accountants	.718	.047	.718	15.121	.000

a. Dependent Variable: REGR factor score for Compliance to the code of ethics

Based on Table 4.15 above we observe that all the independent variable are statistically significant. Internal controls had a significant coefficient with P-value = .000, remuneration for accountants P-value = 0.002 and independence of accountants P-value = .000. The study therefore rejected Ho_1, Ho_2 and Ho_3 since their p-values were less than 0.05.

The regression equation is therefore:

$$\mathbf{Y = 0.225X_1 + 0.147X_2 + 0.718X_3 + \varepsilon}$$

An increase in internal controls by one unit will result in an increase in the level of the compliance by 0.225 units. Further, an increase in remuneration of accountants by one unit will result to an increase in the level of the compliance by 0.147 units. Finally, an increase in independence of accountants by one unit will result to an increase in the level of the compliance by 0.718 units.

Table 4.16: Analysis of Variance

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	101.381	3	33.79	122.17	.000[b]
Residual	37.619	136	0.27		
Total	139.000	139			

The ANOVA table above indicates that the model I significant as the p-value was less than 5% and F statistic is significantly greater than 1 thus indicating the appropriateness of the model in testing the relationship between independent and dependent variables. Thus the model is appropriate for use in interpreting factors influencing compliance with Accountants code of ethics in county governments of Kenya.

CHAPTER FIVE: SUMMARY OF FINDINGS, DISCUSSION, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presents summary of the findings, discussions, conclusion and recommendations based on study objective which was to determine factors influencing compliance with accountants' code of ethics in county governments in Kenya. It also highlights on limitations of the study and areas for further research.

5.2 Summary of findings

The summary of findings is presented as per the research objectives as follows:

5.2.1 Effect of internal controls on the compliance with accountants' code of ethics

The study established that constituents of internal controls: digitalization of department operations, supervision by department heads, flow of communication across the organization, risk assessment mechanisms on internal controls and existence of independent internal audit department influence compliance with accountants' code of ethics.

On the influence of internal controls on compliance with accountants' code of ethics, the study found out that there is a significant positive relationship between internal controls and compliance with accountants, code of ethics. This means that county governments in Kenya should tighten their internal controls in order to enhance their accountants' compliance with the code of ethics.

5.2.2 Effect of remuneration of accountants on the compliance with accountants code of ethics

The study found out that lack of clear remuneration structures, disparities in remuneration between higher and lower cadres, public private sector wage differentials, promotions based on merit and incentives award in the organizations influenced compliance with accountants' code of ethics.

On the influence of remuneration of accountants on compliance with accountants' code of ethics, the study concluded that there is a significant positive relationship between remuneration and compliance with code of ethics. Thus, competitive remuneration of accountants at county governments in Kenya enhances compliance with the code of ethics. If the accountants are paid well, they tend to maintain a high standard of code of ethics.

5.2.3 Effect of independence of accountants on the compliance with accountants' code of ethics

The study showed that accountants/auditors conversant with the accountants' code of ethics , employees working without interference, accountants independence in their reporting, accountants being professional, objective, factual and impartial in their work and leadership style enhancing independence influence compliance with accountants' code of ethics.

On the independence of accountants on compliance with accountants' code of ethics, the study revealed there is a significant positive relationship between accountants' independence and compliance with the code of ethics. When accountants are independent, they bear the burden of responsibility and accountability. This helps them to maintain a high degree of compliance on their code of ethics.

5.3 Discussions

5.3.1 Internal controls and compliance with accountants' code of ethics

The study revealed that there was a significant influence on compliance with accountants' code of ethics in county governments in Kenya by internal controls, which was similar to the findings of Graham & Lynford (2007) who pointed out that common organizational control gaps in entities include lack of controls, documentation, the lack of accounting expertise and the inability to proper accrue for expenses and prepare financial statements. Manhattan (2015) also acknowledged internal controls are good business practices which should reduce the risks associated with undetected errors or irregularities. The study also posted similar findings to Devra (2015) who found out that internal controls is a process affected by an organization's structure, work and authority flows, people and management information systems designed to help the organization accomplish goals and objectives.

5.3.2 Remuneration of accountants and compliance with accountants' code of ethics

Remuneration of accountants largely influenced compliance with accountants' code of ethics in county governments of Kenya as found out in this study which was in line with findings of Murphy (2011) that with the growing distrust of business and increasing levels of misconduct, it will become critically important for business and other organizations to do a better job of using incentives as a tool to drive the kind of behaviour they expect of employees. Similar findings were also pointed out by Hall (2000) that the link between pay and performance has increased nearly tenfold since 1980. KIPPRA (2013) also pointed out that wage differentials, both within the public service and between the public private sector, lower morale and in effect output in the public sector. It could also lead to unethical behaviour. ICPAK (2015) also noted that although law requires counties to ensure all county revenue is deposited intact into county revenue fund (CRF) before expenditure, most public officers defraud the county monies due to inequitable remuneration.

5.3.3 Independence of accountants and compliance with accountants' code of ethics

The study revealed that independence of accountants greatly influenced compliance with accountants' code of ethics in county governments of Kenya as supported by findings of Symsuddin et al (2014) that in carrying out professional responsibilities, auditors may face pressure or conflicts from management of audited entities, various levels of governmental positions and other parties that may affect the objectivity and independence of auditors. Similar findings by O' Malley (1993) pointed out that the issues related to independence are threatening the survival of accountants firms of all sizes and indeed it has the power to destroy accounting profession as a whole. Abu Bakar (2006) also concluded in his study that it is therefore vital that auditors maintain their independence and ensure that they provide a high quality of auditing to ensure the credibility of financial information not only for the purpose of reducing the number of corporate scandals but most importantly the survival of their profession and development of healthy financial and capital market.

5.4 Conclusion

The conclusion of this study is that compliance with accountants' code of ethics in county governments of Kenya is mainly influenced by internal controls, remuneration and independence of accountants.

Internal controls which include digitalization of operations, segregation of duties, supervision, risk assessment mechanisms and internal audit department help in safe guarding of organizations assets, improves communication, proper accounting records and ensures that business is conducted in accordance with its objective and regulations of the organization.

Remuneration of accountants which include clear remuneration structures, minimum public private sector wage differentials, promotions on merit, commensurate benefit packages, incentives, and no disparities between the higher and lower cadres improve employees morale and motivation, reduce conflicts bringing harmony and helps in employee retention.

Independence of accountants which is brought about by accountants being conversant with the code of ethics, professional, objective, factual and impartial in their work, non-interference by bosses, conducive leadership styles lead to improved decision making processes and credibility in accountants reporting systems.

Therefore the study concludes that the county government stakeholders should maintain strong internal controls, equitable remuneration of accountants and enhanced accountants' independence to encourage compliance with accountants' code of ethics. This will in return produce improved quality of financial reporting, timely implementation of budgets, decline in corruption cases, improved service delivery, transparency of operations and accountability of the officials.

5.5 Recommendations

The following recommendations are crucial in terms of realization of compliance by accountants with accountants' code of ethics in county governments in Kenya; the professional policy makers like ICPAK and IFAC should develop policies that address the shortcomings attributed to compliance with the code of ethics for accountants in county governments and follow up measures to ensure implementation of the same.

The county governments should come up with strict policy measures which ensure that all accountants detest from being culpable of not complying with their code of ethics.

The stakeholders in the county governments should ensure internal controls, remuneration and independence of accountants are well thought of and institutionalized.

5.6 Limitations of the study

The study was limited by finances and time which led to the choice of four counties instead of carrying out a little broad coverage. The study was carried out at the closure of the government financial year when most accountants had overwhelming work. The county governments have been only in operation since 2013 making some devolution structures and systems to be not fully elaborate.

5.7 Areas for further research

The study considered three factors influencing compliance with accountants' code of ethics in county governments of Kenya which have been in existence for only five years. Future studies should look into other factors influencing compliance and also consider the three factors in this study with view of all devolution structures and systems being in place and running effectively.

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APPENDIX I: QUESTIONNAIRE

Introduction

I am a Masters of Corporate Management student at KCA University and I am conducting a study on "Factors influencing compliance with Accountants' Code of Ethics in County Governments of Kenya."

Kindly help me answer this questionnaire as accurately as possible. The data you provide will be held in strict confidentiality and used only for academic purposes. Tick where appropriate and write brief answers where required. Do not write your name on the questionnaire.

SECTION A: DEMOGRAPHIC INFORMATION

1. What is your designation ________________________________
2. Gender: Male [ ] Female [ ]
3. In which age bracket do you belong?

   Below 30 years [ ] 30-50 years [ ] Above 50 years [ ]

4. How long have you worked for the county government?

   Below 2 years [ ] 2-4 years [ ] above 4 years [ ]

5. What is your highest academic qualification?

   Certificate [ ] Diploma [ ] Bachelor's degree [ ]
   Master's degree [ ] Doctorate [ ]

6. What is your professional qualification?

   CPA (K) [ ] ACCA [ ] Any other---------------------------------------

7. How many trainings/seminars/workshops organized by your professional body, do you attend annually--

SECTION B: INFLUENCE OF INTERNAL CONTROLS ON COMPLIANCE WITH CODE OF ETHICS

8. The table below shows statement on internal controls. Please indicate the extent to which these factors have influenced compliance with the accountants' code of ethics in your ministry/department.

   Use a scale of 1-5 where 1= No extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

Statements	1	2	3	4	5
a) Digitalization of department operations					
b) Supervision by departmental heads					
c) Flow of communication up, down and across the organization					
d) Risk assessment mechanisms on internal controls					
e) Existence of an independent internal audit department					

9. In General to what extent has internal controls influenced the compliance with the accountants' code of ethics in your organization?

Very great extent	[ ]
Great extent	[ ]
Moderate extent	[ ]
Little extent	[ ]
No extent	[ ]

SECTION C: INFLUENCE OF REMUNERATION OF ACCOUNTANTS ON COMPLIANCE WITH CODE OF ETHICS

10. Below are several elements of remuneration that influence compliance with accountants' code of ethics. Please indicate the extent to which these elements have influenced compliance in your ministry/department. Use a scale of 1-5 where 1= No extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

Statements	1	2	3	4	5
a) Lack of clear remuneration structures					
b) Disparities in the remuneration between higher and lower cadres					
c) Public-private sector wage differentials					
d) Promotions are done on merit. Education and experience considered					
e) There are incentives awarded in our organization					

11. In General to what extent has remuneration influenced the compliance with accountants' code of ethics in your organization?

Very great extent	[ ]
Great extent	[ ]
Moderate extent	[ ]
Little extent	[ ]
No extent	[ ]

SECTION D: INFLUENCE OF INDEPENDENCE OF ACCOUNTANTS ON COMPLIANCE WITH CODE OF ETHICS

12. Below are several elements of independence that influence compliance with accountants' code of ethics. Please indicate the extent to which these elements have influenced compliance in your ministry/department. Use a scale of 1-5 where 1= No extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

Statements	1	2	3	4	5
a) The accountants/auditors are conversant with accountants' code of ethics					
b) The employees work without interference from bosses					
c) The accountants/auditors show independence in their reporting					
d) The accountants are professional, objective, factual, and impartial in their work					
e) The leadership style is conducive to allow for independence					

13. In General to what extent has independence influenced the compliance of accountants' code of ethics in your organization?

Very great extent [ ]
Great extent [ ]
Moderate extent [ ]
Little extent [ ]
No extent [ ]

SECTION E: COMPLIANCE WITH CODE OF ETHICS

14. Compliance with accountants' code of ethics can reduce financial scandals while improving transparency and accountability in service delivery. To what extent do the following statements indicate the extent of compliance with code of ethics at county governments? Use a scale of 1-5 where 1= No extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

Statements	1	2	3	4	5
a) Timely implementation of budgets					
b) Decline in cases of corruption					
c) Improved service delivery					
d) Transparency of operations					
e) Accountability of the officials					

THANK YOU FOR YOUR PARTICIPATION IN THIS STUDY