EFFECT OF FINANCIAL REPORTING PRACTICES ON THE QUALITY OF ANNUAL ACCOUNTS IN THE PUBLIC SECTOR IN KENYA

BY

BENSON M. KINYUA

A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF SCIENCE IN COMMERCE ACCOUNTING AND FINANCE OPTION IN THE SCHOOL OF BUSINESS AND PUBLIC MANAGEMENT AT KCA UNIVERSITY

NOVEMBER, 2013

DECLARATION

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

Student Name: Benson Mureithi Kinyua Reg. No. KCA 11/03024

Sign: ____________________________ Date: _______________________________

I do hereby confirm that I have examined the Masters dissertation of

Benson Mureithi Kinyua

And have satisfied that all revisions that the dissertation panel and examiners recommended have been adequately addressed.

Sign: ____________________________ Date: _______________________________

Dr. Ambrose Jagongo

Dissertation Supervisor

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ABSTRACT

There have been an increase in demand for public accountability and transparency in the public sector in Kenya. Preparation of transparent and comprehensible financial statements and other annual accounts is an essential approach for public sector to demonstrate accountability to the general public who support them through taxes and development partners who over and over again throw in to the development activities of government. Effective financial reporting practice is important to Kenya's public sector being in a position to make policy and deliver services to the citizenry. The research design for this study was a descriptive survey method where questionnaires were used to collect information and data. The population of interest was heads of accounting units of the previous 40 ministries and 12 departments which financially reported for the year 2011/2012. Data collected was analyzed using both quantitative and qualitative methods. Quantitative data was analyzed using descriptive analysis while analysis of qualitative data was done using content analysis. The study revealed that there is ownership and dedication in financial reporting practices in Kenya's public sector. The ministries and departments have adopted excellent financial reporting practices all the way through the year. The study also found that ministries and departments have managed staff and other resources effectively. However, there are challenges in financial statements or annual accounts preparation in the ministries or departments that include lack of generally accepted accounting standards in the public sector and cash accounting instead of using accrual, problems with IFMIS program usage, treatment of old balances and reconciliation of below the line accounts. The regression analysis revealed that budgeting was the only independent variable with a significant effect on quality of annual accounts (β=.557, $p<.000$) when each and every one of the variables were inserted into regression equation. It was established that the better the budgeting practices, the better the quality of annual accounts. Financial Statements Preparation, Appropriation and Auditing did not attain the required threshold to extensively affect quality of annual accounts, so they played no significant role. The study recommends ways to improve financial statements or annual accounts preparation that include regular training on IFMIS program application, clear guidelines from treasury on treatment of old balances as well as monthly reconciliation of below the line accounts.

Key words: financial statements, public sector, annual accounts, financial reporting practices, budgeting, appropriation, auditing, quality.

ACKNOWLEDGEMENT

I acknowledge with gratitude the assistance received from the following people and entities

Dr. Ambrose Jagongo, my research project supervisor, Mr. E.T. Mwethi, my boss and Head of accounting unit State House, my dear wife Nancy Wairimu for helping me as my research assistant, Comptroller State House for offering me sponsorship and KCA University who provided me with invaluable learning opportunities.

The authors of the published and written materials on financial reporting practices in the public sector on whose literature I relied on. Finally, to my parents, Peterson and Mary I express appreciation for educational support which laid the foundation for acquiring knowledge for this research dissertation.

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ABBREVIATIONS

IPSAS	-	International Public Sector Accounting Standards
PFM	-	Public Finance Management
HAU	-	Head Accounting Unit
PAC	-	Public Accounts Committee
GASB	-	Government Accounting Standards Board
AUASB	-	Auditing and Assurance Standards Board
UNECA	-	United Nations Economic Commission for Africa
GAAP	-	Generally Accepted Accounting Principles
KENAO	-	Kenya National Audit Office
ANAO	-	Australia National Audit Office

OPERATIONAL DEFINITION OF TERMS

Within the dissertation, there are some terms, which have been used by the researcher, which were found necessary to define as done below:

Effect

Within this dissertation, the term effect means change, result or outcome brought by financial reporting practices on the quality of annual accounts (Merriam-Webster, 2013).

Financial Reporting Practice

This means the exercise undertaken from budgeting, appropriation and expenditure reports, preparation of annual accounts/financial statements and auditing in compliance with the Kenya Act of Parliament: Public Finance Management Act, 2012, Kenya Government Financial Regulations and National Treasury circulars issued from time to time (Act of Parliament: Public Finance Management Act, 2012).

Quality

Within this dissertation, this means essential and distinguishing attribute of the accountability data contained in the Kenya Public Sector annual accounts/financial statements (Business Dictionary, 2013).

Annual Accounts

Within this dissertation, these are set of records or financial statements prepared by the Accounting Officer in respect of an entity at the end of each financial year. They include Appropriation Accounts, Statement of entity's debt outstanding at the end of each financial year, statement of entity debt guaranteed by the National Government as at the end of the financial year, statement of the entity's assets and liabilities in respect of the Recurrent Vote, Development Vote and funds and deposits, statement of the accounting policies followed in preparing the financial statement and a statement of the national government entity's performance against predetermined objectives (Act of Parliament: Public Finance Management Act, 2012).

Public Sector Entities

For this dissertation, the term public sector entities means the previous 40 ministries and 12 departments in the Kenya Public Sector which had budgetary allocations for 2011/2012 financial year and whose Accounting Officers with technical expertise from Heads of Accounting Units prepared financial statements and other annual accounts as at 30th June, 2012.

Appropriation

This is the power established by parliament to disburse money from the consolidated fund or from any other public fund (Act of Parliament: Public Finance Management Act, 2012).

Budgeting

This is a preparation process for the national government in any fiscal year which encompass the following phases:- incorporated development planning process which consist of both long term and medium term planning; preparation and shaping financial and economic guiding principles and main concerns at the national level over the medium term; planning overall approximations in the shape of the Budget Policy Statement of national government revenues and expenditures; embracing of Budget Policy Statement by Parliament as a foundation for future discussions;

setting up budget estimations for the national government; presenting those estimates to the National Assembly for endorsement; passing the appropriation Bill and any other Bills necessary to execute the national government's budgetary proposals; applying the official budget; appraising and accounting for the national government's budgeted revenues and expenditures; and analyzing and accounting on those budgeted revenues and expenditures quarterly (Act of Parliament: Public Finance Management Act, 2012).

Auditing

This is a formal examination of an entity's accounts or financial situation which leads to an independent Auditor's report which can be either qualified or unqualified (Business Dictionary, 2013).

Qualified Opinion

This refers to an autonomous Auditor's judgment given as component of an audit account indicating; the audit was controlled in capacity otherwise the fiscal reports present reasonably the fiscal situation of the firm, or else the audit was unlimited and for the complete accounting phase but an unprofessional judgment cannot be uttered since the account books and accounts do not entirely reflect circumstances that match to the requirements of the Generally Accepted Accounting Principles (Business Dictionary, 2013).

Unqualified Opinion

Independent Auditor's pronouncement that he or she has no hesitation in endorsing that the inspected firm's fiscal reports sufficiently reveal material data, present reasonably its fiscal situation, and illustrate outcomes of its business in agreement with the requirements of Generally Accepted Accounting Principles, as well called the clean opinion (Business Dictionary, 2013).

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter presents background information of the research; the statement of the problem; objectives of the study; research questions; rationale and significance of the study; scope of the study; limitations and assumptions of the study.

1.1 Background to the Study

Given the recent global financial crisis many governments have increased public expenditure to stimulate the economy. In many countries it is expected that this period will be followed by significant cuts in government spending. Through media coverage the fact that many citizens will be affected, citizens will want more accountability from the government and more information on where their money is being spent (Harris, Mckenzie and Rentfro, 2008). The existence of better financial reporting can improve the credibility and integrity of public finances and contribute to a more effective management of public resources (Caba and Lopez-Hernandez, 2009). Aristotle, in the politics, was the first to note that “Citizenry has a right to know how funds are used and that the accounts should be laid before them”.

In the 13th century England, the Magna Carta made clear that taxation should be consensual as to how those taxes are utilized (Ellwood and Newbury, 2006). Since governments raise funds from taxation, provide public goods, borrow from other governments or entities and redistribute this wealth they must ensure their citizens are informed to enable them to exercise their democratic control over the government. Accountability, in a broad logic, is a duty of stewards or managers to make available pertinent and dependable data involving funds under their management. Accountability is the regime’s duty to give good reason to its population for the raising of public revenues and to report for the utilization of those public funds. Accountability data is useful in informing decision making, but it also fulfils the public's "right to know" how resources have been spend (GASB 2008, p 5).

Financial transparency is promulgated as ingredient of a larger strategy or goal of good economic control practiced to achieve poverty eradication and accomplish the millennium development goals (MDGs). In fact, on the African continent, the push for more transparency in the budget procedures is element of a set of deeds aimed at addressing the inconsistency of numerous natural resources and growing donor nobility, on the one hand, and apparently stubborn utter poverty, on the other hand. It is as well intended at attending to fraud and theft of state reserves and money washing, among others (UNECA, 2013).

It is generally acknowledged that, beside the auditor's account, a government's yearly fiscal reports offer the necessary fiscal data required for accountability reasons. In a parliamentary democratic state, parliament lays down the yearly budget to permit the government to levy taxes and to spend funds as designated. The yearly fiscal reports are an important method in which the government afterward accounts to the legislative body and its populace for the taxes levied and the cash spent on the delivery of public services. The fiscal reports could also consist of essential data on the price of executing the government's plans, for example attainment of the Millenniums Development Goals or poverty eradication. The fiscal reports explain how public reserves were essentially allocated, for example how much was made available for health spending and how much was devoted to infrastructure. They furthermore present a fundamental system for scrutinizing devotion to arranged financial goals, for instance the height of budget discrepancy and largely the height of government debt. Kenya Public Sector is not an exception neither exempted from accountability to its citizens, this has even been emphasized by the Kenya government financial regulations and procedures, enactment of the Public Finance Management, Act, 2012 and circulars by the National Treasury from time to time.

However, with all the legal frameworks in place, regular revelations in the Publics Accounts Committee (PAC) hearings on the Auditor General's report raises issues of financial accountability and transparency in almost all the Annual Accounts and other Financial Statements presented and audited for different entities within the Kenya Public Sector. For instance, weak and inadequate maintenance of accounting records been observed in various ministries and departments (Report of the Auditor General, 2010/2011, p 10). It has also been highlighted that, financial reporting by the Public Sector has been largely inadequate. Government agencies do not make available clear financial reports and conversely, the reports are intricate, puzzling and big (PricewaterhouseCoopers, 2012).

Fiscal reporting in government is not an end in itself but a way of providing data to boost the continuity of budgetary policies and evaluate the performance and transparency of government finances (Florence Parly, French Minister of the Budget, 2000 as quoted by Bernard, 2005). With all these concerns above been raised by various institutions on how Kenya Government ministries/departments maintain their accounting records, it is in this view that the researcher therefore attempts to find out the reasons for inadequate maintenance of accounting records by government ministries/departments even though there seem to exist clear frameworks on how the records should be maintained, how financial statements and other annual accounts should be prepared and presented.

1.2 Statement of the Problem

Successful fiscal organization and financial reporting practices are important to public sector entities everywhere in the world. It enables governments to make policies and deliver services. A central facet of fiscal organization and the basic method, by which units get together their fiscal accountability obligations, is the preparing and publishing of yearly inspected fiscal reports in entities' yearly reports (Australia National Audit Office, 2004). It is by and large recognized that the opportune finalization of an entity's financial reports, tagged along an unchanged inspection view, is an essential pointer of the efficacy of an organization's fiscal organization feat. Prudent fiscal administration cultivates assurance in the body or public organization in regard to Ministers, the legislative body and additional stakeholders. By itself, the grounding of an organization's fiscal reports and the crucial methods, processes, along with practices that underline them ought to be of main concern.

Owing to the high requirements for public accountability and transparency in Kenya public sector, preparation of transparent and comprehensible financial statements and other annual accounts is an essential means for government agencies to exhibit their accountability to the general public who finance them through taxes and development partners who frequently donate to the development activities of government (PricewaterhouseCoopers, 2012).

Financial reporting Public sector in Kenya has been insufficient as government agencies do not give clear financial reports. Conversely, the reports have been intricate, perplexing and large (PricewaterhouseCoopers, 2012). This issue has been confirmed by diverse Auditor General's reports offered to the Public Accounts Committee raising questions on insufficient financial reporting among other things in the government ministries. This is a serious issue particularly when put into consideration that there is increasing emphasis on public accountability and transparency in Kenya's public sector. This therefore calls for an urgent need for satisfactory and effectual financial reporting practices (Report of the Auditor General on Appropriation Accounts, 2012).

Although Government of Kenya has put in place financial regulations and procedures, together with the enactment of the Act of Parliament: Public Finance Management Act, 2012 to act as guide in financial reporting, effects of financial reporting practices on the quality of annual accounts have hardly been assessed. If the issue of inadequate financial reporting is not treated with the seriousness it deserves and the problems fully addressed, the Kenya Public Sector will not be able to attain the set standards for public accountability and transparency as contained in the Act of Parliament: Public Finance Management Act, 2012 (Kirira, 2013). This will open room for litigation by any tax payer in Kenya on non-compliance, donors may hold back or cut funding citing non-adherence to agreed policies, good decision making may be hindered among other things. This study therefore sought to investigate the effects of financial reporting practices on the quality of annual accounts in the Kenya Public Sector.

1.3 Objective of the Study

The general objective of the study was to determine the effects of financial reporting practices on the quality of annual accounts in the public sector in Kenya.

1.3.1 Specific Objectives

The specific objectives were to:-

1. Determine the effect of budgeting on the quality of annual accounts in the public sector in Kenya.
2. Determine the effect of appropriation and expenditure reports on the quality of annual accounts in the public sector in Kenya.

3. Determine the effect of financial statements preparation on the quality of annual accounts in Kenya public sector.
4. Determine the effect of auditing on the quality of annual accounts in the public sector in Kenya.

1.4 Research Questions

Research questions were:-

1. What is the effect of budgeting on the quality of annual accounts in the public sector in Kenya?
2. What is the effect of appropriation and expenditure reports on the quality of annual accounts in the public sector in Kenya?
3. What is the effect of financial statements preparation on the quality of annual accounts in Kenya public sector?
4. What is the effect of auditing on the quality of annual accounts in the public sector in Kenya?

1.5 Rationale and Significance of the Study

The study will add to the existing knowledge on studies related to the effects of financial reporting practices on the quality of annual accounts in the public sector and is expected to benefit the following groups; Management in the public sector in coming up with the best strategies of improving on financial reporting practices, Accountants in the public sector may through the strategies developed gain more knowledge that will enable them to adequately and effectively prepare annual accounts/financial statements and the study will also act as a point of reference for other researchers who may be interested in the area of study.

1.6 Scope of the Study

The study was limited to the forty (40) Ministries and twelve (12) Departments which had budgetary allocations for 2011/2012 financial year and whose accounting officers with technical expertise from Heads of Accounting Units prepared financial statements and other annual accounts as at 30th June 2012 and submitted them to Auditor General for auditing among other stakeholders (Kenya Government Estimate Books, 2011/2012). The previous Ministries and departments were chosen because 2011/2012 annual accounts had been prepared, submitted to the Auditor General for Auditing and the report on the accounts was recently submitted to Parliament as per the requirement.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents the financial reporting practices overview and highlights its effects on the quality of Annual Accounts/Financial Statements in Public Sector in Kenya.

2.1 Financial Reporting Practices, Annual Accounts, Quality and Public Sector

Before embarking on a detailed literature review, the researcher feels it is necessary to first understand what Financial Reporting practices, Annual Accounts, Quality and Public Sector mean.

2.1.1 Financial Reporting Practice

Financial Reporting practice means the exercise of budgeting, appropriation and expenditure reporting, preparation, presentation and auditing of financial statements/Annual Accounts as per Act of Parliament: Public Finance Management Act (2012), Government financial regulations and procedures and Treasury circulars issued from time to time. Distinctively, the goals of universal principle fiscal reporting in the public sector ought to be to put forward data valuable for decision making in addition to exhibit the accountability of the entity for the funds delegated. This is achieved by offering data on the funds, distribution, as well as uses of funds; offering data on how the entity finance its actions in addition to meeting its cash requirements; offering useful data in evaluating the entity's capacity to finance its activities and to meet its obligations and pledges; providing data on the fiscal situation of the entity in addition to alterations in it; and offering comprehensive data helpful in evaluating the entity's feat in terms of service expenses, competence as well as undertakings.

Well undertaken fiscal reporting exercise will lead to annual accounts that supply users with data demonstrating whether funds were attained and utilized in agreement with the officially accepted budget. It also indicates whether funds were acquired and utilized in harmony with official and agreement requirements, together with fiscal limits acknowledged by proper governmental authorities.

2.1.2 Annual Accounts

Annual accounts/fiscal reports are a controlled demonstration of the fiscal position and fiscal feat of an entity. A complete set of fiscal reports/yearly accounts consist of; - a report of fiscal situation, a report of fiscal feat, a report of alterations in net assets/equity, a cash flow account, when the entity makes openly available its official budget, a contrast of the budget and definite amounts either as a separate supplementary fiscal report or a budget feature in the fiscal reports, and notes, consisting of a synopsis of important accounting policies and additional illuminating remarks.

As per the Act of Parliament: Public Finance Management Act, 2012 of Kenya section 81(2) financial statements/annual accounts comprises: - Appropriation accounts, explaining; the services for which the allocated cash was spent; the specific amount spend on all services; the situation of each vote contrasted with the allocation for the vote; a statement clearing up any deviations between the definite spending and the sums designated; and any other data specified by the National Treasury. A report of the entity's liability which is outstanding at the end of the fiscal year; A declaration of the entity's liability guaranteed by the national government as at the end of the fiscal year; An account of the entity's possessions and liabilities as at the end of the fiscal year in regard to the regular vote, improvement vote and finances and deposits; A report of the accounting principles pursued in planning the fiscal statements; and a report of the government entity's feat alongside predetermined goals.

Section 81(3) of the Act – the Accounting Officer shall organize the fiscal reports in a structure that conform to the applicable accounting principles approved and made available by the Accounting Standards Board periodically. From these two statements, above it is evident that the Act of Parliament: Public Finance Management Act, 2012 borrows heavily from the International Public Sector Accounting Standard1 (IPSAS1).

2.1.3 Quality

Quality is a much more complex term than it comes into view. Dictionary descriptions are typically insufficient in helping a quality professional comprehend the idea. It appears that every quality professional describes quality in a rather different way. There are multiplicities of viewpoints that can be taken in defining quality (customer's standpoint, specification-based viewpoint). As per the quality digest, we take the specifications based point of view which means important and distinguishing feature of the accountability data enclosed in the Kenya Public Sector financial statements/annual accounts measured in terms of the auditor's opinion which can be either qualified or unqualified (Governmental Accounting Standards Board, 2006).

2.1.4 Public Sector

Based on the conception of Institute of Internal Auditors, this definition is intended to clarify what is meant by the term public sector, which can sometimes be ambiguous. Ordinarily terms, public sector comprises of governments in addition to all publicly proscribed or publicly financed organizations, ventures, and supplementary entities that carry out community programs, goods and services (Parker and Gould, 1999).

The mandate to serve the public is a lens through which a public sector entity determines its priorities. The mandate is achieved through the provision of services, the allocation of resources and long-term stewardship of the financial, economic, environmental and social responsibilities that have been entrusted to public sector entities (Act of Parliament: Public Finance Management Act, 2012). In order to achieve this mandate, public sector entities have been granted certain powers, rights and responsibilities, including a responsibility for policy development and implementation. The mandate to serve the public over the long term and the granted powers, rights and responsibilities demand public accountability for the actions, decisions and results of a public sector entity. This need for public accountability is the overriding characteristic of public sector organizations. The role of the budget in resource allocation and policy implementation is a crucial piece of the accountability cycle, as is the role of financial statements in showing how actual and planned results compare. The public nature of a public sector entity's budget and in the case of government, the public consultation inherent in the creation of the budget, only amplify the extent of accountability provided by the budget itself as well as the comparison to actual results. Operating and financial legislative frameworks are used to document the manner in which the public interest will be served (i.e., these frameworks outline how the rights and powers will be employed in fulfilling the responsibilities) (Moll and Hoque, 2000).

Many of the characteristics of public sector entities have accounting or financial reporting implications that will inform the choice of data to be reported in the financial reports of a public sector entity. There are characteristics that fundamentally shape the objectives of public sector financial reporting, such as public accountability and multiple objectives, as well as characteristics that more specifically affect recognition and reporting in general purpose financial statements such as non-exchange transactions and the nature of resources (Deegan, 2000).

2.2 Financial Reporting Practices

With the enactment of the new constitution in Kenya, the requirements regarding budgeting, appropriation and expenditure reporting, preparation, presentation and audit of the annual accounts and other financial statements are contained in the Act of Parliament: Public Finance Management Act, 2012 which stipulates how the financial reporting practices should be undertaken by Treasury, Accounting Officers, receivers of revenue and the period within which the accounts must be prepared and transmitted to the Auditor General for audit and certification. This has been driven by the increasing requirement for public responsibility and openness in Kenya public sector (United Nations Economic Commission for Africa-UNECA, 2013).

The grounding of open and comprehensible financial reports is a central approach for government ministries to show their accountability to the populace who finance them by way of paying taxes and development associates who regularly give to the development initiatives of government. It is against this background that the Accounting Officers must ensure that the annual accounts and other financial statements prepared are adequate, comprehensible, not complex, not confusing and not voluminous through better financial reporting practices. This chapter therefore reviews the literature related to the effects of financial reporting practices on the quality of annual accounts in the public sector that has been researched by various authors and researchers. It will spell out how financial reporting practices affect the quality of annual accounts especially in the public sector. The literature review will highlight various aspects that have been found essential in improving the quality of annual accounts in financial reporting practices (Perez & Hernandez, 2009).

2.3 Theoretical Framework

Theoretical framework was informed by three theories namely the systems approach to financial reporting, new public management and institutional theory. These theories are reviewed below.

2.3.1 The systems Approach to Financial reporting practices

The systems approach to Financial reporting practices envisages that Financial reporting practices be viewed not in isolation but as component in an interactive operating system in which Financial reporting practices are integrally related to the organizational goal. A structure may be described as ‘a well thought-out or complex whole; a grouping or amalgamation of things or parts shaping a composite unitary whole. This definition highlights three basic features of a system: A system has a number of sub-systems; these sub-systems must be in some kind of communication with each other, and these sub-systems complement each other to constitute a unitary whole (Ostman, 2010).

Viewed from this angle, financial reporting practices in a government entity may be considered the unitary whole and its systematic functions like budgeting, appropriation and expenditure reporting, preparation, presentation and auditing of annual accounts/financial statements are its sub-systems. Each of these sub-systems has its respective functions, which contribute to the overall organizational goal. In other words, these parts or sub-systems are not divorced from one another. When things are so related that one cannot operate without the other, this way of looking at things is called systems approach.

The feature, which distinguishes the system approach from the theoretical approach, is that systems approach is oriented to specified or clearly identified goal and is directed to their achievement. “Theories end with predictions which need not be utilized in any decision.

Systems require theories for they require predictions in order to operate. In this sense theories can be viewed as a sub-set or component in a system view".

The advantage of systems approach is that it has made possible to take the full advantage of technological advances like computer. This has not only improved speed and considerably reduced the cost of data processing but has opened up new and wider field of application. The integration of financial reporting practices in a network of computer system has provided larger scope to use data system for financial as well as non-financial control. Systems approach also facilitates operational research studies, which form part of decision-making in a modern organization.

Though modern accounting is a product of the socio-economic development and concomitant industrialized economy of the 20th century, celebrated economist Samuelson (as quoted in Dixit, 2012) did not fail to take a quick note of the pervasive role that accounting plays in our present socio-economic set up dominated by free enterprise system. In Samuelson's own language, "In this age of accounts some literacy in accounting has become a prime necessity". The role of accounting can hardly be exaggerated in this sense that accounting has developed over the years to serve an economic system that has become increasingly complex. In our complex economic system, accounting provides vital data upon which economic decisions and many social actions rest.

In a democratic, free enterprise social system, what goods will be produced is determined in the marketplace through price system. Accounting data leads to decisions about not only the price, but also the efficient utilization of scarce resources of the society. The application of accounting data in social and macroeconomic decisions is not a far-fetched idea, though its best application is found in the micro-economic units of the economy for day to day decisions. The principal beneficiary of accounting data is obviously the management of the entity, which produce accounting data. Management use of accounting data covers short run and long-range planning, cost determination, operational control, assessment of objectives, performance analysis and provision of basic data for decision-making. Other users who directly or indirectly benefit from accounting data are: shareholders, suppliers of resources-both short-term employees, consumers, Government bodies and social organizations.

As every individual including the Government seeks to maximize gain or utility, accounting and financial data would be used to permit informed judgment and decisions by all the users of the data. For example, shareholders and investors may alter their decisions which they align their investments to the risk and return associated with the investments; suppliers may desist from providing credit when accounting and financial data indicate inadequate liquidity position. Employee's expectation of continued employment, rise in pay, fringe benefits and congenial working conditions are related to the income of the business. The interest of the Government agencies are not confined to revenue collection alone, other areas such as protection of domestic industries, provision of subsidies etc, are also dependent on accounting and financial data. Social organizations may seek to use accounting and financial data to assess the role of business vis-à-vis the welfare of society. In fact, the utilities of accounting and financial data are not confined to the categories of direct users mentioned alone. Many accountants in recent times have found potential in accounting for maximization of social well-being related to the measure of income determination. The broad scope of accounting can be sufficiently utilized to formulate macroeconomic policies through reporting, which is an integral part of accounting. Apart from the macroeconomic application of accounting for national planning and national income determination, it can probably be used in future for human resource accounting environmental resource accounting and many other diverse fields of socio-economic activities (Ostman, 2010).

2.3.2 New Public Management

Currently, the New Public Management (NPM), as it is referred in contemporary public management writings, has been accepted in government related accounting research (ter Bogt and van Helden, 2000). A vital premise of the beginning of NPM principles into the public sector is to advance effectiveness, with a view to moving from “accountability for processes” to “accountability for managing outcomes”. Conservatism and unnecessary caution are now old-fashioned approaches of public sector administration that will be substituted by further elasticity and constant development agenda (Parker and Gould, 1999).

There exists a bunch of paybacks linked to NPM principles. Some of them consist of: a cutthroat commerce atmosphere; value enhancement; cutthroat charges of services rendered; enduring fiscal feat; and better managerial performance. Effective execution of NPM could give the public sector a thorough traction, cultivate a competitive business atmosphere and change the conventional center of attention from a culture of conformity to that of managing for outcomes. Perceived in that kind of environment, the test for the government institutions is to shift fiscal organization past the customary decision-making cost analysis to a progressive, contributory structure of calculated expenditure scrutiny and fiscal organization (Hoque, 2001). How government transformation initiatives may have an effect on the domestic practices of public sector is still uncharted.

NPM is a growing and constantly developing conception. While NPM is an incorporated administration model connected to feat measurement and the accomplishment of organizational success, its use differ in diverse organizational environments. The fundamentals of NPM recommended in the literature are as follows: *practical professional management* –highlighting comprehensible obligation of administrative accountability for action; *embracing of private sector organization styles* – prominence on the embracing of private sector form of administration practices and work settings *yardsticks and contest* – a focal point on supervising performance, equally on the inside and on the outside, and contest for the supply of goods and services; *budgeting* – a spotlight on the implementation of buildup-based budgeting amid an accent on saving, procedure effectiveness, greater control and prudence in funds utilization; *importance on consumer-centered approach* – a focal point on the procedures in delivering goods or services depending on elastic results predisposed by consumers contrasting prearranged products by contractors; and *responsibility (as an individual and in the department)* – a spotlight on the measure of tangible answerability subsists for higher-ranking management staff and what comprises a responsibility standard.

Effective realization of the NPM principles ought to give public sector on a professional foothold, promote aggressive environment and alter the customary emphasis on a tradition of conforming with regulations to that of management for outcomes (Boxter, 1998). Academicians have always been and remain skeptical of the NPM ideals (Vickers and Kouzmin, 2001). A perception exists that NPM principles put a weighty prominence on such objects as outcomes, effectiveness, expenditure cutbacks, value and client fulfillment, output, as well as performance management at the price of being concerned how the outcomes are achieved (Vickers and Kouzmin, 2001, p. 13). Academicians disapprove of the over-prominence on private sector form of administration and accounting systems for the public sector, because that kind of an inclination pays no attention to the background environment of the public sector (Vickers and

Kouzmin, 2001). Based on Vickers and Kouzmin (2001, p. 16) argument, for example, from the perspective of police services in the society, “police officers could, in numerous occasions, keep on to dealing with the steady tension of moral predicaments and how best they may act in response” (Hoque *et al.*, 2004). Nevertheless, it is normally recommended that managerialism emerges, in any case partly, to be a flourishing interest group by specific segments of the public sector, in particular when organizational members are in a position to augment their own rank, either in the organization or individually (Vickers and Kouzmin, 2001, p. 21).

2.3.3 Institutional Theory

Institutional theory suggests that organizations are both influenced by and can influence the society in which they operate. The philosophers suppose that the incentive for an alteration in in-house practices may be to bring to, or preserve the authenticity of, the particular organization. Furthermore, it highlights on the societal contract that is present between the organization and the public (Deegan, 2000). This societal contract is understood to stand for the prospects of the society. Based on an institutional perspective, it has been recommended that organizations may transform and espouse the societal norms to emerge just to the public. This supposes that when these shared customs and principles vary, the management staff will labor to safeguard the organization’s legitimacy by integrating, or seem to include, the new initiatives, customs and principles (Milne and Patten, 2002). Milne and Patten (2002) further observed that the organization then endeavors to correspond to society the association between their customs and values and those of the general public. Conversely, if the organization is not perceived as legitimate its continued existence is at risk.

From a conventional institutional theory perspective, organizations may transform their makeup or processes to match to peripheral prospects about what outward appearances or configurations are legitimate. From a government background, for instance, since the bulk of other organizations in the government ministries may have certain private sector form of accounting and administration formations, there may be “institutional” demands on an organization to have those kinds of formations in position. Not embarking on this route that leads to similarity, which is also known as “isomorphism” has express repercussions for an entity's continued existence. A perception exists that many public sector organizations are at present experiencing major changes, not to attain greater financial competence other than for the sole rationale of legitimizing themselves to diverse types of organizational influence or persuasion (Hoque *et al.*, 2004). From this background, the change progression in the public sector might not be wholly reasonably balanced, save for to a certain extent what might be a “window dressing” of public entities. Contemporary organizational philosophers (Greenwood and Hinings, 1996) advocate that outside environment together with in-house industry practices and a range of outwardly forced government legislations can control the behavior of component institutions.

Against these theoretical viewpoints, the most important question attended to in the study was whether a range of changes and practices similar to NPM principles have been initiated in government ministries for in-house competence and efficacy, or to legitimize their functions to an assortment of types of institutional pressure. The study endeavored to look at the important features of the organization’s formational or functional modifications and the succeeding alterations that have come about within the organization’s budgeting, appropriation, financial statements and auditing methods.

2.4 Empirical Literature

Empirical literature review focused on a number of concepts in public financial management with a focus on deficiency. This was intended to show the research gaps that the study sought to address.

2.4.1 Concept of Deficiency

There exists a rising requirement for public answerability and openness by every one of stakeholders in Kenya public sector. Recurrent disclosures all through the Public Accounts Committee (PAC) examination on the Auditor General's reports highlight matters of fiscal liability and intelligibility (Gathungu, 2013).

The development of clear and comprehensible fiscal reports is a significant means for public sector or government departments as well as other bodies to show their answerability to the people who finance them by way of paying taxes and to development partners as well who regularly give to the development projects of Government (Kirira, 2013).

At one time, financial reporting practices by public sector have been basically insufficient. The public sector comprising of ministries among other government bodies do not offer comprehensible fiscal statements, conversely, the statements are composite, perplexing and large. It does not help that the foundation of grounding of Government Financial Reports; Government Financial Regulations and Procedures date back to 1989.

One most vital and regularly contentious issue in the running of government of budding countries is the insufficiency of accounting and fiscal organization systems. Numerous studies tip the shortage in accounting structures as a significant disadvantage in the administration of the public sector for the most part and in particular developing countries (Lawrence and Rahaman, 2011).

According to World Bank Report (2006), underdeveloped countries by and large have pitiable governmental fiscal organization systems. Similarly, Sevic (2004) argued that in numerous underdeveloped countries insufficient reporting for fiscal and economic administration at the fundamental level has led to impractical and incoherent decision making, unsuccessful monitoring of fiscal initiatives, and resulting disparities in public finance.

While scrutinizing the feat of government organizations is perceived as a setback in both advanced as well as underdeveloped countries "insufficiency" in public sector accounting and fiscal organization has been recognized as a feature of socio-economic underdevelopment (World Bank Report, 2006).

Among the key challenges emanates from the employment and maintenance of competent accountants. A study on public sector entities in eight underdeveloped countries conducted by Gujarathi and Dean (1993) found a general scarcity of skilled accountants; insufficient schooling and amenities, in addition to the public sector suffering for the reason that pay discrepancies between private and public sectors. A vital end result of the lack of competent accounting employees is that doubtful, unviable, or inappropriate organization decisions have been made devoid of suitable accounting data and proper explanation thereof (Sevic, 2004).

A good number of researchers have propositions for enhancement. Enthoven (1988), for instance argued that: The immense implication of the public sector in numerous underdeveloped economies and the insufficiency that subsist in public fiscal organization normally necessitate better tactics, experience and instruction in this very important sector. What make up "better methodologies" is arguable. A few promote the adoption of accounting and fiscal structures in use in the advanced world into the underdeveloped countries (Craner and Jones, 1990).

Others oppose global recommendations and believe there is slight likelihood of finding a distinct monolithic structure of public sector accounting that would be successful in all countries, given the important chronological, political and cultural disparity among these countries (World Bank Report, 2006). Because of this, the diverse parties in the administration exercise require good fiscal data and efficient method of fiscal management. Neither is feasible without an appropriate accounting as well as fiscal organization. It is argued that frequently the accounting and fiscal structures in use serve just the international donor organizations exclusive of accountability to the home residents (Ghartey, 1985).

2.5 Research Gaps

With the enhanced demand for public sector answerability and openness in Kenya, development of clear and explicable fiscal reports and supplementary yearly accounts have become essential. Government ministries have used them to show their responsibility to the people who finance them by way of paying taxes and to development associates who time and again donate to the development projects of government (Kirira, 2013).

Financial reporting by the Kenya Public sector, however, has largely been insufficient. Government ministries do not present comprehensible financial statements, and conversely, the statements have been composite, perplexing and large (PricewaterhouseCoopers, 2012). This has been confirmed by a range of Auditor General's reports offered to the Public Accounts Committee raising queries on insufficient financial reporting among other things in the government ministries.

Although Government of Kenya has put in place financial regulations and procedures, together with the enactment of the Act of Parliament: Public Finance Management Act, 2012 to act as guide in fiscal reporting, effects of financial reporting practices on the quality of annual accounts have hardly been assessed. If the issue of inadequate financial reporting is not treated with the seriousness it deserves and the problems fully addressed, the Kenya Public Sector will not be able to attain the set standards for public answerability and clearness as contained in the Act of Parliament: Public Finance Management Act, 2012. This will open room for litigation by any tax payer in Kenya on non-compliance, donors may hold back or cut funding citing non-adherence to agreed policies, good decision making may be hindered among other things. This study therefore sought to investigate the effects of financial reporting practices on the quality of annual accounts in the Kenya Public Sector which has been conceptualized below.

2.5.1 Conceptual Framework

The objective of financial statements/annual accounts is to make available data about the fiscal situation, fiscal feat and cash flows of an institution that is helpful to diverse consumers in getting to make economic resolutions. Fiscal reports/annual accounts are a way by which administration as the central organization of a reporting institution shows its answerability to the consumers of the reported fiscal data. If the management implements better practice in financial reporting, the entity will be able to achieve its financial statements/annual accounts obligations in an effectual and timely manner.

The researcher therefore has conceptualized that better financial reporting practice, as the independent variable will definitely lead to production of good quality financial statements/annual accounts, as the dependent variable thereby contributing to an entity either meeting or not meeting its specific and whole of government financial statements/annual accounts responsibilities. The conceptual framework is shown below: Fig 2:1

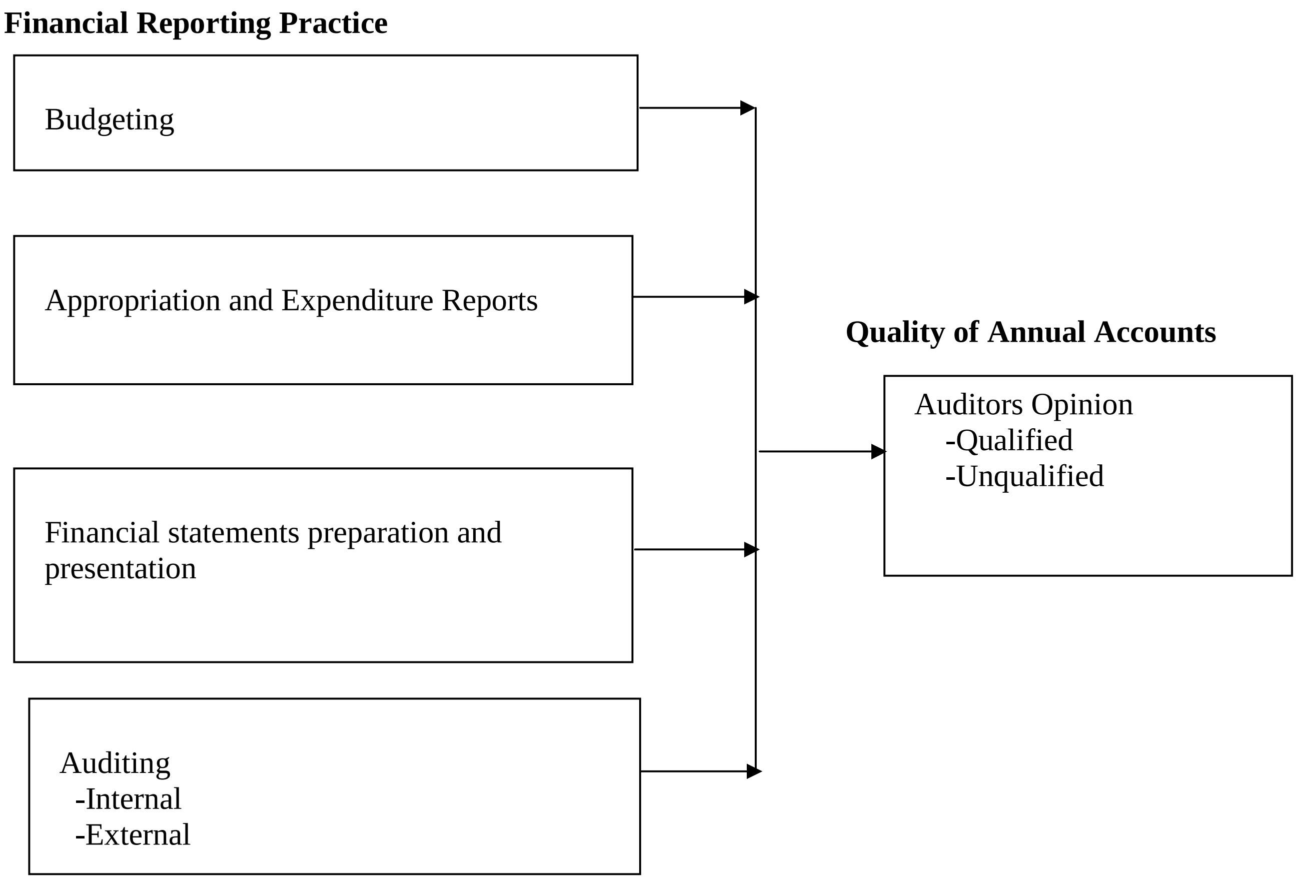

FIGURE 2. 1

Conceptual Framework

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter describes the methods and procedures that were followed in conducting the research. It includes research design, the population of interest or the target population, research site, sampling techniques, research instruments, data collection procedures and data analysis which are described in details here below.

3.1 Research Design

A research design can be thought of as the structure of research. It is the "glue" that holds all of the elements in a research project together. According to Kothari (2003), a design is used to structure the research project work together to try to address the specific research questions. Orodho (2003) defines it as the scheme, outline or plan that is used to generate answers to research problems. It constitutes the blueprint for the collection, measurement and analysis of data (Kothari, 2003). The research design for this study was descriptive survey. Descriptive survey method was used because it comprised seeking answers on what, how and why type of questions regarding effect of financial reporting practices on quality of annual accounts. This research design was chosen because it fits the specific nature of the research problem as defined in chapter one and is the most effective.

3.2 Target Population

Kenya Public Sector comprises of Ministries, Departments and Agencies which prepare financial statements and other annual accounts. The subject of the study were drawn from the previous 40 ministries and 12 departments, which had approved budgetary estimates for

2011/2012 financial year and which financially reported as at 30th June 2012. The respondents were all the heads of the accounting units of the 40 ministries and 12 departments. In majority of the studies, the unit of observation is also the unit of analysis. However, in this study the unit of observation is not the same as the unit of analysis. The information or data required were obtained from an individual person but the results obtained from the analysis of such data relate to the composite unit. The results do not relate to the individual who provided the data. In studying ministries and departments, the unit of observation was the Head of Accounting Unit who provided the data but the unit of analysis is the ministry or department.

3.3 Sampling Technique

For this study, the researcher conducted a census. To this extent, questionnaires were administered to all the Heads of the Accounting Units of the previous 40 ministries and 12 departments, which had budgetary allocations for 2011/2012 financial year and which prepared annual accounts and financial statements as at 30th June 2012. This is because 52 is not a big number; all are accessible and they represent a reliable number for the study since they are involved directly in preparation of the annual accounts and other financial statements within their respective ministries or departments or provide what is termed as the experience survey.

3.4 Data Collection Instruments

For this study to be successful, primary data was used. This was collected using questionnaires which were prepared in simple and comprehensible language relating them to the objectives of the study. About three quarters of the questions were closed ended or structured where the respondents had alternative answers to choose from to describe the situation. Those closed ended questions were used since they are economical in terms of time and money and are easier to administer and also helped in the subsequent analysis. They helped the respondents make quick decisions to choose among the several alternatives provided. The open ended questions made about a quarter of the questions in the questionnaire where the respondents answered the questions using their own words. These types of questions provided a greater insight and understanding into the respondent's feelings, background, motive, interest and decisions. Respondents were given three days to fill the questionnaires.

3.4.1 Reliability of Data Collection Instruments

The primary data instrument, the questionnaire was pretested using a small sample to confirm its reliability through asking the respondents to explain reactions to questions form, wording and order. This was assessed by use of the internal consistency technique. In this approach, a score obtained in one item is correlated with scores obtained from other items in the instrument. Cronbach's Coefficient Alpha was then computed to determine how items correlate among themselves. Cronbach's Alpha is a general form of the Kunder Richardson (K-R) 20 formula. Use of K-R 20 formula reduces the time required to compute a reliability coefficient in other methods. Its application also results in a more conservative estimate of reliability; the estimated coefficient of reliability of data is always lower. To avoid erroneous conclusions, it is always better to underestimate reliability of data than to overestimate it.

$$KR_{20} = \frac{(K)\,(S^2 - \sum s^2)}{(S^2)\,(K-1)}$$

Where KR_{20} = Reliability coefficient of Internal consistency

K = Number of items used to measure the concept

S^2 = Variance of all scores

s^2 = Variance of individual items

A high coefficient implied that items correlate highly among themselves; i.e. there is consistency among the items in measuring the concept of interest. A reliability of 95% of the research instruments was ensured.

TABLE 3. 1:

Reliability Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Fully involved in financial reporting	63.90	75.890	-.118	.966
Strong financial management culture established	62.22	68.976	.655	.955
Ongoing commitment and support by management	62.10	66.940	.794	.953
Benefits of reliable and timely financial statements	62.05	66.048	.864	.952
Robust arrangements for approval, review and oversight	62.12	66.410	.868	.952
Appropriate accountability arrangements eg sign-offs	62.02	68.174	.747	.954
HAU has required skills, qualifications and experience	61.59	71.949	.403	.958
A strategy or plan developed to improve financial statements	62.20	65.911	.851	.952
Full accrual monthly financial reports are prepared	62.22	66.376	.722	.954
Within year financial reporting used to identify and address issues	62.32	65.272	.857	.952
Balance sheet reconciliations are completed monthly	62.29	65.612	.854	.952
End-of-month processes are streamlined	62.29	66.562	.812	.953
Errors and problems are identified and addressed	62.32	66.922	.800	.953
Proper attention is given to recruiting	62.17	70.345	.575	.956
Practical strategies for succession planning	62.41	68.149	.802	.953
There is an organizational structure with clear lines	62.20	67.561	.799	.953
Accounts team and business areas are sufficiently resourced	62.15	68.778	.681	.955
Mix of resources utilized is effective in managing peak financial statement workloads	62.15	68.428	.724	.954
Appropriate training and support are provided	62.22	69.526	.657	.955
Roles and responsibilities of relevant staff are understood	62.24	67.189	.821	.953
Opportunities are taken to maximize interaction	62.15	70.428	.623	.955

A Cronbach's Alpha of .957 was realized which shows that the instruments used to collect data were reliable. These results are presented in table 3.2.

TABLE 3. 2:

Summary Reliability Statistics

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.957	.957	21

3.4.2 Validity of Data Collection Instruments

Validity refers to the appropriateness, meaningfulness and usefulness of the inferences a researcher makes (Creswell, 1994). If such data will be a true reflection of the variables, then inferences based on such data will be accurate and meaningful. Multiple regression was used to determine whether the independent variables together predict the dependent variable. The model is of the form

$Y = \beta_o + \beta_1X_1 + \beta_2X_2 + \dots\dots\dots\dots\dots\dots \beta_nX_n + \epsilon$

Where Y – dependent variable

$X_{1\text{-}n}$ – independent variables

β_o - Constant

$\beta_{1\text{-}n}$ - Regression coefficients or change induced in Y by each X

ϵ - Error term

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

Where Y is quality of annual accounts

X_1 is budgeting

X_2 is financial statements preparation

X_3 is appropriation

X_4 is auditing

β_0 is a constant

β_1- β_4 are beta coefficients for variables being measured

ϵ- Error term

Regression analysis also yields a statistic called coefficient of determination or R^2. R^2 refers to the amount of variance explained by the independent variable or variables. For example if R^2 is calculated to be 0.34, it means that 34% of the variation in a given dependent variable is explained or predicted by variables in the equation. The rest 66% cannot be explained by the variables in the equation.

3.5 Data Analysis

According to (Kombo and Tromp, 2011), data analysis is the observation of what has been gathered in a survey or experiment and making decision and inferences. Data collected was tabulated and classified into sub-samples for common characteristics and data coding done accordingly. It was analyzed using both quantitative and qualitative methods. Quantitative data was analyzed using regression analysis and descriptive statistics while qualitative data was analyzed using content analysis.

3.6 Data Presentation

Data analyzed was presented using graphs and tables. This also included a report format with explanations detailing the responses.

3.7 Operational Definition of Variables

Operational definition is a description of a variable, term or object in terms of the specific process or set of validation tests used to determine its presence and quantity (Caswell, 1989). Properties described in this manner must be publicly accessible to other persons other than the definer and can be independently measured or tested for them at will. A variable is an empirical property that can take two or more values. Any property that can change either in quantity or quality can be regarded to as a variable (Chava, 1996).

Variables are categorized in several ways with the most common being the dependent and independent variables. An independent variable is a variable that cause changes in a dependent variable, while a dependent variable is a variable whose outcome depends on the manipulation of the independent variable (Creswell, 1994). Certain variables can only be operationalized by the use of indicators. Indicators are the observable evidence of the degree of presence or absence of the variable one is interested in.

The dependent variable in the study was quality of Annual Accounts which was indicated by a qualified or unqualified report from the Auditor. Financial reporting practices were indicated by four independent variables namely budgeting, appropriation and expenditure reports, financial statements preparation and presentation, and auditing. Budgeting is the allocation of funds for use by an entity in various line items. Appropriation is utilization of budgeted funds by an entity for the purposes intended by parliament while expenditure reports refer to summary of the funds utilized. Financial statements preparation and presentation comprises of a structured representation of the financial position and fiscal feat of an entity. Auditing refers to formal examination of an entity's accounts or financial situation which leads to a report that can be either qualified or unqualified. Quality of annual accounts refers to essential and distinguishing attributes of the accountability data contained in the financial statements measured in terms of the auditor's opinion, which can either be qualified or unqualified. Qualified meaning Independent Auditor's opinion given as part of an audit report stating; the audit was restricted in scope otherwise the financial statements present fairly the financial position of the firm, or the audit was unrestricted and for the entire accounting period but an unqualified opinion cannot be expressed because the account books and records do not completely reflect conditions that conform to the provisions of the Generally Accepted Accounting Principles and unqualified meaning Independent Auditor's declaration that he or she has no reservation in certifying that the audited firm's financial statements adequately disclose material data, present fairly its financial position, and show results of its operations in conformity with the provisions of Generally Accepted Accounting Principles, also called the clean opinion .

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents findings and discussion of the study. It was guided by the objectives of the study to determine the effect of budgeting on the quality of annual accounts; to determine the effect of appropriation and expenditure reports on the quality of annual accounts; to determine the effect of financial statements preparation on the quality of annual accounts; and to determine the effect of auditing on the quality of annual accounts in the public sector in Kenya.

4.1.1 Response Rate

This study targeted 52 respondents but managed to get 41 responses. This translates into 78.85% which was found appropriate for making conclusions as recommended by Babbie (2002). The response rate is presented in table 4.1.

TABLE 4. 1

Response Rate

Category	Sample	Response Rate
HAU of Ministries	40	33
HAU of departments	12	8
Total	**52**	**41**

Respondents were drawn from across all the 42 ministries before they were merged. Majority of the respondents (80.5%) were drawn from the ministries while 19.5% of the respondents were drawn from the departments. They were therefore best placed to answer questions regarding effects of financial reporting practices on quality of accounts in public sector.

When asked to indicate financial reporting practices undertaken at their place of work, most respondents cited fiscal organization planning or budgeting, expenditure reports, final accounts, auditing and assurance. These forms part of best practices in financial reporting.

Respondents were asked to indicate their level of agreement with the statement that they are fully involved in financial reporting practices undertaken at their ministry/department. Majority of the respondents strongly agreed (58.5%) that they are in fully involved while 39% agreed. Only 2.4% of the respondents strongly disagreed that they are fully involved in financial practices undertaken in their ministry/department. This shows that the respondents were involved in financial reporting practices hence best placed in answering questions related to this matter. The few who disagreed could be attributed to new employees in their duty stations and those who perhaps did not understand the question. These results are presented in table 4.2.

TABLE 4. 2

Fully Involved in Financial Reporting

	Frequency	Percent	Cumulative Percent
Strongly agree	24	58.5	58.5
Agree	16	39.0	97.6
Strongly disagree	1	2.4	100.0
Total	41	100.0	

4.2 Ownership and Commitment in Financial Reporting Practices

With an aim to establish ownership and dedication in financial reporting practices, respondents were asked whether there is a well established fiscal organization background across the ministry/ department. Majority of the respondents (70.7%) indicated they agree while 22% indicated they strongly agree. Only 7.3% of the respondents indicated they disagree. From the findings, there is a high level of ownership and dedication for financial reporting practices among the civil servants. These results are presented in table 4.3.

TABLE 4. 3

Strong Financial Management Culture Established

	Frequency	Percent	Cumulative Percent
Disagree	3	7.3	7.3
Agree	29	70.7	78.0
Strongly agree	9	22.0	100.0
Total	41	100.0	

Respondents were asked to indicate their level of agreement with the statement that there was continuing dedication and shore up by administration for successful fiscal management, and enhancements in connected job practices are recommended. Majority of the respondents (58.5%) said they agree while 34.1% indicated they strongly agree. Only 7.3% of the respondents indicated they disagree. The results reflect sustainable dedication and support from the management which is critical in achieving quality annual accounts. These findings are summarized in table 4.4.

TABLE 4. 4

Ongoing Commitment and Support by Management

	Frequency	Percent	Cumulative Percent
Disagree	3	7.3	7.3
Agree	24	58.5	65.9
Strongly agree	14	34.1	100.0
Total	41	100.0	

The paybacks of producing dependable and opportune financial reports are well comprehended by workers and administration. The researcher wanted to know the level that respondents agree with this statement. Findings show that majority of the respondents (53.7%) said they agree while 39% indicated they strongly agree. Only 7.3% of the respondents indicated they disagree with the statement. The paybacks of producing dependable and opportune financial reports are well comprehended by workers hence more likely to work hard to achieve the goal of quality annual accounts. These findings are presented in table 4.5.

TABLE 4. 5

Benefits of Reliable and Timely Financial Statements

	Frequency	Percent	Cumulative Percent
Disagree	3	7.3	7.3
Agree	22	53.7	61.0
Strongly agree	16	39.0	100.0
Total	41	100.0	

The researcher further wanted to know whether there are vigorous arrangements recognized and retained for the endorsement, evaluation and supervision of fiscal organization plans and actions. Majority of the respondents (61%) and 31.7% of the respondents indicated that they agree and strongly agree respectively as compared to 7.3% who said they disagree. With the vigorous arrangements for endorsement, evaluation and supervision in place, the environment for quality annual accounts is ripe. Table 4.6 summarizes these results.

TABLE 4. 6

Robust Arrangements for Approval, Review and Oversight

	Frequency	Percent	Cumulative Percent
Disagree	3	7.3	7.3
Agree	25	61.0	68.3
Strongly agree	13	31.7	100.0
Total	41	100.0	

Respondents were asked whether there exist suitable answerability preparations in the kind of management sign-offs and individualized performance appraisals. Majority of the respondents (61%) agreed while 36.6% indicated they strongly agree. Only 2.4% of the respondents said they disagree. Presence of appropriate accountability arrangements reinforces the much required environment for achieving quality annual accounts. These results are summarized in table 4.7.

TABLE 4. 7

Appropriate Accountability Arrangements

	Frequency	Percent	Cumulative Percent
Disagree	1	2.4	2.4
Agree	25	61.0	63.4
Strongly agree	15	36.6	100.0
Total	41	100.0	

The researcher wanted to know whether the HAU has the necessary expertise, credentials and familiarity, over and above the required authority, to perform his/her duties. Majority of the respondents (78%) indicated strongly agree and 22% said they agree. The Head of Accounting Units are important figures in ensuring that annual reports are prepared and presented as appropriate. When they have the right skills and qualifications, this task is achieved efficiently and effectively. Figure 4.1 presents these findings.

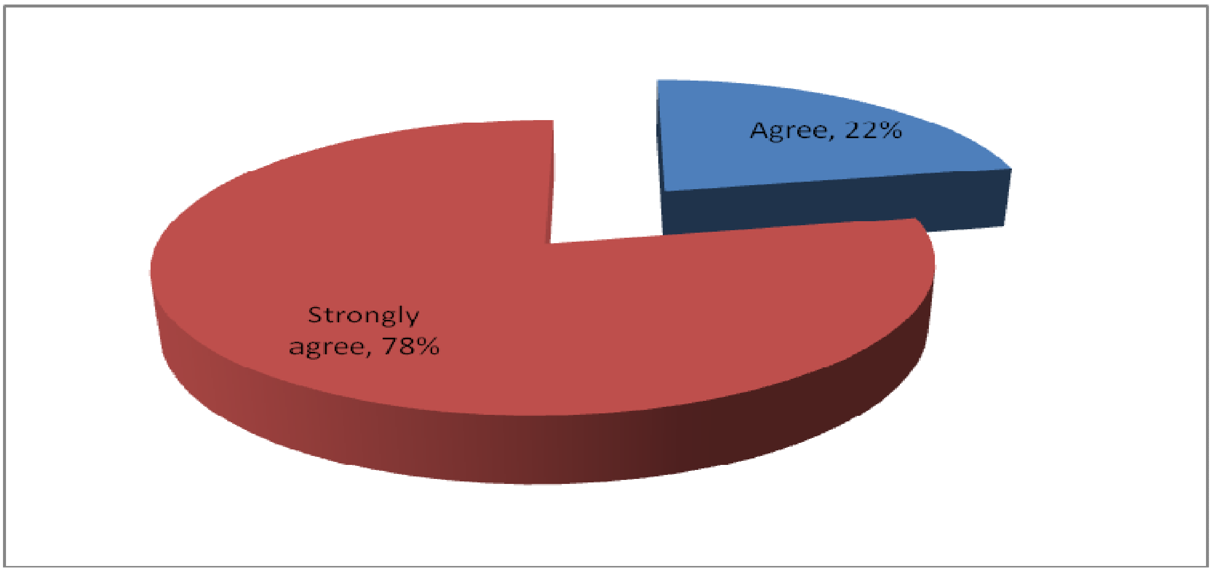

FIGURE 4. 1

HAU has Required Skills, Qualifications and Experience

Respondents were further asked whether there is a plan or strategy that has been prepared that advances the grounding of the financial reports. Majority of the repondents (58.5%) indicated they agree while 29.3% indicated they strongly agree. Only 12.2% of the respondents indicated they disagree with the statement. Strategies are implemented to achieve desired goals and objectives of an organization. When strategies to improve the preparation of the financial statements are developed, it is one step towards achieving quality annual accounts. Table 4.8 presents these findings.

TABLE 4. 8

Strategy or Plan Developed to Improve Financial Statements

	Frequency	Percent	Cumulative Percent
Disagree	5	12.2	12.2
Agree	24	58.5	70.7
Strongly agree	12	29.3	100.0
Total	41	100.0	

4.3 Adopting Good Financial Reporting Practices throughout the Year

Respondents were asked to indicate their level of agreement with the statement that complete accrual monthly fiscal statements are developed, together with an examination of the fiscal situation. Majority of the respondents (51.2%) agreed while 31.7% indicated they strongly agree. However, 17.1% disagreed with the statement. Full accrual monthly financial reports build up to the annual financial statements. It is therefore important to prepare monthly statements timely and effectively to avoid low quality annual accounts. These results are presented in table 4.9.

TABLE 4. 9

Full Accrual Monthly Financial Reports are Prepared

	Frequency	Percent	Cumulative Percent
Disagree	7	17.1	17.1
Agree	21	51.2	68.3
Strongly agree	13	31.7	100.0
Total	41	100.0	

The researcher also wanted to know respondents’ level of agreement with the statement that within year fiscal statements are used to recognize, and deal with, to the extent expected, concerns that have the probability to negatively influence the preparations of the fiscal reports at the end of the year. Majority of the respondents (63.4%) indicated they agree while 22% said they strongly agree. However, 2.4% and 12.2% of the respondents indicated they strongly disagree and disagree respectively. The results indicate that within year financial reporting has been used to monitor the process of annual financial statements preparation. These results are presented in figure 4.2.

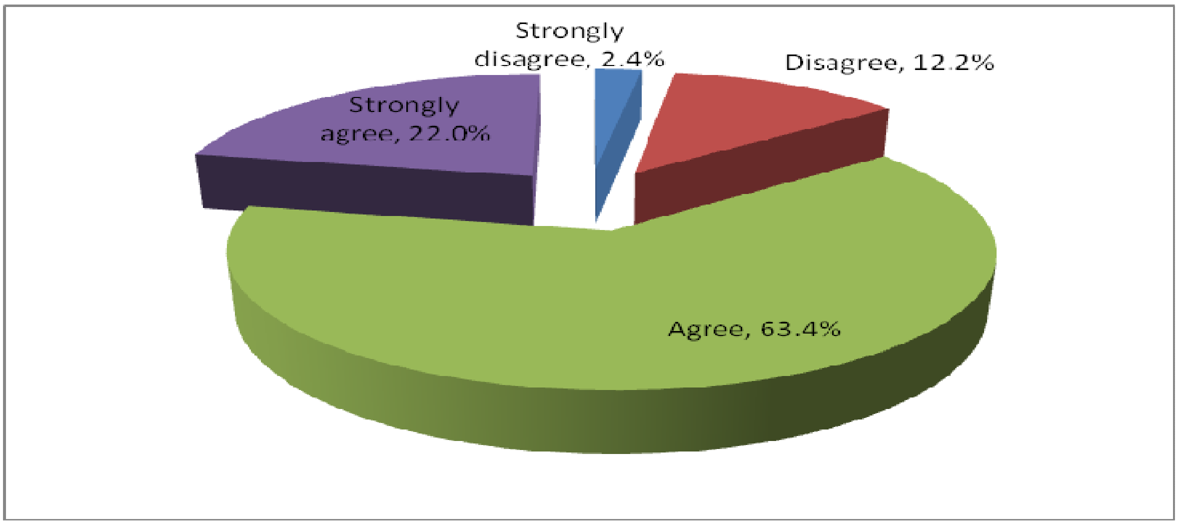

FIGURE 4. 2

Within Year Financial Reporting used to Identify and Address Issues

Respondents were asked to indicate whether balance sheet reconciliations are done monthly, with a lot of care where confirmations of the reconciliations are performed six monthly by senior management staff. Majority of the respondents (58.5%) indicated they agree while 24.4% of the respondents indicated they strongly agree. However, 17.1% of the respondents indicated they disagree. The results show that the balance sheet reconciliations completed monthly are also used to track the process of preparing quality annual accounts. These results are summarized in table 4.10.

TABLE 4. 10

Balance Sheet Reconciliations are completed monthly

	Frequency	Percent	Cumulative Percent
Disagree	7	17.1	17.1
Agree	24	58.5	75.6
Strongly agree	10	24.4	100.0
Total	41	100.0	

Respondents were asked whether monthly procedures are rationalized and utilized to reduce the efforts requisite at year-end. Majority of the respondents (63.4%) said they agree while 22% indicated they strongly agree. However, 14.6% of the respondents indicated they disagree. Monthly processes are aimed at according close attention to the quality of annual accounts early enough. Table 4.11 presents these findings.

TABLE 4. 11

End-of-Month Processes are streamlined

	Frequency	Percent	Cumulative Percent
Disagree	6	14.6	14.6
Agree	26	63.4	78.0
Strongly agree	9	22.0	100.0
Total	41	100.0	

Researcher wanted to know whether mistakes and hitches are recognized and dealt with gradually right through the year. Majority of the respondents (65.9%) agreed while 19.5% indicated strongly agree. However, 14.6% of the respondents indicated they disagree with the statement. By the fact that mistakes and hitches are recognized and dealt with gradually right through the year, this adds in improving the quality of annual accounts. Table 4.12 summarizes these results.

TABLE 4. 12

Errors and Problems are Identified and Addressed

	Frequency	Percent	Cumulative Percent
Disagree	6	14.6	14.6
Agree	27	65.9	80.5
Strongly agree	8	19.5	100.0
Total	41	100.0	

4.4 Managing Staff and other Resources Effectively

The researcher sought to know whether appropriate concentration is accorded to hiring, guiding and maintaining highly capable accounts workforce. Majority of the respondents (75.6%) indicated they agree while 22% said they strongly agree. Only 2.4% of the respondents indicated they disagree. Human resources and other resources are critical in public sector. To achieve quality annual accounts therefore, they need to be in place. These results are presented in table 4.13.

TABLE 4. 13

Proper Attention is given to Recruiting

	Frequency	Percent	Cumulative Percent
Disagree	1	2.4	2.4
Agree	31	75.6	78.0
Strongly agree	9	22.0	100.0
Total	41	100.0	

Respondents were asked to indicate their agreement with the statement that realistic plans for succession arrangements and lasting fiscal personnel needs are set in place. The findings show that majority of the respondents (75.6%) indicated agree while 9.8% indicated strongly agree. However, 14.6% of the respondents indicated they disagree. Sourcing appropriate talents is core to achieving quality annual accounts. This is reflected by the importance accorded to recruitment. Figure 4.2 presents these findings.

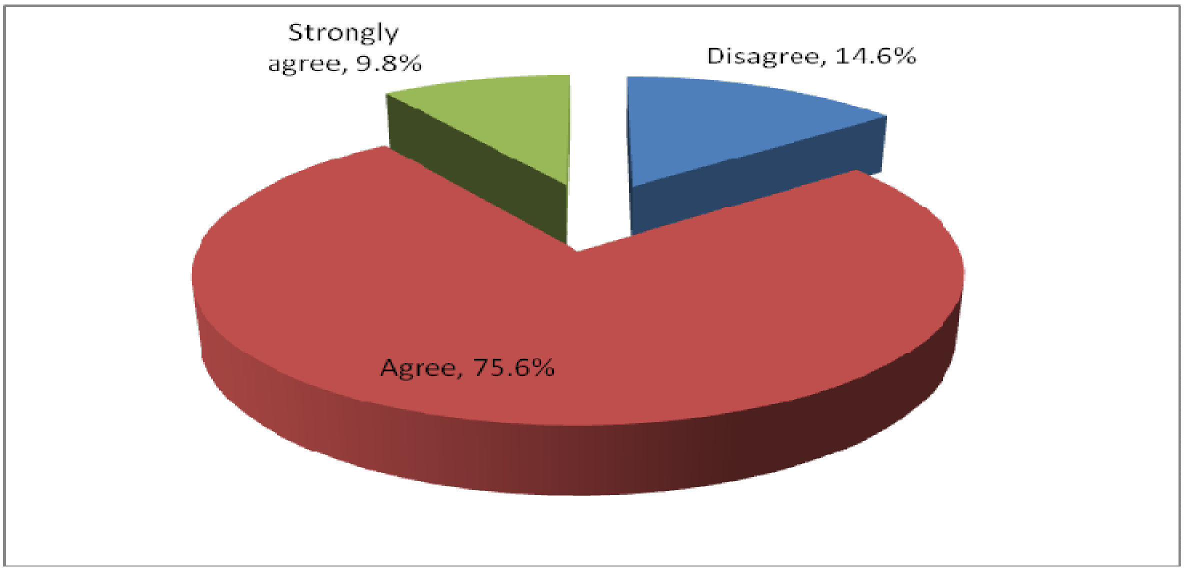

FIGURE 4. 3

Practical Strategies for Succession Planning

Respondents were asked to indicate their level of agreement with the statement that there exists an organizational formation with plain outline of accountability and responsibility in relative to fiscal reports preparation. Majority of the respondents (68.3%) indicated they agree while 24.4% indicated they strongly agree. Only 7.3% of the respondents indicated they disagree. Coordination is important in any organization. This cannot take place effectively without an organizational structure. This spells out clear lines of accountability hence critical to realize quality annual accounts. Results are presented in table 4.14.

TABLE 4. 14

There is an Organizational Structure with Clear Lines

	Frequency	Percent	Cumulative Percent
Disagree	3	7.3	7.3
Agree	28	68.3	75.6
Strongly agree	10	24.4	100.0
Total	41	100.0	

The researcher also wanted to know whether the accounts group and business units are adequately funded to attain their particular fiscal reporting tasks. The findings show that majority of the respondents (68.3%) indicated that they agree while 26.8% indicated strongly agree. Only 4.9% of the respondents indicated they disagree. Integration of data and resources in an organization help achieve desired goals effectively. This explains why accounts group and business units are adequately funded to meet the objective of quality annual accounts. These results are summarized in table 4.15.

TABLE 4. 15

Accounts Team and Business areas are sufficiently resourced

	Frequency	Percent	Cumulative Percent
Disagree	2	4.9	4.9
Agree	28	68.3	73.2
Strongly agree	11	26.8	100.0
Total	41	100.0	

Respondents were asked whether the combination of resources used is successful in running peak fiscal reports workloads. Majority of the respondents (68.3%) indicated that they agree while 26.8% indicated strongly agree. Only 4.9% of the respondents indicated they disagree. The results show that enough resources are critical in achieving desired goals. These results are summarized in table 4.16.

TABLE 4. 16

Resources Utilized Effective in Managing Peak Workloads

	Frequency	Percent	Cumulative Percent
Disagree	2	4.9	4.9
Agree	28	68.3	73.2
Strongly agree	11	26.8	100.0
Total	41	100.0	

The researcher sought to know whether suitable instruction and shore up are offered to workers that hand over tasks and disburse money. Majority of the respondents (75.6%) indicated that they agree while 19.5% indicated they strongly agree. Only 4.9% indicated they disagree. Skills are core when it comes to implementation of a strategy. This explains why suitable instruction and shore up are offered to workers that hand over tasks and disburse money. These results are presented in table 4.17.

TABLE 4. 17

Appropriate Training and Support are provided

	Frequency	Percent	Cumulative Percent
Disagree	2	4.9	4.9
Agree	31	75.6	80.5
Strongly agree	8	19.5	100.0
Total	41	100.0	

The tasks and duties of pertinent employees are comprehended and corresponded plainly as a foundation for laying down answerability and feat prospects. Majority of the respondents (68.3%) indicated they agree while 22% of the respondents indicated they strongly agree. Only 9.8% of the respondents indicated they disagree. Communication is an imperative ingredient in administration of any institution. Strategies and objectives must be communicated effectively to those who are expected to implement them. Table 4.18 presents these findings.

TABLE 4. 18

Roles and Responsibilities of Relevant Staff are understood

	Frequency	Percent	Cumulative Percent
Disagree	4	9.8	9.8
Agree	28	68.3	78.0
Strongly agree	9	22.0	100.0
Total	41	100.0	

The researcher wanted to know respondents' level of agreement with the statement that prospects are in use to exploit interface between the accounts group and business units. Majority of the respondents (78%) indicated they agree while 22% of the respondents indicated they strongly agree. Efforts to integrate and enhance cooperation in various units in an organization will see better running of such organizations. Such efforts will bear fruits in financial reporting practices to ensure quality annual accounts for the public sector. These results are summarized in figure 4.4.

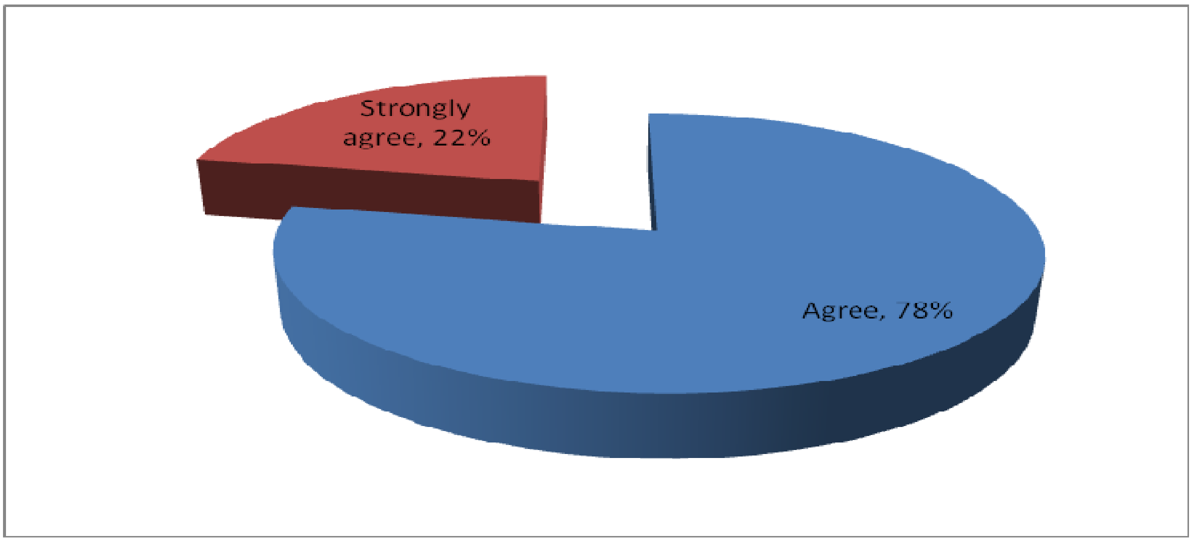

FIGURE 4. 4

Opportunities are taken to Maximize Interaction

Respondents were asked to list three challenges encountered in financial statements or annual accounts preparation in their ministry or department. They cited lack of generally accepted accounting standards in the public sector and cash accounting instead of using accrual. The respondents also expressed problems with IFMIS program usage, treatment of old balances and reconciliation of below the line accounts.

Asked to list three ways that would improve financial statements or annual accounts preparation in their ministry or department, most respondents noted the need for regular training on IFMIS program application. They also suggested that clear guidelines should be issued from treasury on treatment of old balances as well as monthly reconciliation of below the line accounts.

4.5 Regression Analysis

A regression analysis was done to test the conceptualized model that quality of annual accounts is affected by budgeting, financial statements preparation, appropriation and auditing. Regression model used was:

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

Where Y is quality of annual accounts

X_1 is budgeting

X_2 is financial statements preparation

X_3 is appropriation

X_4 is auditing

β_0 is a constant

β_1- β_4 are beta coefficients for variables being measured

ϵ- Error term

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$

$Y = 0 + .072 + .256 + .111 + .557 + .337$

The results of the regression analysis are presented below.

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.882[a]	.777	.752	.313
a. Predictors: (Constant), Budgeting, Financial Statements Preparation, Appropriation, Auditing				

From the model summary, the multiple correlation coefficients (R) is a determinant of the potency of the association between Y (quality of annual accounts) and the four predictors chosen for insertion in the equation. Regarding this regression analysis, R=.882 which informs us there is a moderate-to-strong association. By squaring R, we recognize the value of the coefficient of multiple determinations (R^2). This statistic make possible for us to establish the total of explained difference (variance) in Y from the four predictors on a range from 0-100 percent. Thus, we are in a position to say that 77.7% of the difference in Y (quality of annual accounts) is explained by the collective linear effects of the forecaster variables.

The F-ratio in ANOVA is utilized to check whether or not R^2 may possibly have arisen by chance only. The F-ratio established in the ANOVA table computes the likelihood of chance going away from a straight line. Analysis of variance (ANOVA) results are shown in the table below.

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.282	4	3.070	31.375	.000[b]
	Residual	3.523	36	.098		
	Total	15.805	40			
a. Dependent Variable: Quality of Annual Accounts						
b. Predictors: (Constant), Budgeting, Financial Statements Preparation, Appropriation, Auditing						

On review of the output found in the ANOVA table, we find that the overall equation was statistically significant (F=31.375, p<.000).

Coefficients table given below sought to make out which predictors are noteworthy contributors to the 77.7% of elucidated difference in Y (R^2=.777) and which ones are not, and in what method(s) do the important ones help us to give explanation of Y. For every forecaster variable in the equation, researcher was only interested with its related standardized beta and t-test statistic's level of significance (Sig.). Whenever p <.05, it was established that the results were statistically significant. This denotes that when a p-value (Sig.) is under or equivalent to .05, the matching beta is statistically significant in the equation.

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.247	.337		-.731	.469
	Auditing	.067	.150	.072	.450	.656
	Financial Statements Preparation	.273	.149	.256	1.840	.074
	Appropriation	.133	.126	.111	1.062	.295
	Budgeting	.601	.139	.557	4.315	.000
a. Dependent Variable: Quality of Annual Accounts						

From this equation, budgeting was established to be the lone independent variable with a significant consequence on quality of annual accounts (β=.557, p<.000) when each and every one of the variables were come into the regression equation. It was established that the better the budgeting practices, the better the quality of annual accounts. Financial Statements Preparation, Appropriation and Auditing did not attain the basic measure to extensively influence quality of annual accounts, so they had no noteworthy role at this point of the investigation.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter covers the summary of the study, conclusion and recommendations. These were drawn from study findings presented in previous chapter and according to research objectives set in the onset of the study.

5.2 Summary of the Study

The study sought to determine the effects of financial reporting practices on the quality of annual accounts in the public sector in Kenya. This was accomplished through seeking answers to four questions that included: What is the effect of budgeting on the quality of annual accounts in the public sector in Kenya? What is the effect of appropriation and expenditure reports on the quality of annual accounts in the public sector in Kenya? What is the effect of financial statements preparation on the quality of annual accounts in Kenya public sector? What is the effect of auditing on the quality of annual accounts in the public sector in Kenya? They addressed study specific objectives that included: to determine the effect of budgeting on the quality of annual accounts; to determine the effect of appropriation and expenditure reports on the quality of annual accounts; to determine the effect of financial statements preparation on the quality of annual accounts; to determine the effect of auditing on the quality of annual accounts in the public sector in Kenya.

The study used a descriptive survey research design. The target population for the study was Kenya Public Sector which comprises of Ministries and Departments which prepare financial statements and other annual accounts. The subject of the study were drawn from the previous 40 ministries and 12 departments, which had approved budgetary estimates for 2011/2012 financial year and which financially reported as at 30th June 2012. The researcher conducted a census survey of all 52 targeted respondents because their number is small and was accessible. Data was analyzed using both quantitative and qualitative methods. Quantitative data was analyzed using simple descriptive analysis while qualitative data was analyzed using content analysis.

The study revealed that there is a well established fiscal organization background that across the ministries or departments. In addition, the study established that there exists continuing dedication and shore up by administration for successful fiscal management, and developments in connected job practices are recommended. The study revealed that the paybacks of producing dependable and opportune financial reports are well comprehended by workers and administration. Furthermore, the study established that there are vigorous arrangements that are recognized and retained for the endorsement, evaluation and supervision of fiscal management plans and actions. The study found that there are suitable accountability measures like management sign-offs and individual performance appraisals. The HAU was found to have the requisite expertise, credentials and familiarity, in addition to the required authority, to perform his/her responsibilities. The study established that there is a plan or strategy that has been prepared to develop the grounding of the fiscal reports.

The study established that complete accrual monthly fiscal statements are developed, as well as an examination of the fiscal situation. Within year fiscal statements were established to be utilized to recognize, and deal with, to the extent expected, concerns that have the possibility to negatively shape the development of the fiscal reports at end of the year. The study established that balance sheet reconciliations are finished monthly, with a lot of care where confirmations of the reconciliations are performed bi-annually by higher-ranking management staff. Besides, monthly procedures are rationalized and utilized to reduce the efforts requisite at year-end. The study revealed that mistakes and hitches are recognized and dealt with gradually right through the year.

The study found out that appropriate concentration is given to hiring, guidance and maintaining of highly capable accounts employees. Realistic plans for succession forecast and lasting fiscal personnel needs were found to be set in place. The study revealed that there exists an organizational formation with plain ranks of liability and responsibility in relative to fiscal reports preparation. The study established that the accounts group and business units are adequately funded to attain their particular fiscal reporting tasks. A combination of resources used was also found to be successful in running peak fiscal report workloads. Suitable guidance and shore up were also found to be offered to employees who are handed over tasks and disburse money. The study revealed that functions and tasks of applicable employees are comprehended and corresponded plainly as a foundation for setting responsibility and performance prospects. The study established that prospects are in use to capitalize on interface between the accounts group and business units. The study revealed that tests meted in fiscal reports or annual accounts grounding in the ministries or departments included lack of commonly accepted accounting standards in the public sector and cash accounting instead of using accrual, problems with IFMIS program usage, treatment of old balances and reconciliation of below the line accounts. The study established that suggested ways to improve financial statements or annual accounts preparation included regular training on IFMIS program application, clear guidelines from treasury on treatment of old balances as well as monthly reconciliation of below the line accounts.

The regression analysis revealed that budgeting was the only independent variable with a significant effect on quality of annual accounts (β=.557, $p<.000$) when each and every one of the variables were inserted into the equation. It was established that the better the budgeting practices, the better the quality of annual accounts. Financial Statements Preparation, Appropriation and Auditing did not attain the necessary threshold to considerably affect quality of annual accounts, so they played no significant role.

5.3 Conclusion

This study concluded that there is ownership and dedication in financial reporting practices in Kenya's public sector. This is illustrated by a strong fiscal organization culture that is well established across the ministries and departments, dedication and shore up by administration for effectual fiscal management, and enhancements in associated job practices. The payback of making consistent and opportune fiscal reports, vigorous agreements that are recognized and sustained for the endorsement, assessment and supervision of fiscal organization plans and actions also underscores ownership and dedication in financial reporting practices. In addition, the Head of Accounting Unit (HAU) have the required skills, qualifications and experience to perform its duties and responsibilities appropriately.

The study concluded that ministries and departments have adopted excellent fiscal reporting practices all year round. This was supported by preparation of complete accrual monthly fiscal statements, as well as an examination of the fiscal situation, within year fiscal reporting utilized to recognize and deal with problems that are probable to unfavorably influence the grounding of the fiscal reports at the end of the year. Monthly completion of balance sheet squaring offs with outstanding industry tests of the reconciliations that are performed six monthly by senior management staff, reorganization of monthly processes that is used to minimize the work required at the end of the year and identifying and progressively addressing errors and problems throughout the year further serve to support the conclusion that ministries and departments have adopted good financial reporting practices.

Ministries and departments have managed employees and additional resources successfully. This is because appropriate thought has been given to hiring, instruction and maintaining well accomplished accounts personnel, realistic plans for progression preparation and lasting fiscal labor force requirements are set and there exists an institutional organization with comprehensible lines of accountability and answerability in relative to fiscal reports development. Sufficiently resourced accounts group and industry units to attain their particular fiscal report tasks shows that the combination of resources utilized is successful in managing a mountain fiscal report workloads. Suitable instruction and shore up offered to employees that apply delegations and spend funds, considering and corresponding unmistakably tasks and obligations of pertinent employees as a foundation for putting in place answerability and feat prospects and enchanting chances to make the most of relations between the accounts group and industry units are a number of the fundamentals that show effectual administration of personnel and funds in the ministries and departments. However, there are challenges in financial statements or annual accounts preparation in the ministries or departments. These challenges include lack of generally accepted accounting standards in the public sector and cash accounting instead of using accrual, problems with IFMIS program usage, treatment of old balances and reconciliation of below the line accounts.

The study concluded that budgeting practices ought to be taken seriously as they have a significant effect on quality of annual accounts. Better budgeting practices yields better quality of annual accounts. Financial Statements Preparation, Appropriation and Auditing although important do not attain the necessary threshold to significantly affect quality of annual accounts and so priority should be accorded to budgeting practices.

5.4 Recommendations

The study recommends that ministries and departments should implement suggested ways to improve financial statements or annual accounts preparation. The ministries and departments should conduct regular training on IFMIS program application. The National Treasury should issue clear guidelines on treatment of old balances as well as monthly reconciliation of below the line accounts. In addition, employees in government ministries should be abreast with the current financial reporting practices to ensure quality annual accounts.

5.4.1 Future Studies

Further studies should focus on finding out applicability of financial reporting standards in the public sector. Future scholars should develop a framework to address problems of applying general financial reporting standards in public sector. Furthermore, future studies should highlight areas of improvement in regard to financial reporting in public sector. Scholars should develop a measurement tool for levels of financial reporting in public sector based on the best practices.

5.5 Limitations of the Study

In pursuit of this study, several limitations were encountered. First is the aspect of cost in terms of time and finances to carry out an extensive and exhaustive research owing to the fact that the researcher is a full time employee. To mitigate this, the researcher tried to maximize use of both time and resources.

Second is the 'confidential' nature of public sector organizations in Kenya that are very reluctant to give out any data as well as the sensitivity of the study subject. Mitigation entailed assuring the respondents that the data would be treated extremely confidential and would be purely for academic purposes only.

Thirdly, some respondents were not in a position to give expected data in data collection instruments such as questionnaire. This is because the level of understanding of respondents differed greatly. Again, the study relied on qualitative and quantitative data collected through structured questionnaires where data collection, analysis and interpretation were not free from human errors.

Lastly, the public sector in Kenya is vast and this posed a problem for the researcher meeting and interviewing all the accountants to adequately address the subject of the study. Therefore it was assumed that the units of observation were a full representation of the units of analysis.

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APPENDIX 1: TRANSMITTAL LETTER

Benson Mureithi Kinyua
KCA University
School of Business and Public Management
P O Box 56808-00200
NAIROBI

September, 2013

Dear Respondent

RE: QUESTIONNAIRE

I am a student at KCA University pursuing Master of Science in Commerce Accounting and Finance option. As a partial fulfillment of the requirement for the award of Master of Science in commerce, I am required to carry out a research project based on finance or accounting area.

I am carrying out an assessment on effect of financial reporting practices on the quality of Annual Accounts in Public Sector in Kenya. This is therefore to request you to fill the attached questionnaire within three days so as to enable me accomplish the study.

At the completion of the study I commit myself to sharing out the results which will add to the existing knowledge on studies related to the above research topic.

Please note that the information shall be purely used for academic purposes and shall be treated as confidential as is practically possible.

Thank you for taking your time to fill the questionnaire.

BENSON MUREITHI KINYUA

STUDENT, KCA UNIVERSITY

APPENDIX II: QUESTIONNAIRE

PROJECT TITLE: EFFECT OF FINANCIAL REPORTING PRACTICES ON THE QUALITY OF ANNUAL ACCOUNTS IN KENYA PUBLIC SECTOR

Section 1 General Information

1. Ministry/Department (before they were merged)..

2. Position held..

3. Indicate financial reporting practices undertaken at your entity

………………………………………………………………………………………….

………………………………………………………………………………………….

……………………………………………………………………………………….

………………………………………………………………………………………….

4. You are fully involved in financial reporting practices undertaken at your ministry/department

a) Strongly Agree ☐

b) Agree ☐

c) Disagree ☐

d) Strongly disagree ☐

Section II: Ownership and Commitment in Financial Reporting Practices

5. A strong financial management culture is well established across the ministry/department

a) Strongly Disagree
b) Disagree
c) Agree
d) Strongly Agree

6. There is ongoing commitment and support by management for effective financial controls, and improvements in related work practices are encouraged

a) Strongly Disagree
b) Disagree
c) Agree
d) Strongly Agree

7. The benefits of producing reliable and timely financial statements are well understood by management and staff

a) Strongly Disagree
b) Disagree
c) Agree
d) Strongly Agree

8. Robust arrangements are established and maintained for the approval, review and oversight of fiscal organization strategies and activities

a) Strongly Disagree
b) Disagree
c) Agree
d) Strongly Agree

9. There are appropriate accountability arrangements such as management sign-offs and individual performance reviews

a) Strongly Disagree ☐

b) Disagree ☐

c) Agree ☐

d) Strongly Agree ☐

10. The HAU has the required skills, qualifications and experience, as well as the necessary authority, to carry out his/her responsibilities

a) Strongly Disagree ☐

b) Disagree ☐

c) Agree ☐

d) Strongly Agree ☐

11. A strategy or plan has been developed that improves the preparation of the financial statements.

a) Strongly Disagree ☐

b) Disagree ☐

c) Agree ☐

d) Strongly Agree ☐

Section III: Adopting good financial reporting practices throughout the year

12. Full accrual monthly financial reports are prepared, including an analysis of the financial position

a) Strongly Disagree ☐

b) Disagree ☐

c) Agree ☐

d) Strongly Agree ☐

13. Within year financial reporting is used to identify, and address, to the extent practicable, issues that have the potential to adversely affect the preparation of the financial statement at year‑end

a) Strongly Disagree

b) Disagree

c) Agree

d) Strongly Agree

14. Balance sheet reconciliations are completed monthly, with due diligence checks of the reconciliations being conducted six monthly by senior managers

a) Strongly Disagree

b) Disagree

c) Agree

d) Strongly Agree

15. End-of-month processes are streamlined and used to minimize the work required at year‑end

a) Strongly Disagree

b) Disagree

c) Agree

d) Strongly Agree

16. Errors and problems are identified and addressed progressively throughout the year.

a) Strongly Disagree

b) Disagree

c) Agree

d) Strongly Agree

Section IV: Managing staff and other resources effectively

17. Proper attention is given to recruiting, training and retaining highly skilled accounts staff

a) Strongly Disagree

b) Disagree

c) Agree

d) Strongly Agree

18. Practical strategies for succession planning and longer-term financial workforce needs are in place

a) Strongly Disagree

b) Disagree

c) Agree

d) Strongly Agree

19. There is an organizational structure with clear lines of responsibility and accountability in relation to financial statement preparation

a) Strongly Disagree

b) Disagree

c) Agree

d) Strongly Agree

20. The accounts team and business areas are sufficiently resourced to meet their respective financial statement responsibilities

a) Strongly Disagree

b) Disagree

c) Agree

d) Strongly Agree

21. The mix of resources utilized is effective in managing peak financial statement workloads

a) Strongly Disagree

b) Disagree

c) Agree

d) Strongly Agree

22. Appropriate training and support are provided to staff that exercise delegations and expend money

a) Strongly Disagree

b) Disagree

c) Agree

d) Strongly Agree

23. The roles and responsibilities of relevant staff are understood and communicated clearly as a basis for setting accountability and performance expectations

a) Strongly Disagree

b) Disagree

c) Agree

d) Strongly Agree

24. Opportunities are taken to maximize interaction between the accounts team and business areas.

a) Strongly Disagree

b) Disagree

c) Agree

d) Strongly Agree

25. List three challenges encountered in financial statements/annual accounts preparation in your ministry/department.

…………………………………………………………………………………………..

………………………………………………………………………………………….

……………………………………………………………………………………….

26. List three ways that would improve financial statements/annual accounts preparation in your ministry/department.

………………………………………………………………………………………….

…………………………………………………………………………………………

………………………………………………………………………………………….

27. Please indicate your email address for sharing out of the results of the study

………………………………………………………………………………………….

Thank you for your participation