FACTORS INFLUENCING QUALITY OF FINANCIAL REPORTING IN PUBLIC SECTOR ENTITIES IN THE MINISTRY OF ENVIRONMENT AND NATURAL RESOURCES,KENYA

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A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF MASTER OF SCIENCE IN COMMERCE (FINANCE AND ACCOUNTING) IN THE SCHOOL OF BUSINESS AND PUBLIC MANAGEMENT
KCA UNIVERSITY

NOVEMBER, 2017

DECLARATION

I hereby declare that this dissertation is my original work and has not been previously published or submitted elsewhere for the award of a degree or any other qualification. 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

This study examined the factors influencing quality of financial reporting in the public sector entities in Kenya. A key prerequisite for quality in financial reporting according to IPSASB is the adherence to the objective and qualitative characteristics of financial reporting information. This study aimed at investigating the factors that influence the quality of financial reporting in the public sector entities based on the following; internal control measures, adoption of International Public Sector Accounting Standards and existence of an audit committee in an entity. The study was conducted on five public entities in the Ministry of Environment and Natural Resources in Kenya focusing on management staff as respondents and who also formed the unit of analysis. The study used primary data collected through questionnaire as the main data collection instrument. The data was analyzed using descriptive statistics for the general information and further analysis was done using multiple regressions with the help of STATA Version 13 Software to determine the relationship between the independent variables and the dependent variable. The results were presented in form of tables, figures and text. The study established that factors like internal controls, existence of audit committee and IPSASs adoption play significant role in the quality of financial reporting in the public sector entities. In addition, the study observed that, individually, internal control had the highest influence, followed by audit committee, and lastly IPSAS adoption. The study concluded that the model was well suited to predict quality financial reporting and it is imperative that public sector entities strengthen the internal controls to enhance quality reporting which is a determinant of prudent utilization of public resources. The results concur with similar studies done on the variables such as (Ball and Plugrath, 2012; Opanyi, 2016 and Nkwagu, Uguru & Nkwede 2016).The study recommends that the government should ensure that public entities management are made to adhere to proper management and financial reporting of the entities.

Key Words: Quality Financial Reporting, Public Sector Entities, Internal Controls, Audit Committee

DEDICATION

This work is dedicated to my family members Jane, Vincentia, Leah, Charles, Felix, late Dave and Stephan for standing with me during the time of working on this dissertation. I thank them for the sacrifice, emotional support and words of encouragement.

ACKNOWLEDGEMENT

I am grateful to the Almighty God for the gift of life he gave me to help me reach this far. My strength, good health and knowledge came from Him.

My sincere acknowledgement goes to my supervisor Dr. Peter Njuguna for his worthy guidance, understanding, patience, and constructive engagements all times.

I am grateful to my colleagues in Finance Department at KEFRI for their moral support and encouragements.

My special thanks also go to family members who stood with me at all times to ensure that this work is finalized**.** My gratitude goes to my abled friends for encouragements and standing with me during the time I was pursuing this course.

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ACRONYMS AND ABBREVIATIONS

BOM	Board of Management
CIPFA	Certified American Institute Finance and Accountants
COSO	Committee of the Sponsoring Organizations of the Treadway Commission
FASB	Financial Accounting Standards Board
GASB	Governmental Accounting Standards Board
GOK	Government of Kenya
IAI	Internal Auditors Institute
IASB	International Accounting Standards Board
ICPAK	Institute of Certified Public Accountants of Kenya
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
KEFRI	Kenya Forestry Research Institute
KFS	Kenya Forest Service
KWS	Kenya Wildlife Service
KWTA	Kenya Water Towers Agency
NEMA	National Environment Management Authority
NPM	New Public Management
PFMA	Public Finance Management Act 2012
PFMR	Public Finance Management Reforms
PwC	PricewaterCoppers
SCAC	State Corporations Advisory Committee

DEFINITION OF TERMS

Audit Committee

This is a function within the corporate governance structure that is established to provide oversight to the management activities and resource utilization, (Islam et al.2010)

Board of Management

This is a body or person carrying out or empowered to carry out functions relating to the overall direction and management of a state corporation (SCAC 446 Rev.2015)

Quality Financial Reporting

This refers to a communication presented by the financial statements from a business enterprise to external users for sound decision making (IASB, 2010)

Board of Management

This is a body or person carrying out or empowered to carry out functions relating to the overall direction and management of a state corporation (SCAC 446 Rev.2015)

Conceptual framework

This is a structure that explains possible connections between variables under study (Smyth 2009)

Financial reporting

This is the way the management of an organization issues the financial reports to the users and the purpose is to help the users enhance their financial decisions making (Tasios and Bekiaris, 2012).

Internal Control

Internal Control is defines as a financial and operation management of the enterprise aimed at achieving profit from its performance (Gupta, 2010) OR an executive process of board of directors, management and employees to achieve purposes in efficiency and effectiveness of operations, reliability of financial accountability and observing laws and regulations of the government(COSO,2013) .

International Public Sector Accounting Standards

IPSASs are high quality financial reporting standards applicable in the public sector reporting that takes care of public interest in presentation and disclosure of financial transactions that enhances the accountability and management of public resources (PwC Global,2013)

Moral hazard

This is the form of post contractual opportunism that arises because actions that have efficiency consequences are not freely observable and so the person taking them may choose to pursue his or her private interests at the expense of others (Thomas, 2013).

CHAPTER ONE

1.0 INTRODUCTION

This chapter gives an introduction of the topic by highlighting key areas which include the background discussion, the statement of the problem, research objectives and the value of the study from the wider academic and managerial perspectives.

1.1 Background to the Study

The financial reporting practices in public sector have been challenged in many forums both internationally and nationally because of the inadequacy of financial information used in the preparation of the financial reports. The inadequacy of financial information affects public policy decisions and contribute to unreliable reports (Yamada,2007).The primary objective of financial reporting is to provide sufficient financial information concerning economic existence of an entity and relevant information useful for decision makings (Omoro,Aduda & Okiro,2015). According to International Accounting Standard Board (IASB, 2009), financial reporting is to provide information about the financial position of an entity that is useful to various users in making economic decisions.

The Public sector has undergone numerous reforms aimed at enhancing effectiveness and efficiency of delivery of public accounting and reporting system mostly prompted by economic globalization (Nistor, 2012; Andre, 2014). In recent years most of Organization for Economic Cooperation and Development (OECD) countries adopted reforms in the public accounting and reporting system following the New Public Management (NPM) perspectives and principles. The main objectives of the reforms were to improve public service management and to increase the transparency and accountability of governments (Caperchoine, 2006, Chan and Xiaoyue, 2002). The reforms in the public management , series of corporate failures and financial scandals of world renown companies prompted the demand of transparency and accountability of finance all over the world (Opanyi,2016).During the sovereign debt crises in the European Union in 2010-2012 the main problems witnessed were lack of transparency and accountability of governments, poor public finance management and public sector financial reporting, and many countries had deficiency of institutions for fiscal management (IFAC 2012).There were no incentives for governments to manage their finances in a way that protects the public interest and investors.

Financial reporting was found to improve the credibility and integrity of the public finances thus contributing to effective management of public resources (Caba &Lopez, 2009).Citizens have a right to know how funds are used as the funding of public entities is through taxation of the citizens (Ellwood &Newbury, 2006).Citizens demand for accountability as the managers of the resources are regarded as stewards and financial information produced by them should show whether they are accountable or not. Quality financial information of public entity is useful in decision making as well as fulfilling the public “right to know” how resources have been spent according to Governmental Accounting Standards Board (GASB 2008, p5).

Although the sovereign debt crisis prompted the governments to embark on financial reforms, many have not embraced the reforms as a priority that leads to financial reporting that lack public trust and confidence from citizens and business sector. In case of systemic fraud and corruption that goes unchecked, the public entities have difficulty in attracting more funds from the governments and donors (Whiteman, 2016). Accountancy profession regularly calls upon the governments around the world to adopt accrual accounting and strong public financial management to enhance public service that supports economic growth and tackle poverty. Certified Institute Public Finance and Accountants (CIPFA, 2008) financial management model had set out robust model that ensured there was strong stewardship, good governance and improved performance to the public. According to(IFAC ,2012) all governments around the world must have institutional arrangements that protect the public as well as the investors by creating trust through proving accurate and complete financial information to the public.

The objective of financial reporting by public sector entities is to provide information about an entity's financial statements that is useful to the users for accountability and making economic decisions (FASB, 2010; IASB, 2008; IPSASB 2014).Public sector entities raise resources from taxpayers, donors and lenders for provision of services to citizens; hence they therefore need to be accountable for those resources bestowed to them. Users of public sector financial reports can be categorized as internal and external where internal users are the managers of the resources and employees of the entities while external users are the public who receive services from the public entities, government and its agencies, suppliers, potential investors and customers who have various reasons in using the financial reports(Miller,2002).

In Kenya as in most developing countries major resource components are channeled through public sector entities and this has made the public sectors to play key role in economic development of the country (Macharia, 2014).Kenya had experienced underperformance of public entities due to poor preparation of financial reports. In a report of the GoK (2006) on PEFA public financial performance management report it was noted GoK financial reporting was poor with lack of timeliness, clarity, relevancy, accuracy and consistency. Public resource wastages by the public sector made the GoK experienced inadequacy in funding levels of most essential services (Njeru,2010).It was also found that lack of quality financial reporting created room for fraud and corruption practices that affected the credibility of corporate governance of entities (Madawaki and Amran, 2016).

The introduction of International Public Sector Accounting Standards (IPSAS) by International Public Sector Accounting Standards Board (IPSASB) was to address the quality of financial reporting as the Board's goal was to serve the public interest by increasing public confidence in public sector financial management. IFAC (2012) supported the global adoption and implementation of IPSASs for public sector financial reporting as most governments were still using cash basis of accounting which was not putting emphasis on quality of financial reporting. Quality financial reporting standards greatly increase the confidence of investors and the general public in financial and non-financial information hence contributing to a country economic growth and financial stability (Beet, Braan and Boelens, 2009)

Some of the factors that influence quality financial reporting in the public entities have been identified as: strong internal control system in an organization, adoption of International Public Accounting Standards (IPSAS) and the existence of audit committee in the board of management. Internal control system is designed to provide reasonable assurance that there is effectiveness and efficiency of the operations, compliance with the set procedures and adherence to rules and regulations of the entity. Organizations that institute proper internal controls were noted of presenting quality financial reports (Chebungwen and Kwasira, 2014). IPSAS on the other hand is a benchmark to many countries in evaluating accounting practices in the public sector globally (Chan, 2008) while Audit committee helps public entities to improve the quality of financial reporting by ensuring that the management adhere to the procedures and regulations put in place by entities as far as procurement and utilization of goods and services are concern to show there is accountable to tax payers (Madawaki & Amram, 2013).

1.1.1 Ministry of Environment and Natural Resources

The mandate of Ministry of Environment and Natural Resources is to protect, conserve and manage natural resources for socio-economic development. There are five public entities in this Ministry namely National Environment Management Authority (NEMA), Kenya Water Towers Agency (KWTA), Kenya Forestry Research Institute (KEFRI), Kenya Forest Service (KFS) and Kenya Wildlife Services (KWS).National Environment Management Authority (NEMA), is established under the Environmental Management and Co-ordination Act No. 8 of 1999 (EMCA),KFS is a state corporation that was established under the Forest Act, 2005, KEFRI is a state corporation established in 1986 under the Science and Technology Act Cap 250, KWS is a Kenyan state corporation that was established in 1990 under an Act of Parliament Cap 376 and Kenya Water Towers Agency was established upon recommendations of the Interim coordinating secretariat of the Mau which was gazette in April 2009 and was established vide Kenya gazette of 20th April 2012, legal notice no. 17 in order for the government to coordinate and oversee the protection, rehabilitation, conservation and sustainably manage all the critical water towers. Each of these entities was established with specific roles and mandates which are not offered by the mother ministry and they are categorized as non-commercial entities. They focus on government policies and regulations on protection, conservation and management of natural resources for socio-economic development.

The entities are mainly funded by taxpayers through the National Treasury of Kenya which make them to be answerable to the public as far as utilization of resources allocated to them is concern Macharia (2014). Citizens expect transparency and accountability in resources allocated to public entities and sound decision making by the respective boards in relation to their mandates. Public entities accounting used to have different accounting methods used like

International Financial Reporting Standards (IFRS),cash basis accounting and modified cash accounting methods which did not focus on uniformity and comparability hence providing minimal disclosures to what is expected from them (Bergman,2009;IFAC,2012 policy position 4). In effort to promote accountability and transparency in the management of public resources, GoK embraced the adoption of IPSASs through the enactment of Public Finance Management (PFM) Act 2012 and operationalization of IPSAS Board in 2014.

The entities are managed by Board of Management (BoM) appointed by the Cabinet Secretary of the ministry. A Board of Management in each entity is headed by non-executive chairman and at least five members from various sectors of the economy related to the entity. BOM are mandated to form committees and one of the committees is the Audit Committee. State Corporation Act 446 (SCAC) section 15(1) states that a board shall be responsible for the proper management of the affairs of a state corporation and shall be accountable for the moneys, the financial business and the management of a state corporation and the accounts of every state corporation shall be audited and reported annually in accordance with Part VII of the Exchequer and Audit Act.

1.1.2 Concept of Quality Financial Reporting

IPSASB and FASB justified the aims of financial reporting supported with prior academic literature with relations to disclosures. These included among others the reduction of transaction costs in the markets, the avoidance of adverse selection and the prevention of big negative share price changes due to the earnings releases (Jacobs & van Wijnbengen, 2006). Adverse selection is where the preparer of the financial statements may have information which may be damaging to the entity if disclosed and instead decides not to disclose it. In public sector reporting the managers who are custodian of public resources would prefer to report what the users may be disadvantaged to know if there are no financial disclosure requirements. Good financial reporting reduces moral hazard of misinformation on the financial information and the gap between the users' understanding how resources allocated are used. Lack of equal financial information causes economic imbalances that may lead to bad decisions.

Moral hazard refers to the form of post contractual opportunism that arises because actions that have efficiency consequences are not freely observable and so the person taking them may choose to pursue his or her private interests at the expense of others (Thomas, 2013).Moral hazard may arise when the entity's management engages in inefficient conduct based on their own self-interest and the citizen is unable to monitor their conduct effectively. Moreover, the financial reporting aims to ease the efficient allocation of capital in the markets (Chen et al., 2011). In public sector, financial reporting of public entities is important to the government which is the provider of funds, citizens who derive benefits from the entities, academic research bodies, international development partners who most of the time partner with the government on various socio-economic projects and civil societies which champion the rights of citizens. The quality of financial information can be affected by many factors within the entity or external to the entity. Internal factors are the management style in preparation of financial statements and auditors, how long it takes the auditors to complete their work and actions taken by the management to implement the auditors' recommendations (Owusu-Ansah, 2000). An example of external factors is lack of demand for financial information from the external users will contribute to low quality of financial reporting (Shute & Naqellari 2010)

Quality of financial reporting is central to what financial reports convey about the firm's operation. Different literature defined quality of financial reporting on the objectives of each research. Tang et al, (2008) defined it as "the extent to which the financial statements provide true and fair information about the underlying performance and financial position". IASB (2008) stated that "the objective of financial reporting is to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders and creditors in making decisions in their capacity as capital providers. The concept of financial reporting quality is however broader and includes disclosure of financial and non-financial information for useful decision making and it should meet some qualitative criteria in order to avoid poor quality. Both IASB and FASB in their conceptual framework stated that high quality reporting is achieved by adhering to objective and the qualitative characteristics of financial reporting information. For information to be of value to decision making, it must fulfill the several qualitative characteristics that enhance quality reporting and these are summarized as: relevance, understandability, comparability and timeliness (IASB, 2010)) .None the less, the quality reporting is sometimes affected by the cost involved in preparation, the management control structures, accounting standards adopted and the role of the board of management in financial reporting. The overall benefit of quality reporting in any organization is better accounting among organizations as the underlying achievement (Ash, Baugh &Pincus, 2011)

1.2 Statement of the Problem

Despite the public entities relying on the Government of Kenya for their budgetary allocations, the level of accountability has been low coupled with numerous audit queries from the Office of Auditor General (OAG). According to Macharia (2014), the resources allocated to these entities are not put into proper use as the Auditor General reports for 2010/11 to 2014/15 financial years showed a big gap between finances injected and financial reports on utilization. Weak controls and poor financial reports have made the public entities provide financial information to the users which are insufficient to hold their management accountable for the public resources (Kiilu and Ngugi, 2014).

Quality financial reporting is of great importance to the users both directly and indirectly as it affects their economic decision making. Many governments world over have seen the need of good financial accountability and transparency to ensure there is public trust on the service delivery. A study by PwC (2013), Global Survey on Accounting and Financial Reporting noted that many developing countries were using either modified cash accounting or modified accrual-based accounting which did not reflect, timeliness, credibility, relevancy and accuracy of the financial reports. According to Hamisi (2012) the government financial management systems are not providing timely and reliable financial information for reporting and decision making.

Difference in accounting method has contributed to non-uniformity, unreliable and not credible reporting. Strong and transparent financial reporting help in decision making and make governments to be more accountable to the public (Izedomni et al, 2013).In the study of accountability challenges in Nigeria by (Nkwagu,Uguru and Nkwede,2016) it was stated that financial malpractices and other fraudulent practices were more common in institutions where no proper accounting reporting was done. In Kenya the use of uniform accounting method (accrual) was implemented in the end of June 2014 for the 2013/14 financial reporting in the Kenya Gazette no.18, 2014 which was expected to enhance quality of financial reporting as per international best practices and global understandability of financial statements for good governance and accountability.

A number of studies done on the financial reporting including, Ball and Plugrath (2012) who stated that consistent and appropriate use of IPSAS provides high quality information that enhances comparability and analysis in financial reporting while Chinedu et al (2016) focused more on the adoption and implementation of IPSASs in the public sector entities in Nigeria with special emphasis on training of government auditors and corruption reduction in the public sector. Locally, Opanyi (2016) examined the effect of adoption of IPSASs on quality of financial reporting in Kenya where he recommended that the government of Kenya should move gradually towards applying accrual basis IPSASs instead of the current cash basis IPSAS.

Despite the importance of public sector quality financial reporting requirement by PFM Act (2012) there is limited research on the factors influencing quality of financial reporting in Kenyan public sector. The majority of the studies done earlier had focused on financial reporting and financial regulations in the private sector entities hence creating a knowledge gap. Therefore this study seeks to assess the factors influencing the quality of financial reporting in the public sector entities in Kenya.

1.3 Objectives of the Study

The general objective of this study is to determine the factors that influence quality financial reporting in public sector entities in Kenya with emphasis to five entities in the Ministry of Environment and Natural Resources and the specific objectives are:

i. To determine the influence of internal control system on quality financial reporting in public sector entities in the Ministry of Environment and Natural Resources in Kenya.

ii. To assess the influence of International Public Sector Accounting Standards on quality financial reporting in the public sector entities in the Ministry of Environment and Natural Resources in Kenya.

iii. To determine the influence of the existence of audit committee on the quality financial reporting in the public sector entities , in the Ministry of Environment and Natural Resources in Kenya.

1.4 Research Questions

In order to determine the above objectives, the study was guided by the following questions

i. What is the influence of internal control systems on quality financial reporting in the public sector entities in the Ministry of Environment and Natural Resources in Kenya?

ii. What is the influence of the adoption of International Public Accounting Standards on quality financial reporting in the public sector entities of the Ministry of Environment and Natural Resources?

iii. What is the influence of audit committee existence on quality financial reporting in the public sector entities, Ministry of Environment and Natural Resources?

1.5 Scope of the Study

The study sought to determine the factors influencing the quality financial reporting of public sector entities in Kenya with emphasis to the Ministry of Environment and Natural Resources. It covered three decision variables viz., internal control systems, adoption of IPSAS and the existence of audit committee. The population of study was all the entities in the Ministry of Environment and Natural Resources and the respondents comprised of the senior management staff. The targeted respondents were considered appropriate because they possessed the information needed by the study based on their day to day duties regarding financial management of their institutions.

1.6 Significance of the Study

The study puts in earnest an endeavor to contribute knowledge to already existing literature including the following:

1.6.1 Government and its Agencies

The Government of Kenya and its agencies will benefit from the study because quality of financial reporting has not been addressed properly and a study of this kind will bring key highlights to be considered by the public sector. The study will help the government understand areas to focus on when consolidating its financial reports as one report in order to reflect the true picture of its net worth so as to make proper economic and budgetary decisions.

1.6.2 The Public

This is because the public sector entities offer services to the public and based on the Kenyan Constitution 2010, the public has a right to information how the resources are being utilized in order to ascertain if there is accountability and transparency.

1.6.3 Development Partners

This is because most of these entities attract external funding from donors who expect good governance, proper utilization and accountability

1.6.4 Researchers

Financial reporting in the public sector has not been exhaustively studied. The findings of this study are valuable to future researchers and academicians by acting as an empirical source besides suggesting areas for further research. This study has suggested areas for further research where they can extend knowledge on.

CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

This chapter presents an assessment of literature review on what has been covered by other researchers and analysts. The review aims to capture their views on the subject matter being discussed and is aligned to the theme and objectives of the study. The areas covered underpin both the theoretical and empirical aspects of the study.

2.1 Theoretical Review.

In this section, four major theories underpinning various aspects of financial reporting are presented.

2.1.1 Agency Theory

The central idea behind the Principal-Agent model is that the Principal is too busy to do a given job and so hires the Agent, but being not in the management the Principal cannot monitor the Agent perfectly (Jensen and Meckling 1976). This theory is basically a framework for analyzing the conflict of interest between key stake holders in an organization and the mechanism of resolving such conflicts. In connection with corporate governance, agency theory is relevant in every situation where one party (the principal) delegates tasks to a manager (the agent) who carries out the task.

The agency theory description is basically behavioral because corporations' don't generally adhere to the maximization principle mainly due to conflicting interests of major governing parties. The objective of this theory is to determine optimal contract between the provider of resources and the manager. The agent maybe overcome by self-interest, opportunistic behavior and fails to act as per the principal's expectations for the separation of ownership and control. The theory therefore portrays the agent as individualistic and self-interested hence being driven by bounded rationality where rewards and punishment take priority. It prescribes that a good governance structure must exist to hold managers accountable in their tasks and responsibility (Bowrin, 2008).The problem arising from the principal-agent relationship may be extended by hiding of information and unexplainable costs (Okungu, 2012). Jensen and Meckling (1976) argued that agency problems bring forth to extra agency costs that are designed to bring separation of ownership and control. Agency cost is the sum of monitoring expenditures incurred by the principal to monitor the performance of the agent.

Agency theory has emerged as a dominant model in the financial economics literature which widely discusses the financial reporting and management practices in the public institutions. Owners and agents have various means to invest in information systems and control devices to reduce agency costs associated with information asymmetry .These control devices might offer Pareto optimality (maximum gains for all parties) since the agent would otherwise bear agency costs that occur when principals discount the value of the firm, based on the likelihood of adverse selection, and moral hazard. Management may use various means to indicate to others the quality of the financial information they are providing is accurate and credible. Demands for monitoring may result in external audits, strong internal control system, the use of outside directors and audit committees (Agarwal, Goel and Vashishtha.2014).The theory models the relationship between the government and public sector managers in this study.

2.1.2 Stakeholders' Theory

According to Ansoff (1965) the objective of an organization is to attain ability to balance the conflicting demands of the various stakeholders in the organization. Stakeholders of public sector entities financial reporting include citizens, governments and its agencies, donors, lenders, creditors, employees, civil societies, researchers and political bodies. The stakeholders' theory tends to explain the structure, procedures and operations of public sector in preparation of financial reports to meets the needs of various stakeholders (Monari, 2014).

Freeman (2008) describes the stakeholder theory as addressing the morals and values that manages an entity. In the public sector stakeholders' theory provides the basis for identifying the main groups and parties which constitute the external users of the entity's services whether in private or public. The theory is a contrast of Friedman (1962) work which stated that the only group that can have a moral claim on the corporation is the people who own shares in the entity. Marcoux (2000) also criticized the theory by stating that the obligations to non-owners will constrain the of owners' interests. The argument was that so long as the managers serve the interests of owners by making good contracts, obeying the existing laws of the land and adhering to ordinary moral expectations, there is no harm in ignoring the non-owners. Stakeholders' theory has been praised for overcoming the narrow view in the business world that the business is to maximize economic value of the owners only (Freeman, 2008b). When the management has stakeholders in mind their financial reporting will take into consideration all areas that may be required by the stakeholders' to enhance the awareness and justification why the organization exists (Argandona, 2011).

The public sector institutions have a duty to build confidence with its stakeholders (the general public, the national government, employees, donors, civil societies, and the researchers) through assurance of transparency and accountability of quality financial reporting (Monari,2014). According to Smallman (2004), the problem of the theory is to identify the genuine stakeholders of an organization. Yet meeting stakeholders' needs may lead to mismanagement of the resources which may affect the wealth of the shareholders. Stakeholder theory in this study reflect what is enshrined in the Constitution of Kenya 2010 sect.35 (1) in the Bill of Rights and PFM Act 2012 about financial legislations to ensure there is accountability and transparency which will add value to environment protection and public participation.

2.1.3 Institutional Theory

An organization is designed and functions to meet social expectations in so far as its operations are visible to the public (Scott, 2004). Therefore organizational internal operations, which are often complex and difficult to identify, may take second place to the issue of external legitimacy (Goodwin, 2004). It is suggested that the external image of the organization may be "loosely coupled" with its operating processes (Sterck and Bouckaert, 2006). Institutional theory, suggests that organizational structures in such an environment become symbolic displays of conformity and social accountability (Meyer, 2002). Simultaneously, the real work of the organization is accomplished by internal operating processes loosely coupled from the observable structures. Organizations with the appropriate structures in place avoid in-depth investigations of their operating core by external parties as the users develop confidence in their management (Meyer, 2002).This theoretical perspective has been applied to a wide set of social phenomena, including choice of accounting methods (Meyer and Rowan 2006) the use of accounting practices by public sector organizations and the adoption of effective means of reporting (King et al., 1994).

The expectations from users that have crystallized about corporate governance indicate the existence of an institutionalized environment that serves as the threshold for the application of institutional theory asserting that the contribution of institutional theory is in the insight that the actual accomplishments of an organization and what its structure suggests it should accomplish are often different. The organization operates with internal processes that are not normally visible to external users, while other structures maintained for outsiders do not significantly add to output. According to Zamzulaila, Zarina and Dalila (2007) the scrutiny by outsiders can be avoided if the right structures are adopted by organizations. The theory is applicable to this study as the public entities are government institutions that are expected to practice good governance and accountability to meet the expectations of the external parties.

2*.1.4 Stewardship Theory*

The stewardship theory is traced back to the school of Sociology and Psychology as an improvement from the works of the earlier researchers. It focuses on the management as stewards in the organization contrary to the views adopted by the Agency theory (Mallin, 2004). It looks at the manager as an individual who provides protection to the resources bestowed upon him by the owner which he does it through performance (Cornforth, 2003). Performance of the business is actualized through profit which is a motivating factor in the sense that the success of the organization in the opinion of the manager is also an indication of his own success. This is because in the view of the theory, he or she is part of the business. As a result, the stewardship theory eliminates agency costs such as monitoring and control which comes about because of management and the owner frictions (Daly et al. 2003).

Unlike the Agency theory, Stewardship theory is anchored on the value of trust. Whereas the theory does not advocate for controls, there is need for accounting structures to assist the manager oversee the proper utilization of resources under his care. The steward works through people who will need systems, procedures and tools to produce effective results pertaining to the owners resources. These procedures include all the controls put in place such as internal controls, audit committees and adoption of accounting standards to enable the business perform well (Mackenzie, 2007). Stewardship theory also advocates for appointment of insiders as directors from whose good knowledge of the organization helps improve the quality of decisions. Prior researchers argue that it is more profitable to an organization when it has more of the insider directors than outsider directors because of their knowledge and skills which help the organization improve on performance which is lacking from outside directors.

2.2 Empirical Review

In this section the study presents a review of studies done by others on the subject and their findings on the various factors influencing quality financial reporting.

2.2.1 Internal Control and Financial Reporting

Internal control is defined in different ways by various authors, according to AICPA(2015) defines internal control as a plan and other coordinated means and ways by an organization to keep safe its assets ,check covertness and reliability of data to increase its effectiveness and to ensure the settled management politics. Chabugwen and Kwasira (2014)defines internal control as an executive process of board of directors, management and employees to achieve purposes in efficiency and effectiveness of operations, reliability of financial accountability and observing laws and regulations of the government. Gupta (2010) internal control is a financial and operation management of the enterprise aimed at achieving profit from its performance. According to COSO (2013) internal control is defined by: Environment, Risk assessment, Information and communication. Supervision and this definition are supported by IAI (2012) that states that financial statements are a structured representation of financial position of an entity.

According to Afiah and Azwari (2015) internal controls have significant influence in the achievement of the organization goals and financial performance. Financial statements may be seen to be unreliable when there is a problem with internal controls. According to (Spitzer: 2005) the development and maintenance of the organization internal control help in ensuring accountability and accurate financial reporting. Lack of proper internal control will result in unreliable records resulting in low quality of financial reporting. An organization may lose most of its resources when the internal control systems cannot properly show the reliable records of its transactions (Chabungwen and Kwarisa, 2014)

Various studies (Chabungwen and Kwarisa, 2014; Afiah and Azwari, 2015) established that internal controls influence the quality of corporate financial reporting. Wattayapoom (2012), Premuroso (2012) found strong relationship between internal controls and financial statements and finally affect the reliability of financial reporting. Elbannam (2007) states that good implementation of internal control significantly increase the capacity to meet the financial statements and the quality of financial information they produce. Altamoro and Beatty (2010) found that through continuous monitoring and internal check there is improvement of financial reporting in the banking industry. Mahmud (2007) also found out that in order to produce reliable financial reports for local governments, the quality of internal control must be very high. Whereas internal controls play an important role in defining order, direction and consistency of organizations, their application is dynamic and must be frequently reviewed to make them more effective otherwise they may not bring the desired results for the organization.

2.2.2 Audit Committees and Financial Reporting

Private sector was the first to establish audit committee to strengthen oversight of the financial and ethical integrity of public companies. In the last two decades audit committees were noted as key mechanism in strengthen corporate governance globally. At the beginning audit committees were non-mandatory by the companies but in recent years professional and regulatory institutions all over the world have recommended the universal adoption and the expansion of their roles (ICPAK 2015).Audit committee was first introduced in Kenya in 2000 through National Treasury circular No.AG/3/080/6/(61) of 8th August 2000,establishing Ministries Audit Committees. The performance of the ministerial audit committees could not be felt due to lack of independence and objectivity (ICPAK 2015).The Government of Kenya issued further two circulars No.16/2005 and No.18/2005 of 4th October 2005 and 12th October 2005 respectively which was focusing on oversight, governance, transparency and accountability in the public resources. The GoK circulars of 2005 mandated the Audit committees to perform the following functions;(a) assist the accounting officer in enhancing internal controls in order to improve efficiency, transparency and accountability (b) review audit issues raised by both internal and external auditors (c) resolve unsettled and unimplemented Public Accounts and Investment committees (d) enhancing communication between management, internal and external audit and fostering effective internal audit function. It was made mandatory for all public entities in Kenya to put in place an audit committee within the corporate governance structure Mwongozo (2015).

Audit committee expertise is where the committee members have different level of accounting, financial management expertise and relevant knowledge in the related field. DeFond, Ham, and Hu,(2005) in their investigation noted that market reacted positively with the appointment of members in the committee having accounting and financial background. During the appointment stage the board should consider the members with appropriate qualifications, knowledge, skills and experience to enhance professionalism in performing their duties ICPAK (2015).The members should be financially literate for proper understanding and interpretation of financial statement and risk management mechanisms. Accounting and financial management related as qualifications and comprehensive accounting and auditing standards, public sector understandings would be appropriate. Carcello, Hollingsworth, Klein, and Neal (2006) in their study on the association between financial expertise and earning management proxy abnormal accruals found that accounting and financial expertise are consistently associated with less earnings management. Dhaliwal, Naiker, and Navissi (2010) in their investigation on the association between accrual quality and the characteristics accounting experts found that there was positive relationship between accounting and financial expertise in audit committees and financial reporting quality.

Madawaki and Amran (2013), when studying how audit committees affect financial reporting in Nigerian companies the researchers found significant positive relationship between audit committees with members having accounting and financial expertise and improved financial reporting quality. Audit committees whose members have financial expertise was found to interact frequently with internal auditors of the firms that help in reducing internal control problems (Raghunandan,Read,and Rama,2001).Their understanding on financial matters help them in supporting external auditors in their reports and implementation of the areas noted in the audit reports. On the other hand, Yang and Krishnan (2005) and Lin et al. (2006) could not get any significant association between financial expertise and financial reporting quality measured as the level of earnings management.

On the other hand the scope of reports generated by audit committee form the basis of the committee's effectiveness when it communicates to the board, management and stakeholders. IIA Standard 2060 states that audit committee must report periodically to senior management and the board on its activity's purpose, authority, responsibility, and performance relative to its plan IIA (2014). The IIA explains that audit committees can greatly strengthen the independence ,integrity , and effectiveness of government audit activities through independent oversight of both internal and external audit work plans and results EU(2014).Reporting must include significant risk exposures, control measures, governance issues, fraud risks and other matters requested by the management and the board. The IIA (2014) states that audit committees play pivotal role in strengthening the independence, integrity, and effectiveness of government audit activities by providing oversight of internal and external audit work plans and result reports to the board of management. The committee ensures that all audit reports presented are acted upon, any recommended improvements or corrective actions are addressed and resolved promptly.

According to PFM Act Regulation 2015, audit committees reports are expected to cover various ranges of stakeholders of public entities. The regulation section 7.2(a) states that the audit committee in the course of work will issue periodic, annual and special/investigative reports to the board of management and the management of the entity.Sec.7.2 (b) states that the committee should produce periodic reports to the accounting officer/governing body of the entity detailing the issues affecting the operations of the entity. Investigative and special reports should be addressed to the requesting authority and board of management. PFM regulation 2015 also states that the committee should review the content of annual reports and accounts and make a report to the board of management or the management whether the reports are in conformity with the financial procedures and regulations about reporting. Therefore it is imperative to note that effective audit committee characteristics such as number of members with accountancy and financial management expertise, and periodic reports are critical in determining the quality in the financial reporting (Ball et al.2000; La Porta et. 2000; Leuz et al.2003).

2.2.3 Adoption of IPSAS and Financial Reporting

According to the International Federation of Accountants, IFAC (2009), IPSAS are high quality financial reporting standards applicable in the public sector reporting that takes care of public interest in presentation and disclosure of financial transactions that enhances the accountability and management of public resources. IPSAS was born out of the far reaching effects of global financial crisis where many governments' accountability and transparency in the reporting of assets and liabilities were put under question. Therefore IPSAS was adopted in order to help improve on the processes and to avoid future crises. Bergmann (2011) argues that the 2008 financial crisis was an eye opener from the fact that financial reporting systems of many governments were unable to anticipate the problem in good time which reduced the level of accountability in the public sector. Therefore IPSAS was considered the best solution because of its comprehensive reporting framework that regulates the recognition, measurement, presentation and disclosure requirements in the financial statements (Ernst & Young, 2012).

The adoption and implementation of IPSAS came about with a number of benefits. According to Bergmann (2011) the financial crisis of 2008 exposed the poor state of Public Financial Management (PFM) systems which made it difficult to be accountable because of poor reporting standards. Therefore the absence of quality accounting standards by governments in reporting financial transactions reduced the level of accountability and that affected public trust and confidence in the government activities (Danaee and Anvary 2007). Reduced confidence has a ripple effect on both local and international investors that affects economic growth. Poor financial reporting system deprives economic development and therefore adoption of IPSAS is a way of redeeming the public perception in the way the government manages public resources.

According to Atuilik (2016) there is a significant relationship between adoption of IPSAS framework and quality of financial reporting and therefore reduction of corruption and wastage in the utilization of public resources. Institutions such as IMF and World Bank have also been advocating for the adoption of IPSAS because of the association between IPSAS practices and economic development. (Anderson, 2009; Torres, 2014) separately established in their studies that compliance with IPSAS in preparation and presentation of financial statements improve transparency and accountability of firms consistent with public financial management framework and decision making. In studies done by (Ouda, 2010; Alesani et al, .2010 and Meyer, 2008) over the various attributes of

IPSAS, the authors established that knowledge, qualification and age have a direct effect on the adoption of IPSAS by organizations. Unlike the cash basis IPSAS, accrual basis IPSAS accounting demands that organizations maintain complete records of assets and liabilities that are necessary for effective management of public resources which has a positive effect on organization performance (Wayne, 2007) whereas some authors hold the view that IPSAS is not effective in public sector entities since they are not for profit making.

The adoption of IPSAS has being having challenges to many countries mainly the developing countries due to low levels of awareness creation. Sutcliffe (2006) noted that there was a lot of awareness creation to the user countries for the adoption of IPSAS to be successful. He noted there was demand for IPSAS information and International Public Sector Accounting Standards Board (IPSASB) could only issue informal updates, seminars, round table discussions with members and staff which were found not to be enough. For a wider coverage Sutcliffe suggested that IPSASB explore with other member bodies, international development agencies, educational institutions and professional financial reporting bodies ways of expanding the broad IPSAS knowledge base.

2.2.4 Government Laws and Regulations and Financial Reporting

Government and its agencies will constantly influence the preparation of financial statements by issuing regulations, policies, circulars and relevant guidelines to public entities in directing how public resources are managed and accounted for. Through the adoption of a new financial requirement, government authorities issue laws and regulations guiding the auditors, accountants and the management of the entities on financial statements and audit reports (Nkwagu, Uguru, and Nkwede, 2016). According to Okafor (2012) relevant laws, regulations, policies and circulars guide the public sector accounting in Nigeria by ensuring that prudent management of public funds and the auditing the same funds. Financial regulations act as a monitoring tool for the government where the institutions must implement to maintain the integrity of the financial system. The regulations from the government play important role in the Institution financial system only if the internal controls are strong and the oversight role is done effectively by audit committee (Kimathi 2010).

In Kenya the enactment of the Constitution of Kenya 2010 brought emphasis on the management of public finance through statutes and subsidiary legislations like financial regulations and procedures for legal framework that focuses on collection of government revenues, allocation and utilization (Kimathi, 2010). In the year 2004 the Government Financial Management Act was enacted and further Treasury circular No.13/2005 was released to provide guidelines for the implementation of budgets by the public officers. The circular explained the role the accounting officers have in strengthening internal controls, audit committees and actions on audit reports. The establishment of the Office of the Controller of Budget in the Constitution 2010 and a circular No. 3 of 2012 required Ministries, Department and other public entities to submit budget implementation reports every financial year to the OCB for assessment of resource utilization of each entity.

The Public Finance Management Act, 2012 was enacted to provide for the effective management of public finances by the national and county governments, public entities and other bodies. PFM Act 2012 sec.81, 82 and 83 give the accounting officers of the public entities to prepare quarterly reports and preparation of annual financial statements and submit to Auditor General by 30th September of every year. When IPSAS was adopted first in Kenya for preparation of all government donor funded project the Office of Auditor General had to issue a circular to all public entities affected (Okungu, 2015). The financial reporting quality in public sector has attracted a lot of interest in the recent past from scholars and the users because of the failures in the corporate world in relation to reporting. This has been demonstrated from the overwhelming studies which have been covered in different countries and sectors. However, despite this overwhelming interest, there is very little evidence from the researcher's knowledge that similar studies exist on financial reporting quality in non-commercial entities in Kenya with regard to performance of state corporations which makes it an ideal study area. The government of Kenya considers public sector entities as very important in the realization of the Vision 2030 and has also invested substantially towards its success for provision of public services.

2.3 Research Gaps

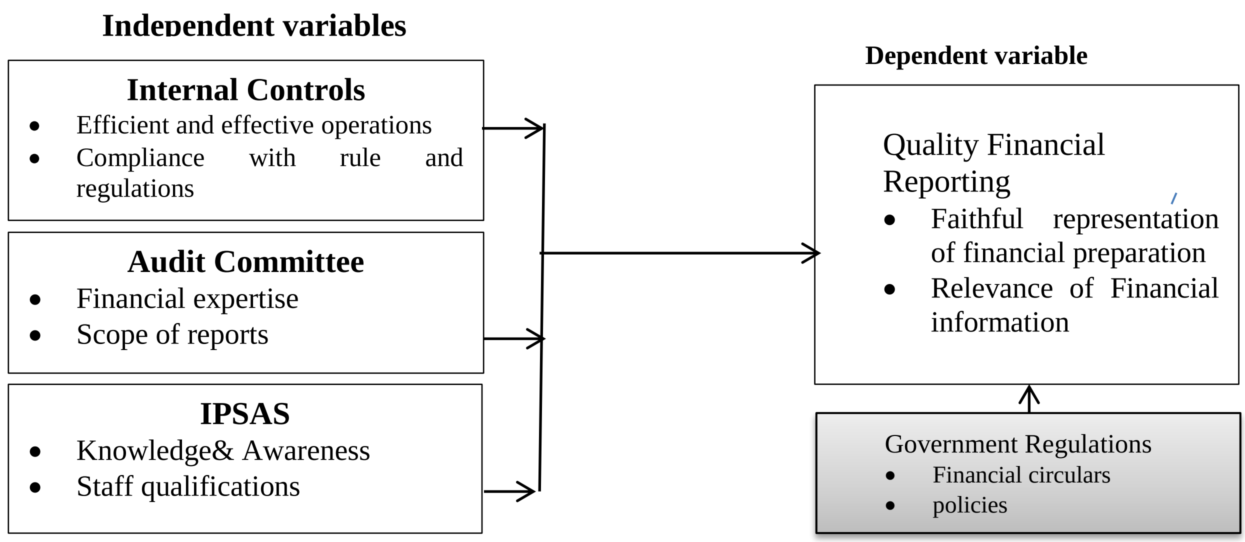
The financial reporting quality in public sector has attracted a lot of interest in the recent past from scholars and the users because of the failures in the corporate world in relation to reporting. This has been demonstrated from the overwhelming studies which have been covered in different countries and sectors. However, despite this overwhelming interest, there is very little evidence from the researcher's knowledge that similar studies exist on financial reporting quality in non-commercial entities in Kenya with regard to performance of state corporations which makes it an ideal study area. The government of Kenya considers public sector entities as very important in the realization of the Vision 2030 and has also invested substantially towards its success for provision of public services.

2.4 Conceptual Framework

According to Smyth (2009), a conceptual framework is a structure that explains possible connections between variables under study. It is a framework or set of ideas used in a relevant filed of enquiry. Figure 1 below presents the relationship between variables under study (Internal control, audit committees and Accounting Standards factors being the independent variables while government regulations as control variable and quality financial reporting as the dependent variable).

Figure 1

Conceptual Framework



Source: Author (2017) **Control Variable**

Figure 1 above summarises the relationship between the variables under study. Quality financial reporting is the (dependent) variable being influenced by the independent variables made up of (internal controls, audit committee and adoption of IPSAS)

2.5 Operationalization of Study Variables

According to Bryman & Bell (2011), operationalization is converting theoretical concepts into measurable units to enhance empirical determination. Table 1 presents the measurement of variables under study.

Table 1

Operationalization of Variables

Objectives	**Variables** **Independent Variables**	**Measurement Scale**	**Questionnaire Section**
To determine the influence of internal controls on quality of financial reporting	**Internal Controls** • Efficient and Effective Operations • Compliance with Rules and Regulations	Ordinal	Section B
To assess the influence of audit committee existence on quality financial reporting	**Audit Committee** • Financial Expertise • Scope of Reports	Ordinal	Section C
To determine the influence of IPSAS adoption on quality financial reporting	**Adoption of IPSAS** • Knowledge & Awareness • Staff Qualifications	Ordinal	Section D
	Dependent Variable	**Measurement Scale**	**Questionnaire**
	Financial reporting • Faithful Representation of financial preparation • Relevance of financial information	Ordinal	Section E
Source: Author(2017)			

2.6 Summary of Literature Review

Literatures on the variables in the study have provided insight into the results of different authors in regards to quality of reporting in the public sector. The study was guided by four theories (Agency theory, Stakeholders theory, and Institutional theory and Stewardship theory) which helped in demonstrating the importance of quality of financial reporting in public resource utilization. On empirical literature, studies have shown how each and every individual variable is fundamentally contributing to the quality of financial reporting which is key to public sector entities reporting. The chapter ended with a demonstration of the research gap that there was limited evidence of studies on quality financial reporting in the public sector in Kenya.

CHAPTER THREE
RESEARCH METHODOLGY

3.1 Introduction

This chapter presents the plan that was used during the study. The specific steps include: research design, target population, sampling method, research instruments, data collection procedures, data analysis and presentation. This plan enabled the study to determine the relationship between the variables under study (factors identified and financial reporting)

3.2 Research Design

This study adopted descriptive design. According to Cooper & Schindler (2003) a descriptive design is concerned with finding out the what, where and how of a phenomenon. This design was preferred because it allowed the collection of quantitative data which was analyzed using descriptive and inferential statistics (Saunders, Thornhill & Lewis, 2007). In descriptive design, the characteristics of the variables do not change much within the data collection period and the researcher has no control over independent variables (Kothari, 2004)

3.3 Target Population

The population of study is the entire set of individuals, events or subjects with common characteristics whereas the target population is the population of interest which the researcher wanted to make statistical inference (Mugenda, 2003). The study targeted all the public entities in the Ministry of Environment and Natural Resources in Kenya. According to presidential taskforce report (2013), there are **five** state entities in the Ministry of Environment and Natural Resources viz., Kenya Water Towers Authority, Kenya Forest Research Institute, Kenya Forests Services, National Environmental Management Authority and Kenya Wildlife Service. The target respondents were management staff drawn from: Finance, Internal audit, Human

Resource, Administration and Operations, Resource Mobilization, Corporate Affairs, Supply Chain Management and Directorate. According to the Human Resource records from the five entities, there are a total of one hundred and forty two (142) managers holding the desired rank. Each entity has different levels of managerial staff in different divisions within the entity ranging from senior, principal, chief officers, deputy directors and the directors at the top levels.

3.4 Sample and Sampling Design

According to Lavrakas (2008) a sample in a survey research is a collection of elements drawn from a larger population and Kothari (2004) describes a sample as a collection of units chosen from the chosen universe to represent it. From the target respondents of 142 management staff, the study used 50% to settle for 71 managers as the sample given that in a survey study, 30 units or more are considered adequate (Mugenda, 2003). The managers were stratified into five entities and a proportionate sampling technique applied in each stratum to select the individuals that ensured equal opportunity of being selected. Table 2 below presents the distribution of respondents.

Table 2

Sample and Population of Study

State Entity	Population size	Sample Size	Percent
NEMA	22	11	50%
KWS	44	22	50%
KWTA	16	08	50%
KFS	32	18	50%
KEFRI	28	14	50%
Total	142	71	50%

Source: Organization Records(2017)

3.5 Research Instrument

The study used questionnaire as the main research instrument. The questionnaire was preferred as the most suitable instrument for the data collection because it allows the researcher to reach many respondents within limited time (Mugenda & Mugenda, 2003). It also ensured confidentiality hence provided objective answers. The questionnaires were made up of structured closed ended questions (Appendix B). According to Saunders et al., (2012) structured questionnaires are techniques of data collection in which each person is asked to respond to the same set of questions. The questionnaire is divided into five parts; Part A (demographic information); Part B (internal control), Part C (Audit committee), Part D (IPSAS) and part E (quality financial reporting). The questionnaire adopted a 5 point Likert scale, where 1 represents strongly disagree, 2 disagree, 3 neutral, 4 agree and 5 strongly agree.

3.6 Validity and Reliability

A pilot test was conducted to ensure the questionnaires used passed the reliability and validity test with the same level of management in Kenya Agricultural and Livestock Research Organization (KALRO). The validity test was used to find out the extent to which the set of measures correctly represented the concept of the study. According to Fairchild (2002), face validity is a non - statistical assessment of whether the test is valid or not. Data validity is refers as the extent to which a measure ,indicator or method of data collection possesses the quality of being sound or true as far as it can be judged. Data validity has its relevance to research objective and how strongly it relates to the subject matter. The face validity test was undertaken by administering the questionnaire to 5 employees in KALRO a public entity organization and they were requested to make any comments on the questions and terms which were unclear. The instruments were adjusted accordingly and thereafter getting expert input from the supervisor where the recommendations were incorporated that was then adopted in the survey.

The questionnaire was also tested for reliability. A reliability measure is the degree to which research instrument yields consistent results after several trials (Fairchild, 2002).It's an indication of how much a user can rely on the data source. Reliability of data can be if it is dependable, authentic, reputable and trustworthy. According to Field (2005) a Cronbach's $\alpha > 0.7$ implies the instrument is relatively good measurement tool therefore reliable. The instrument in appendix (B) was subjected to Cronbach's Alpha test and the 15 items for independent variables resulted in an alpha of 0.8232 whereas the 5 five items for the dependent variable resulted in an alpha value of 0.9127 which meant in both cases that the instrument was reliable. This means that internal control, audit committee and IPSAS were very reliable.

3.7 Data Collection

The study collected both primary and secondary data. For primary data, questionnaires were used, (Appendix B). The questionnaires were self-administered by the researcher. The selected respondents were visited in person and after getting their consent, they were requested to complete the questionnaire. For secondary data, credible sources with related information on the subject were reviewed. These include books and academic journals with information on internal controls, audit committees, International Public Sector Accounting Standards and financial reporting in the public sector.

3.8 Data Analysis

Data analysis refers to the process of data immediately at after collecting questionnaires from the field, the processing of data to get results, the interpretation and drawing conclusion from the results obtained(Kothari,2008).The purpose of data analysis is to elicit meaning from research data collected (Polit & Beck, 2008). After fieldwork, the data was checked for errors, completeness and legibility. Data was then analyzed using STATA Version 13 software and findings obtained were summarized in frequencies and percentages and presented in tables and charts. Both descriptive and regression analysis were performed. For background information, descriptive statistical analysis was used and analyzed to provide a profile of respondents. Quantitative analysis was done based on Pearson correlation coefficient (r) to determine the level of significance. A correlation is significant if the probability value is below 0.05 ($p \leq 0.05$). The study used multiple regression analysis to determine the influence of financial reporting quality in the public sector entities. Multiple regression analysis is used to determine the influence of three independent variables on the dependent variable guided by the following regression model:

$$\boldsymbol{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.. \text{(i)}$$

Where:-

Y = Quality financial reporting in the Ministry of Environment and Natural Resources

β_0= Constant, showing quality financial reporting in the absence of the factors

B1-β3= Regression Coefficients of factors influencing quality financial reporting

X_1= Internal Controls

X_2= Audit Committee Existence

X_3= Adoption of IPSAS

ε =Error Term

Before the regression analysis was done, data was tested for Normality. Normality test involves checking whether data collected is normally distributed based on OLS assumptions including (Skewness, Kurtosis and Multicollinearity and Heteroscedasticity).

3.9 Ethical Consideration

Ethics according to Mugenda and Mugenda (2003) are norms governing human conduct which have significant impact on human welfare. It involves making judgment about right and wrong behavior In order to safeguard the privacy of the respondents and that of the organizations, the researcher provided assurance to the respondents that the study was only meant for academic purpose which means that their responses would remain confidential and only a summary of the data obtained would be used. Moreover, the exercise was voluntary and therefore the respondents were free not to take part. However, before the exercise begun, the researcher sought approval from the management of the respective entities by presenting the introduction letter from the university as well as a copy of the questionnaire.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF RESULTS

4.1 Introduction

This chapter presents an analysis of the results obtained from the field. The results cover the general information of the respondents and the three research objectives. After the field work data was edited and coded. Thereafter, data was analyzed using STATA Version 13 software. Descriptive statistics was done on the sample profile while contracting Regression analysis was used to test the relationship between variables to ascertain the predictive power of the independent variables on the dependent variable.

4.2 Response Rate

Seventy one (71) questionnaires were distributed to the respondents (management staff) in the five public entities in the Ministry of Environment and Natural Resources (NEMA, KEFRI, KWS, KWTA and KFS) and were collected after two weeks where 50 of them were returned fully filled posting a response rate of 70 percent considered suitable for analysis, according to (Mugenda, 2003). The response rate is presented in table 3 below:

Table 3

Response Rate

Response	Respondents	Percentage
Returned	50	70
Not Returned	21	30
Total Distributed	71	100

Source: Primary data

Results in table 3 reveal a 70 percent response rate. The study target of 71 respondents was not met at the end of the data collection in the field. The response of 50 (70%) was realized leaving

21 non-responsive this was attributed to the tight work schedules of some respondents which made them to be in the field quite often

4.3 Demographic Analysis of Respondents

In this section, the respondents' personal information is presented. It covers age, educational qualification, level of management and work experience in their respective organizations. While this information may not be used in the analysis, it helps the study to ascertain whether data obtained is normally distributed. The results obtained are presented in table 4

Table 4

Demographic Information

No.	Item	Description	Frequency	Percent
1	**Gender**	Male	28	56
		Female	22	44
		Total	**50**	**100**
2	**Age of Respondents**			
		20-30	03	6
		31-40	21	42
		41-50	19	38
		50 and above	07	14
		Total	50	100
3	**Education**	Diploma	09	18
		Undergraduate	25	50
		Post Graduate	16	32
		Total	**50**	**100**
4	**Management**	Supervisory	15	30
		Middle Level	31	62
		Top Management	04	08
		Total	**50**	**100**
5	**Experience**	**0**-5	06	12
		6-10	10	20
		11-15	16	32
		15 and above	18	36
		Total	**50**	**100**

Source: primary data

On demographic information, results in Table 3 revealed that (56%) of the respondents were male while (44%) were female which implies that majority of the people on management level in these entities are male and female officers with responsibility are the minority. This study revealed that the management of public entities is still dominated by male gender though the gap is coming narrow. In addition, majority of the managers are between the age of 31-40 years bracket at (42%) followed by the 41-50 years bracket at (38%), 50 years and above at 14% whereas 6% were in the 20-30 bracket. The study revealed that, majority of the managers are in the middle level age bracket and can be interpreted to mean that management level is now dominated by young and energetic people which is a positive sign to public sector entities. With regard to their education qualification, the results show that 50% have an undergraduate degree, 32% had a postgraduate degree whereas 18% had a diploma level and equivalent qualifications. This signifies that majority of the respondents are well qualified based on their responsibilities. The management has attracted a pool of well-educated and skilled people from the job market.

On the level of management of respondents, it was revealed that the majority of them (62%) were middle level managers, (30%) were supervisors while 8% were from top management. This implies that majority of respondents involved in the study were middle level managers. Middle level managers are the drivers of strategic objectives of the organizations that showed the entities have attracted highly skilled personnel. On the respondents' level of job experience, it was revealed that (36%) of respondents had over 15 years' experience (32%) were in the (11-15 years) bracket, 20 % were in (6-10) years bracket whereas 12% were in 0-5 years bracket. This implies that majority of the managers involved in the study have good experience for their respective positions.

4.4 Study Variables

This section presents the results obtained for every variable involved in the study (internal control, audit committee, IPSAS and quality financial reporting). The results were based on the five point Likert scale where 1= strongly disagree, 2= disagree, 3=neither agree nor disagree, 4= agree and 5= strongly agree and the analysis was based on mean and standard deviations whereby the scores of less or equal to 2.5 were taken to represent negative response while the scores from 3.4 to 5 represented positive responses.

4.4.1 Internal Controls

The study sought to assess the various aspects of internal controls on quality financial reporting process in the five organizations under study. Five statements were presented to the respondents and their views sampled based on five point Likert scale.

Refers to table 5 below , 46% and 20% of the respondents agreed and strongly agreed that the entities' Board of Management have mandate in developing policies, procedures and rules to be used in the organizations. The study also sought to establish the respondents' opinions on the policies and procedures put in place to address acceptable business practices, conflicts of interest and operational ethics. The results revealed that majority of the respondents 22% and 48% strongly agreed and agreed respectively.

The other area sought was whether the internal control and other processes are serving the strategic objectives of the entities. The results showed that majority of 34% and 36% strongly agreed and agreed respectively. Regarding checks and balances of the entities' activities, the results revealed that 30% and 46% strongly agreed and agreed respectively. Finally the question sought to determine whether there are mechanisms to review the systems periodically. Majority of respondents were in agreement where 22% and 40% strongly agreed and agreed respectively.

This implies that internal control systems in these entities are taken seriously for the better financial reporting.

Table 5

Influence of Internal Control

Internal Control		**SD**	**D**	**N**	**A**	**SA**	**T**
Board of Management is the body having the mandate in developing procedures and rules to be used in your organization	F	1	7	9	23	10	50
	%	2	14	18	46	20	100
There are well established policies and procedures to address acceptable business practices, conflicts of interest and operational ethics	F	0	7	8	24	11	50
	%	0	14	16	48	22	100
Internal control systems and processes in place provide for effective and efficient help in meeting the entity's strategic objectives	F	0	7	8	18	17	50
	%	0	14	16	36	34	
Your organization has put in place adequate checks and balances for evaluating of all organization activities	F	0	4	8	23	15	50
	%	0	8	16	46	30	
Your organization periodically reviews controls to determine weak areas and non-compliance.	F	2	8	9	20	11	50
	%	4	16	18	40	22	

Source: primary data

An examination of the statements made up of internal controls in the state entities based on the mean and standard deviation are summarized in table 6.

Table 6

Mean Analysis of Internal Control

Statement		N	Mean	Std. Deviation
6	Board of Management is the body having the mandate in developing procedures and rules to be used in your organization.	**50**	3.68	1.019
7	There are well established policies and procedures to address acceptable business practices, conflicts of interest and operational ethics	**50**	3.78	0.954
8	Internal control systems and processes in place provide for effective and efficient help in meeting the entity's strategic objectives	**50**	3.90	1.035
9	Your organization has put in place adequate checks and balances for evaluating of all organization activities	**50**	3.98	0.892
10	Your organization periodically reviews controls to determine weak areas and non-compliance to address risks.	**50**	3.60	1.125

Source: primary data

From Table 6 above, it was revealed that the mean score for the five statements set to measure the influence of internal control on quality financial reporting ranged between 3.60 and 3.98**.** The means of the statements are as follows: the respondents agreed (mean=3.68) that the entities implement the decisions of the board of management in regards to policies and procedures. The respondents agreed (mean=3.78) that there are well established policies and procedures to address business practices and ethical issues. The third and fourth statements showed the highest respondents agreeing (mean=3.90 & 3.98) that showed that controls provide effectiveness and efficient ways of addressing strategic objectives of the entities. The respondents also agreed (mean=3.60) that there are established periodical reviews to check risks. The (mean score **=**3.98) is the highest whereas organizations' periodical reviews to check risks for non-compliance had the lowest score (mean score =3.60, SD=1.125). This implies that for internal controls to be effective there must be well established policies and practices as the basic tools for operations regarding financial reporting practices with regular reviews to make them better.

4.4.2 Audit Committee

The study sought to determine the influence of audit committee on quality financial reporting process of the five organizations under study. Five statements were presented to the respondents and their views were collected based on five point Likert scale. Table 7 presents the findings.

Refers to table 7 below , 40% and 12% of the respondents agreed and strongly agreed that the quality of oversight role provided by audit committee determines the nature of financial reports prepared by entities. The study also sought to establish the respondents' opinions on the audit committee reports are presented to the board of management for adoption and implementation by the management. The results revealed that majority of the respondents 46% and 12% strongly agreed and agreed respectively.

The other area sought was whether the audit committee members have accounting and finance management skills plus necessary experience for effective oversight role. The results showed that majority of 32% and 16% strongly agreed and agreed respectively. Regarding improved quality of financial reporting as a result of audit committee, the results revealed that 44% and 12% strongly agreed and agreed respectively. Finally the question sought to determine whether audit committee ensures that all the implementations are effected by the management according to the board recommendations. Majority of respondents were in agreement where 56% and 18% strongly agreed and agreed respectively. This implies that existence of audit committee in the entities has significant contribution on the quality of financial reporting. It is also noted that the composition of the committee has few members with the financial background.

Table 7

Influence of Audit Committee

Audit Committee		**SD**	**D**	**N**	**A**	**SA**	**Total**
The quality of oversight provided by audit committee determines the nature of financial reports prepared by your entity.	F	3	5	15	20	7	50
	%	6	10	30	40	14	100
The audit committee reports are presented to the board of management for adoption and implementation by the management of your organization.	F	1	8	12	23	6	50
	%	2	16	24	46	12	100
Audit committee members have accounting and finance management skills plus necessary experience for effective oversight role	F	3	8	15	16	8	50
	%	6	16	30	32	16	100
Existence of audit committee has improved the quality of reporting as a result of ensuring there is strong internal control system in your organization	F	3	7	12	22	6	50
	%	6	14	24	44	12	100
The audit committee ensures that all the implementations are effected by the management according to the board recommendations	F	0	3	10	28	9	50
	%	0	6	20	56	18	100

Source: primary data

An examination of the statements made up of audit committee in the state entities based on the mean and standard deviation are summarized in table 8.

Table 8

Mean Analysis of Audit Committee

Statement		**N**	**Mean**	**Std. Deviation**
11	The quality of oversight provided by audit committee determines the nature of financial reports prepared by your entity.	**50**	3.46	1.054
2	Audit committee members have accounting and finance management skills and Experience necessary for effective oversight role	**50**	3.5	0.974
13	The audit committee reports are presented to the main board for adoption and implementation by the management of your organization.	**50**	3.36	1.120
14	Existence of audit committee has improved the quality of reporting as a result of ensuring there is strong internal control system in your organization	**50**	3.42	1.070
15	The audit committee ensures that all the implementations are effected by the management according to the board recommendations	**50**	3.86	0.783

Source: primary data

From Table 8 above, it was revealed that the mean score for the five statements set to measure the influence of audit committee on quality financial reporting ranged between 3.36 and 3.86 with the statement 'audit committee ensures that all the implementations are effected by management according to the board recommendations' contributing the highest mean (mean score =3.86, SD=0.783) while 'the audit committee reports are presented to the main board for adoption and implementation by the management posting the lowest score (mean score =3.36,SD=1.120). This implies that for quality reporting to be achieved, the committee members must ensure that all the recommendations are implemented by management.

4.4.3 Adoption of IPSAS

The study sought to establish the influence of IPSAS adoption on quality financial reporting process in the five organizations. Five statements were presented to the respondents based on five point Likert scale and their views obtained were summarized and presented in table 8 below

Refers to table 9 below , 52% and 10% of the respondents agreed and strongly agreed that there is sufficient awareness among finance and internal audit staff about the IPSASs adoption. The study also sought to establish the respondents' opinions was that adoption of IPSAS in the entities has helped in the improvement on the quality of financial reporting. The results revealed that majority of the respondents 52% and 6% strongly agreed and agreed respectively. The other area sought was whether the entities adopted IPSASs according to the National Treasury circulars, policies and guidelines. The results showed that majority of 52% and 6% strongly agreed and agreed respectively.

Regarding the management support for the adoption of IPSASs in terms of resources and staff training, the results revealed that 46% and 10% strongly agreed and agreed respectively. Finally the question sought to determine whether entities have qualified staffs that are involved in the adoption of IPSASs. Majority of respondents were in agreement where 42% and 46% strongly agreed and agreed respectively. This implies that adoption of IPSASs has significantly improved the quality of financial reporting. It is also noted that most factors to help in the adoption of IPSASs are in place in all the entities.

Table 9

Influence of IPSAS

Statement		SD	D	N	A	SA	Total
There is sufficient awareness among finance and internal audit staff regarding the International Public Sector Accounting Standards adoption	F	1	6	12	26	5	50
	%	2	12	24	52	10	100
The adoption of IPSAS in your organization has helped in the improvement on the quality of financial reporting	F	1	8	12	26	3	50
	%	2	16	24	52	6	100
Your organization has adopted IPSASs according to the National Treasury circulars, policies and guidelines.	F	1	9	11	26	3	50
	%	2	18	22	52	6	100
The management has provided full support for the adoption of IPSASs in terms of resources and staff training.	F	0	9	13	23	5	50
	%	0	18	26	46	10	100
Your organization has qualified staff that are involved in the adoption of IPSASs	F	0	0	6	21	23	50
	%	0	0	12	42	46	100

Source: primary data

An examination of the statements made up of audit committee in the state entities based on the mean and standard deviation are summarized in table 10

Table 10

Mean Analysis of IPSAS

Statement		N	Mean	Std Deviation
16	There is sufficient awareness among finance and internal audit staff regarding the International Public Sector Accounting Standards adoption	**50**	3.56	0.907
17	The adoption of IPSAS in your organization has helped in the improvement on the quality of financial reporting	**50**	3.44	0.907
18	Your organization has adopted IPSASs according to the National Treasury circulars, policies and guidelines.	**50**	3.42	0.928
19	The management has provided full support for the adoption of IPSASs in terms of resources and staff training.	**50**	3.52	0.931
20	Your organization has qualified staff that are involved in the adoption of IPSASs	**50**	3.48	0.886

From Table 10 it was revealed that the mean score for the five statements set to measure the influence of IPSAS on quality financial reporting ranged between 3.42 and 3.56 with the statement ‘there is sufficient awareness among finance and internal audit staff regarding IPSAS Accounting ’ contributing the highest mean (mean score =3.56,SD=0.907) while ‘the statement your organization has adopted IPSAS according to the National Treasury circulars , policies and guidelines providing the lowest score (mean score =3.42, SD=0.928). This Implies that majority of the staff are conversant with IPSAS however the adoption process is still in progress

4.4.4 Quality Financial Reporting

The study sought to measure the quality in the financial reporting in the five public institutions under study and five statements were presented to the respondents based five point Likert scale and results obtained are presented in table 11below.

Refers to table 10 below, 46% and 22% of the respondents agreed and strongly agreed that the financial reports prepared by the entities are complete, neutral, lack of material error, and can be verified. The study also sought to establish the respondents’ opinions whether the entities prepare financial reports on time to meet the stipulated time frame as the National Treasury requirements. The results revealed that majority of the respondents 46% and 24% strongly agreed and agreed respectively.

The other area sought was whether the entities adopted IPSASs according to the National Treasury circulars, policies and guidelines. The results showed that majority of 34% and 36% strongly agreed and agreed respectively. Regarding the financial reports prepared by entities show high level of transparency and accountability to the users, the results revealed that 56% and 22% strongly agreed and agreed respectively. Finally the question sought to determine whether financial reports prepared by the entities contain relevant information that the users require. Majority of respondents were in agreement where 44% and 22% strongly agreed and agreed respectively. This implies that most entities have put emphasis in the preparation of financial statements which focus on the users' needs.

Table 11

Quality Financial Reporting

Statement		**SD**	**D**	**N**	**A**	**SA**	**TOTAL**
The financial reports your organization prepares are complete, neutral, lack of material error, and can be verified.	F	1	6	9	23	11	50
	%	2	12	18	46	22	100
Your organization prepares financial reports on time to meet the stipulated time frame as the National Treasury requirements	F	0	7	8	23	12	50
	%	0	14	16	46	24	100
The financial reports prepared by your organization shows high level of transparency and accountability to the users.	F	0	7	8	17	18	50
	%	0	14	16	34	36	100
Financial reports disclose financial and non-financial matters which help in decision making process	F	0	4	7	28	11	50
	%	0	8	14	56	22	100
Financial reports prepared by your organization contain relevant information that the users require	F	0	8	9	22	11	50
	%	0	16	18	44	22	100

Source: primary data

An examination of the statements made up of audit committee in the state entities based on the mean and standard deviation are summarized in table 12.

Table 12

Mean Analysis of Quality Financial Reporting

Statement		N	Mean	Std Deviation
21	The financial reports your organization prepares are complete, neutral, lack of material error, and can be verified.	**50**	3.74	1.006
22	Your organization prepares financial reports on time to meet the stipulated time frame as the National Treasury requirements	**50**	3.80	0.968
23	The financial reports prepared by your organization shows high level of transparency and accountability to the users.	**50**	3.92	1.047
24	Financial reports disclose financial and non-financial matters which help in decision making process	**50**	3.92	0.829
25	Financial reports prepared by your organization contain relevant information that the users require	**50**	3.72	0.990
Source: primary data				

From Table 12 above, it was revealed that the mean score for the five statements set to measure quality financial reporting ranged between 3.72 and 3.92 with the statement 'the financial reports prepared by your organization shows high level of transparency and accountability to the Users' contributing the highest mean (mean score =3.92,SD=1.047) while 'the statement financial reports prepared by your organization contain relevant information that Users require providing the lowest score (mean score =3.72, SD=0.990). This implies that financial reports prepared by the entities in the study are user friendly and can address their various needs.

4.5 Reliability and Validity Analysis

In order to establish the reliability and validity of the research instruments, the questionnaire was tested on the selected sample in one of the institutions which was excluded from the main sample and the results obtained are presented and discussed below.

4.5.1 Validity

Validity is the degree by which instruments accurately targets the contents that the test is designed to address, (Kothari 2004). The questionnaire was guided by experts in academic and professionals on the field and their suggestions were finally incorporated in the final draft in order to improve the contents of the questionnaire.

4.5.2 Reliability

Cronbach's test was run on the four variables (internal control, audit committee, IPSAS and quality financial reporting). Cronbach's alpha is generally the common estimate of internal consistency of the items in the scale. The test measures the extent to which the results to the questions correlate with each other. The test estimates ranges from 0.00 to 1.00 and according to Gliem and Gliem (2003), the closer the Cronbach's alpha coefficient is to one the greater the internal consistency of items in the scale. The results obtained are presented in table 13.

Table 13

Reliability Test

Variable	**Number of items**	**Coefficient (Alpha)**
Internal Control	05	0.7338
Audit Committee	05	0.7002
IPSAS	05	0.7181
Quality Financial Reporting	05	0.7163

Source: primary data

Based on the results in table 13 above, all the four variables posted an Alpha of above 0.7 which implies that the internal consistence of the instruments was acceptable. From table 9, internal control had α=0.7338, audit committee had α=0.7002, IPSAS had α=0.7181, According to Field (2005), $\boldsymbol{\alpha}$ greater than 0.9 is excellent, $\boldsymbol{\alpha}$ greater than 0.8 is good and $\boldsymbol{\alpha}$ above 0.7 is acceptable and below 0.7 is questionable.

4.6 Diagnostic Tests

Before carrying out regression analysis using Ordinary Least Square (OLS) method, the study checked that data conforms to the Classical Linear Regression assumptions. Both pre-estimation and post estimation tests were performed in the study and they are discussed in this section

4.6.1 Pre-Estimation Tests

This involved checking data for normality and Multicollinearity before fitting the model. The procedure for carrying out these two tests is explained and the results are presented below.

Shapiro Wilk Test for Normal Data

Shapiro-Wilk test is anon graphical test whereby if the test results are insignificant (above 0.05) it implies that data being used follows a normal distribution. However, when the p-value for the variables is less or equal to 0.05(significant) then it implies that data is not good for OLS analysis. The results obtained from the Shapiro Wilk test are presented in table 10 below.

Table 14

Shapiro Wilk Test for Normal Data

Shapiro-Wilk W test for normal data

Variable	Obs	W	V	z	Prob>z
QFR	50	0.98508	0.702	-0.755	0.77492
AUDITC	50	0.97133	1.348	0.638	0.26188
InternalC	50	0.95611	2.064	1.545	0.06112
IPSAS	50	0.96280	1.749	1.193	0.11647

Source: Stata output

Table 14 results indicate that that all the variables had a p-value greater than (0.05) meaning that the variables involved in the study follow a normal distribution and therefore OLS method was suitable for further analysis.

Pairwise Correlation Test for Multicollinearity

According to Gujarat (2003), explanatory variables should not exhibit high correlation with each other because that may cause unrealistic results during regression. In order to avoid that problem, explanatory variables were tested for Multicollinearity using pairwise correlation technique and the results are presented in table 15.

Table 15

Pairwise Correlation

Variable	Quality Financial Reporting	Internal Control	Audit Committee	IPSAS
Quality Financial Reporting	1			
Internal Control	0.6484	1		
Audit Committee	0.5012	0.3755	1	
IPSAS	0.3220	0.0901	0.1002	1

Source: Stata output

Results from Table 15 above indicate that the three explanatory variables are moderately correlated with each other and none of them had surpassed the rule of the thumb where correlations above 0.8 may lead to spurious results. Therefore OLS technique was appropriate.

4.6.2 Post -Estimation Tests

There are other assumptions such as Heteroscedasticity (non-uniformity of errors) and the general behavior of residuals which can only be ascertained after running regression. This post estimation tests were important in order to determine with certainty whether the data used in the study followed normal distribution or would require some transformation. The post estimation tests performed are presented in this section.

VIF Test for Multicollinearity

While the pairwise correlation carried earlier indicated that the explanatory variables were not highly correlated, the VIF test was carried out immediately after regression to confirm the authenticity of the pre-test indicated in (table 10) and the results are presented in Table16

Table 16

VIF Test for Multicollinearity

Variable	**VIF**	**1/VIF**
Internal Control	1.17	0.854565
Audit Committee	1.17	0.856209
IPSAS	1.01	0.986756
Mean VIF	1.12	
Source: Stata output		

Results in Table 16 gives a mean VIF of 1.12 which is less than the set threshold of 10 when variables are perfectly collinear hence confirms the pre-test done on data that there is no Multicollinearity problem in the data used.

Test for Heteroscedasticity

The pattern of errors should remain constant throughout the observations and violation of this assumption renders the Ordinary Least Square (OLS) results biased, (Gujarat 2003). To minimize the Heteroscedasticity problem, residuals were subjected to both graphical non-graphical Breusch-Pagan tests after regression test. The Breusch Pagan tests the null hypothesis that error variances are constant throughout the observations unless the results prove otherwise. The results obtained are presented in Table 17

Table 17

Test for Heterosdasticity

```
. hettest

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of QFR

         chi2(1)      =     0.02
         Prob > chi2  =   0.9004
```

Stata output

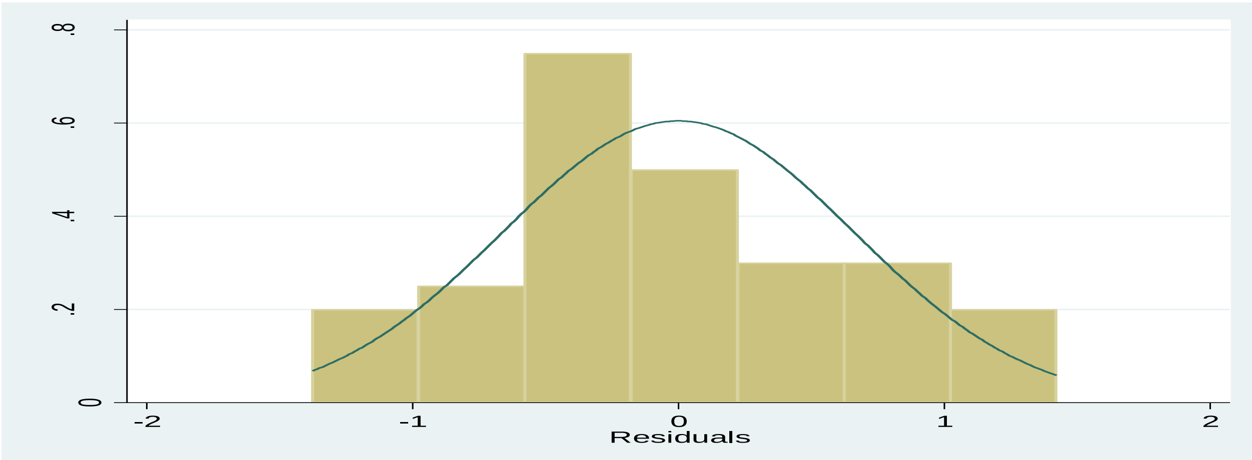
The results in table 17 above posted a p-value of 0.9004 at 95% confidence level hence the study failed to reject the null hypothesis that errors are homogeneous and therefore concluded that there was no possible presence of Heteroscedasticity in the model.

Histogram Test for Normality

The study also checked for non-normality of residuals based on the graphical technique whereby normality is confirmed when the super imposed curve is bell shaped covering all the bars. The results obtained are presented in figure 2.

Figure 2

Histogram Test for Normality



Source: Stata output

The histogram in figure 2 above revealed that the bell shaped imposed curve covered all the bars of the histogram and therefore further confirmed the Shapiro Wilk test in the pre-test that data used in the study was normally distributed and therefore considered fit to apply OLS technique in the entire analysis.

4.7 Inferential Analysis

To determine the relationship between the independent and dependent variable, multiple linear regressions was performed based on the model below.

$\boldsymbol{Y= \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon}$……………………………………………….. (i)

Where:-

Y = Quality financial reporting in the Ministry of Environment and Natural Resources

β_0= Constant, showing quality financial reporting in the absence of the factors

B1-β3= Regression Coefficients

X_1= Internal Controls

X_2= Audit Committee

X_3= Adoption of IPSAS

ε =Error Term

Table 18 presents the multiple regression results that were obtained on data and the subsequent analysis covering the coefficient of determination, regression coefficients and the overall significance of the model.

Table 18
Multiple Regression Analysis

```
. regress QFR AUDITC InternalC IPSAS

      Source |       SS       df       MS              Number of obs =      50
-------------+------------------------------           F(  3,    46) =   19.26
       Model |  26.7671443     3  8.92238143           Prob > F      =  0.0000
    Residual |  21.3128557    46   .46332295           R-squared     =  0.5567
-------------+------------------------------           Adj R-squared =  0.5278
       Total |       48.08    49   .98122449           Root MSE      =  .68068

------------------------------------------------------------------------------
         QFR |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
      AUDITC |   .3607291     .13426     2.69   0.010      .0904777    .6309804
   InternalC |   .4551425   .0935133     4.87   0.000        .26691    .6433751
       IPSAS |   .3519347    .142202     2.47   0.017      .0656968    .6381725
       _cons |  -.8383238    .759421    -1.10   0.275     -2.366959    .6903114
------------------------------------------------------------------------------
```

Source: Stata output

4.7.1 Coefficient of Determination(R-Squared)

The coefficient of determination indicates the proportion of variance in the dependent variable (quality financial reporting) that is explained by the explanatory variables in the study. It is a commonly used statistic to evaluate model fit. R-square is 1 minus the ratio of residual variability. The adjusted R2, also called the coefficient of multiple determinations, is the percent of the variance in the dependent variable explained uniquely or jointly by the independent variables. From Table 18 above, 55.67% of the changes in the quality of financial reporting in the entities in the Ministry of Environment and Natural Resources could be attributed to the combined effect of the predictor variables. However, 44.33% of the variance is explained by other factors not covered in the study. From Adjusted R-Squared, results indicate that 52.78% of the variance in the dependent variable is attributed to independent variables in the study.

4.7.2 Regression Coefficients

The findings on the individual coefficients shown in Table 18 revealed that all the three independent variables: internal control, audit committee and IPSAS positively and significantly influence the quality of financial reporting in the public entities (0.4551 p-values=0.000; 0.3607, p-value =0.010 and 0.3519, p-value=0.017) at 5% significance level.

4.7.3 Overall Significance of the Model.

The results in Table 18 further revealed that overall model had a p-value of 0.000(significant) hence implying that the model is a good fit that can significantly be used to predict the dependent variable which is quality financial reporting. The study further concludes the model is statistically significant and fits well in the sense that the F statistic has a p-value of 0.000

4.8 Interpretation and Discussion of Results

Based on the results the following model is derived expanding the relationship between the factors identified in the study and quality financial reporting fitted as shown below.

$$Y = _{-0.838324} + 0.4551IC + 0.3607AuditC + 0.3519IPSAS$$

Where:-

Y = Quality financial reporting in the Ministry of Environment and Natural Resources

β_0= Constant, showing quality financial reporting in the absence of the factors

B1-β3= Regression Coefficients

X_1= Internal Controls

X_2= Audit Committee

X_3= Adoption of IPSAS

ε =Error Term

The regression equation above has established that taking all factors into account (internal control, audit committee and IPSASs adoption) constant at zero the quality of financial reporting in the entities under study will be at -0.8383.The study also finds that all other independent variables at zero ,a unit increase in the internal control would lead to a 0.455 increase in the quality of financial reporting in the entities; a unit increase in the audit committee existence lead to a 0.3607 increase in the quality of financial reporting in the entities; finally the findings show that a unit increase in IPSASs adoption will lead to a 0.351 increase in the quality of financial reporting in the entities.

In summary, Internal control contributes the highest in the quality of financial reporting at 45.51% which implies that without strong internal control systems, quality financial reporting will be compromised in the public sector entities. Existence of audit committee contributes 36% towards quality financial reporting whereas adoption of IPSAS is 35% respectively. This implies that audit committee and adoption of IPSAS both depend on strong internal controls of an entity to be effective in the quality of financial reporting. This confirms that for financial reporting to be of high quality, there must be strong internal control systems in the public sector entities.

CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The purpose of this chapter is to present a summary of the research findings based on the main objectives. The chapter also contains conclusions, recommendations, policy implications as well as the limitations of the study. The study set to establish the factors influencing quality of financial reporting in the public sector entities in the Ministry of Environment and Natural Resources.

5.2 Summary of Findings

The study aimed at determining the factors influencing quality of financial reporting in the state entities in the Ministry of Environment and Natural Resources in Kenya. The study established that there was a significant positive relationship between the factors identified as internal control, existence of audit committee and adoption of IPSAS. The results of significant relationship was supported with the finding of Madawaki and Amram (2013)which found some evidence of a positive association of audit committee existence and financial reporting when studying 70 listed companies in Nigeria stock exchange in Nigeria. In the study of the impact of financial reporting before the adoption of IPSASs and after the adoption in the public sector in Kenya (Opanyi, 2016), found that the financial reports prepared under IPSASs adoption outperformed the old reports before adoption. The researcher's finding support the result in this study.

Chebungwen and Kwasira (2014) while studying the effect of internal control on financial statements in tertiary institutions in Kenya found that the respondents of 75% were of the view that there was positive relationship between internal control and financial management and concluded that the institutions with prudent internal control strategies were mostly to manage their finances well.

5.1.1 Findings on Internal Controls

The first objective was to assess the influence of internal controls on the quality of financial reporting. The results obtained revealed that internal controls had a positive and significant relationship on quality financial reporting of the public entities in the Ministry of Environment and Natural Resources in Kenya. The results indicate that internal controls play a major role in the quality of financial reporting and the emphasis is the effectiveness and efficiency of the controls of the entities.

Wattayapoom (2012), Premuroso (2012) found strong relationship between internal controls and financial statements and finally affect the reliability of financial reporting. Elbannam (2007) states that good implementation of internal control significantly increase the capacity to meet the financial statements and the quality of financial information they produce. Altamoro and Beatty (2010) found that through continuous monitoring and internal check there is improvement of financial reporting in the banking industry. Mahmud (2007) also found out that in order to produce reliable financial reports for local governments, the quality of internal control must be very high.

5.1.2 Findings on the Influence of Audit Committee

The second objective sought to establish the influence of existence of audit committee on the quality of financial reporting in the state entitles under the study found out that existence of audit committee has a positive and significant relationship on the quality financial reporting in the entities in the Ministry of Environment and Natural Resources in Kenya. The result indicates that the existence of audit committee is important but it is noted that the contribution of audit committee has not been exploited fully in the public sector in Kenya. The main outcome found that the members of the committee are not having the required qualifications and experience in finance management to ascertain whether the financial statements prepared include all the requirements.

Madawaki and Amran (2013) found significant positive relationship between audit committees with members having accounting and financial expertise and improved financial reporting quality. On the other hand, Yang and Krishnan (2005) and Lin et al. (2006) could not get any significant association between financial expertise and financial reporting quality measured as the level of earnings management.

5.1.3 Findings on the influence of IPSAS Adoption

The third objective was to determine the influence of IPSAS adoption on quality financial reporting in the entities under study noted that adoption of IPSAS has a positive and significant relationship on the quality of financial reporting in the public entities covered in the study and being in the early stages of adoption in the public sector in Kenya the results show good indication of adoption. The adoption of IPSASs in the public sector in Kenya came into effect in June 2014 for the Financial Year 2013/2014 financial reporting. The results showed that full adoption has not been realized and this may be as a result of various factors like the level of staff training, change attitude and the management support on the adoption.

Atuilik (2016) found a significant relationship between adoption of IPSAS framework and quality of financial reporting and therefore reduction of corruption and wastage in the utilization of public resources. The study above supports the researcher’s finding on the adoption of IPSASs in the public sector in Kenya

5.2 Conclusion

Based on the findings, the study concluded that there exists a positive and significant relationship between the three factors viz., internal controls, audit committee and IPSAS on quality financial reporting in Kenya with internal controls contributing the highest percentage, followed by audit committee and IPSAS respectively. Further, the study reveals that the overall model is statistically significant in the prediction of the dependent variable and therefore state entities should give the three factors a considerable priority. These findings agree with the findings of earlier researchers on the subject such as (Azwar, 2015, Premuroso, 2012, Madawaki & Amran, 2013, Opanyi, 2016 and Ouda, 2010) who obtained similar results in their studies.

The results of this study showed that the factors considered in the research have moderate influence on quality financial reporting. Financial reporting quality is a key prerequisite for the effective functioning of the economy of the country. Many developing countries have challenges in financial reporting due to lack of accountability, transparency and lack of qualified personnel in the public sector. It is apparent that public sectors in Kenya have to emphasis on the key variables which will help the improvement in the quality of financial reporting.

According to the evidence gathered by the study ,we conclude that there is a statistical significant influence therefore the variables in the study are adjudged to have moderate influence on the quality of financial reporting in the public sector entities in the Ministry of Environment and Natural Resources. However it should be recognized that existence of audit committee and adoption of IPSASs are still considered as new concepts in Kenyan public sector so their real positive influence will be mostly ascertained with sometime of implementation.

5.4 Recommendations

The following recommendations are presented based on the study findings and conclusions reached from the results.

5.4.1 Government

The government has the responsibility of ensuring that public resources are well managed and based on the previous experience, public entities have not been doing well in resource management culminating in poor service delivery. Therefore based on the finding, the study recommends that public sector entities should prominently focus on strengthening internal control system, structured audit committee where expertise of the members are considered and full adoption of IPSASs for better financial disclosures ,accountability, and transparency in financial reporting of the public sector.

5.4.2 Regulatory Authorities

Since the regulatory authorities have the responsibility of ensuring that state entities follow the laid down procedures and regulations, they need to ensure that all public entities conform to the appropriate controls, functional audit committees and fully adoption of international public accounting standards where quality reporting is adhered to in order to safeguard public resources and avoid wastage and losses.

5.4.3 Scholars

Very limited focus is evident on the factors influencing quality reporting in public entities in Kenya that have come up with concrete findings and therefore scholars can still explore further in this field especially following the devolved governance that is taking shape in Kenya currently. The studies on the management of public resources should be up scaled to help the public resource managers on areas of improvements.

5.5 Limitations of the Study

First, the study was limited in scope as few variables were considered as many variables influence the quality of financial reporting for example the level of training and professional qualifications of finance staff, the role of internal audit unit, the Office of Auditor General and corporate governance structure. This makes more factors to be considered to make the inference more inclusive and concrete.

Second, the study focused on some variables which are still having challenges in implementation in the public sector that is audit committee and adoption of IPSASs which came on board by the enactment of PFM Act 2012 and PFM Regulation 2015. Full implementation by the public entities have not been realized which could have affected the results.

Third, time and resource constraints were some of the challenges faced and lack of cooperation from some of the respondents due to their busy schedules during the period of the interview.

5.6 Suggestions for Further Research

Given that the area of financial reporting is dyanamic in orientation, further studies are recommended especially on the challenges facing the implemention of ; a) risk management as component of strengthening internal controls; b) functions of audit committees considering the appointment of members and their professional qualification as well as their terms of reference; c) the challenges facing the adoption of IPSASs in the public sector in Kenya.

The reseacher also suggest for other studies on the sectors of the public sectors and wider sample incorporating institutional and organisational characteristics.Other factors of variables that may influence the quality of financial repoirting such as management support,economic enviroment and corporate governance requirements.

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APPENDICES

Appendix A: Research Questionnaire

FACTORS INFLUENCING QUALITY OF FINANCIAL REPORTING IN THE PUBLIC SECTOR ENTITES: CASE STUDY OF THE MINISTRY OF ENVIRONMENT AND NATURAL RESOURCES IN KENYA

Dear Respondent,

My name is Francis Ochung a student of KCA University. I am carrying out a study towards my master's academic requirement and my topic is to assess the *factors influencing the quality of financial reporting* in the public entities in the Ministry of Environment and Natural Resources. The study is focusing on the five entities of the Ministry of Environment and Natural Resources because they play an important role in the economic development of the whole country and their financial health is critical in the realization of their core mandates. Your organization has been identified to participate in this study and your contribution is considered very important to make this study complete. Please note that there is no right or wrong answers. Your information will remain anonymous, confidential and strictly be used for academic purpose only

Thank you for participating in this exercise

Yours sincerely

____

Francis Ochung

SECTION A: GENERAL INFORMATION

This section is concerned with individual information as highlighted which you are requested to share with the researcher by putting an appropriate tick based on the choices provided.

NAME OF YOUR ORGANIZATION……………………………………………………………………………………

1. Gender: Male ☐ Female ☐	**2. Your Age** : 20-30 ☐ 31-40 ☐ 41-50 ☐ Over 50 ☐
3. Your level of education: College Diploma ☐ Undergraduate ☐ Post Graduate ☐	
***4.* Level of Management** Supervisory ☐ Middle Level ☐ Top Management ☐	
5. Employment Experience (years) 0-5 ☐ 06-10 ☐ 11-15 ☐ Over 15 Years ☐	

SECTION B: INFLUENCE OF INTERNAL CONTROLS

Please indicate to what extent you agree or disagree with the following statements on the influence of internal controls on quality financial reporting in your organization by putting a tick against the options provided below.

1=Strongly disagree (SD) 2=Disagree (D) 3=Neutral (N) 4=Agree (A) 5= Strongly Agree (SA)

INTERNAL CONTROLS		SD	D	N	A	SA
NO	**STATEMENT**	**1**	**2**	**3**	**4**	**5**
6.	Board of Management is the body having the mandate in developing procedures and rules to be used in your organization	1	2	3	4	5
7.	There are well established policies with regard to acceptable business practices, conflicts of interest and operational ethics.	1	2	3	4	5
8.	Your organization's control systems and processes provide effective mechanism of compliance in operations as well as helping to reach its goals and objectives	1	2	3	4	5
9.	Your organization has put in place adequate checks for evaluating and control of all business activities	1	2	3	4	5
10.	Your organization has put a team that reviews audit reports and provides solutions for non-compliance.	1	2	3	4	5

SECTION C: INFLUENCE OF AUDIT COMMITTEE

Indicate to what extent you agree or disagree with the following statements on the influence of audit committee existence on quality financial reporting your organization by putting a tick against the options provided below.

1=Strongly disagree (SD) 2=Disagree (D) 3=Neutral (N) 4=Agree (A) 5= Strongly Agree (SA)

Existence of Audit Committee		SD	D	N	A	SA
NO	**STATEMENT**	***1***	**2**	**3**	**4**	**5**
11.	The quality of oversight provided by audit committee determines the nature of financial reporting prepared by your entity.	*1*	2	3	4	5
12.	Audit committee members have accounting and finance	*1*	2	3	4	5

	management skills and Experience necessary for effective oversight role					
13.	The audit committee reports are presented to the main board for adoption and implementation by the management of your organization.	1	2	3	4	5
14.	Existence of audit committee has improved the quality of reporting as a result of ensuring there is strong internal control system in your organization.	1	2	3	4	5
15.	The audit committee ensures that all the implementations are effected by the management according to the board recommendations	1	2	3	4	5

SECTION D: INFLUENCE OF IPSAS ADOPTION

Please indicate to what extent you agree or disagree with the statements provided on the effect of IPSAS adoption on quality financial reporting by putting a tick against the options provided:

1=strongly disagree (SD) 2=Disagree (D) 3=Neutral (N) 4=Agree (A) 5= Strongly Agree (SA)

ADOPTION OF IPSAS		**SD**	**D**	**N**	**A**	**SA**
NO	**STATEMENT**	**1**	**2**	**3**	**4**	**5**
16	There is sufficient awareness among senior management staff, especially finance and audit staff regarding the International public sector accounting standards adoption	1	2	3	4	5
17	The adoption of IPSAS in your organization has helped in the improvement on the quality of financial reporting than before.	1	2	3	4	5
18	Your organization has fully adopted IPSAS policies and guidelines as per the PFM Act (2012) including accrual based solution.	1	2	3	4	5
19	The management has provided full support for the adoption of IPSAS in terms of resources and staff training.	1	2	3	4	5
20	Your organization has qualified staff that are involved in adoption of IPSAS	1	2	3	4	5

SECTION E: QUALITY FINANCIAL REPORTING

Please indicate to what extent you agree or disagree with the statements provided on quality financial reporting in your organization by putting a tick against the options provided below.

1=strongly disagree (SD) 2=Disagree (D) 3=Neutral (N) 4=Agree (A) 5= Strongly Agree (SA

QUALITY FINANCIAL REPORTING		**SD**	**D**	**N**	**A**	**SA**
NO	**STATEMENT**	**1**	**2**	**3**	**4**	**5**
21	The financial reports your organization prepares are complete, neutral, lack of material error, and can be verified.	1	2	3	4	5
22	Your organization prepares financial reports on time to meet the stipulated time frame as per statutory and National Treasury requirements	1	2	3	4	5
23	The financial reports prepared by your organization shows high level of transparency and accountability to the users.	1	2	3	4	5
24	Financial reports disclose financial and non-financial matters which help in decision making process	1	2	3	4	5
25	Financial reports prepared by your organization contain relevant information that the users require	1	2	3	4	5