DETERMINANTS OF QUALITY FINANCIAL REPORTING IN COUNTY GOVERNMENTS IN KENYA

BY

FEISAL A ABDI D63/9960/2018

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF SCIENCE IN FINANCE IN THE SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER, 2021

DECLARATION

I certify that the work submitted for this degree is entirely my own and has not been submitted to any other University for credit.

Signature: ________________________________ Date: 18-11-2022 ______________________________

Mr. Feisal Abdinoor Abdi

Reg. No. D63/9960/2018

This project has been submitted for examination with our approval as university supervisor:

Signature: ______________________ Date: 27/10/2021 ____________________________

Prof. Josiah O. Aduda

Professor of Finance University of Nairobi

ACKNOWLEDGMENT

The entire time I was in school, I was blessed with good health and a calm, focused mind owing to the Almighty Father. Many thanks to Prof. Aduda for all of his hard work and dedication to this project, as well as his exceptional knowledge, abilities, and competence. I appreciate the moderator's time and effort in providing me with insightful comments. We owe a debt of gratitude to the University of Nairobi brotherhood for upholding the ideals of this exceptional institution. I'd like to express my thanks to everyone who has been praying for me and to my siblings. In closing, I want to thank everyone who has helped me along the way, from coworkers to friends. Their worry, attention, and effort should not be overlooked. It made an indelible impression on me, for which I will be eternally thankful.

DEDICATION

My special dedication to my parents, my family members and entire relatives and friends. The journey was very tough but you made significant impact and transformation in my life. I am now more exposed to the foundation of knowledge, wisdom and skills. I will be forever thankful.

TABLE OF CONTENTS

DECLARATION .... **ii**

ACKNOWLEDGMENT .... **iii**

DEDICATION .... **iv**

TABLE OF CONTENTS .... **v**

LIST OF TABLES .... **viii**

LIST OF FIGURES .... **ix**

ABSTRACT .... **x**

CHAPTER ONE: INTRODUCTION **1**

1.1. Background of the Study 1

1.1.1. Financial Reporting Quality 3

1.1.2. County Governments in Kenya 7

1.2. Statement of the Problem 8

1.3. Objective of the Study 10

1.4. Value of the Study 11

CHAPTER TWO: LITERATURE REVIEW **13**

2.1 Introduction 13

2.2 Theoretical Framework 13

2.2.1 Positive Accounting Theory (PAT) 13

2.2.2 Technology Acceptance Model (TAM) 14

2.2.3 The Upper Echelons Theory 15

2.3 Determinants of the Quality of Financial reporting of the County Governments in Kenya 16

2.4 Empirical Studies 19

2.4.1 Staff Capacity and the Quality of Financial Reporting 20

2.4.2 Internal Audit Quality and Financial Reporting Quality 21

2.4.3 Integrated Financial Management System (IFMIS) and the Quality of Financial

Reporting 23
2.4.4 Top Management Expertise and the Quality of Financial Reporting 24
2.5 Summary of Literature Review..26
2.6 Conceptual Framework..26
CHAPTER THREE: RESEARCH METHODOLOGY 29
3.1 Introduction..29
3.2 Research Design 29
3.3 Target Population 29
3.4 Sampling and Sampling Techniques 29
3.5 Research Instruments..30
3.6 Validity and Reliability of Research Instrument 30
3.7. Data Collection Procedures...31
3.8 Data Analysis..31
3.8.1 Model Specification 32
3.8.2 Diagnostic tests..32
3.9 Ethical Considerations 32
CHAPTER FOUR: DATA ANALYSIS, RESULTS, AND DISCUSSION 34
4.1 Introduction..34
4.2 Demographic Characteristics...34
4.2.1 Age Bracket 34
4.2.2 Gender...35
4.3 Descriptive statistics 35
4.3.1 Staffing Capacity and the Quality of Financial Reporting.....................................35
4.3.2 IFMIS and the Quality of Financial Reporting 36
4.3.3 Internal Audit and the Quality of Financial Reporting 37
4.3.4 Management and the Quality of Financial Reporting...38

4.4 Pearson's Correlation..39
4.4.1 Regression Analysis..40
4.4.2 Multiple Regression Analysis..40
4.4.3 Analysis of Variance of the Model (ANOVA) 41
4.4.4 Multicollinearity 41
4.4.5 Diagnostic Plots..41
4.5 Summary and Interpretation of Research Findings..42
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS 45
5.1 Introduction...45
5. 2 Summary of the Study 45
5.3 Conclusion 46
5.4 Recommendations..47
5.5 Limitations of the study 48
5.6 Areas of Further Research 49
APPENDIX I: QUESTIONNAIRE...54

LIST OF TABLES

Table 3.1. Operational definition of Variables....33
Table 4.1: Staffing Capacity....36
Table 4.2: IFMIS....37
Table 4.3: Internal Audit....38
Table 4.4: Management Quality....39
Table 4.5: Regression Results....40
Table 4.6: ANOVA....41
Table 4.7: Variance Inflation Factor....41
Table 4.8: Model Summary [b]....42

LIST OF FIGURES

Figure 2.1: Conceptual Framework 28
Figure 4.2: Age Bracket...34
Figure 4.3: Respondents Based on Gender...35

ABSTRACT

The research team in this study set out to find out what factors in Kenya's county governments were associated with reliable financial reporting. Descriptive research methods were used for this investigation. Descriptive research methods allow for a real-time portrayal of the respondents' thoughts, feelings, and beliefs. Consequently, all 47 counties became the focus of the research. In this case, the county government served as the unit of analysis. Staffing levels, IFMIS, Internal Audit, and Executive Management were all investigated as part of this study. The coefficient of determination (R2) from the regression analysis reveals that the four independent factors used to assess financial reporting quality in this study account for 83% of the variance in the independent variables. The results showed that the financial accounting quality dropped by 14.25% for every one unit increase in staffing capacity, even after controlling for other factors. In addition, a 74.99% improvement in financial reporting quality was found when IFMIS was increased by one unit; a 4.30 % decrease in financial reporting quality was seen when internal audit was increased by one unit; and a 31.3% improvement in financial reporting quality was seen when management was increased by one unit. The IFMIS variable was the most important one, followed by the Management variable. As a means of arriving at a definitive conclusion and closing the current conceptual, contextual, and methodological void, the researcher promotes exploratory analysis, survey study, and comprehensive research employing primary and secondary information.

CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

Improvements in budgetary accounting were urged by the need for cautious management of limited resources in a globalized economy. The collapsed of financial giants such as Enron and Worldcom in 2001 and 2002 respectively, spearheaded the numerous mitigating measures on the quality financial reporting (PWC, 2012). Frequently struggling nations are struggling in money related administration execution, which has settled on budgetary administration basic leadership ridiculous (Blondal, 1988). Legitimate fiscal information and translation thereafter is especially required for good monetary and appropriate administration choices (Gujarathi & Dean, 1993). Further, struggling nations for the most part have unsophisticated bookkeeping and fiscal management systems (Dean, 1989). There are numerous measures, legal, standards, and regulatory frameworks guiding financial reporting.

The constitution of Kenya (2010) highlighted the prudential management of public funds. Moreover, it stipulated values and principles guiding the public officers. In nutshell, high standard of professionalism, efficient, effective, and productive use of public resources while optimizing it economically to realize timely and accurate results. The legislature of Kenya specifically has for quite a while been especially worried over the steady horrible showing in money related administration because of absence of solid and convenient data for basic leadership. A survey by the head of treasury, monetary administration, accounting frameworks and audit work uncovered shortcomings in the administration of financial information. The study concentrated on the need to build up a key arrangement planned for improving the money related administration frameworks abilities and capacities inside the government tasks units. It likewise evaluated how practicality of money related data, whenever enriched, could shape the reason for successful regulation of consumption compared to spending plan (Kinyua, 2003).

Problems with government accounting and budget administration are becoming increasingly apparent in emerging countries, according to recent research (Dean,1988;1989; Ghartey, 1985; Craner& Jones, 1990; Blondal, 1998;). Through the efforts of the Kenya Institute of Certified Public Accountants (ICPAK), IAS was implemented in Kenya in the year 2000. It's safe to say that the recommendations were heavily utilized by the business world. Generally accepted accounting principles were relied on by the public sector, although they were not formally established. International Public Sector Accounting Standards were mandated for all local governments in 2008 by the then Minister of Local Government (IPSAS). In any case, there isn't a sane factor that could make the equivalent a reality. While some government agencies streamlined their accounts to comply with International Financial Reporting Standards (IFRS), others did the opposite (COA).

Excellent financial accounting should always be guided by standards, regulation, framework, and laws. However, counties have provided differences in financial reporting. These inconsistencies made it hard for the Auditor General to review government entities, as it will not be clear what comprised yearly budgetary reports. This required the synchronization of fiscal revealing in the government in Kenya. (IPASB, 2016) The Kenyan public sector has experienced public monetary management changes to open monetary administration increasingly proficient, successful, participatory, and straightforward bringing about improved responsibility and administration conveyance (Society for International Development, 2012).

It has long been a source of great worry for the Kenyan government that the country's poor success in budgetary control is attributable, in part, to a lack of accurate and timely data on which to base policy decisions. The Treasury Department's Accountant General found flaws in the handling of financial data during an examination of the division's financial management, the role of audits, and accounting systems. The review's primary objective was to determine whether or not a comprehensive strategy for bolstering government financial operations' systems of financial management, personnel, and resources was required. Promptness of accounting data was also examined because it forms the basis for better control of expenditures versus budgets. "(Kinyua, 2003)

Staffing levels, the quality of the IFMIS, the quality of the internal audit, and the knowledge and experience of the top management were all factors examined in this study as potential predictors of high-quality financial It is considered that these factors significantly affect the reliability of financial reporting by Kenya's county administrations. Groot and Molen (2000) describe staff capacity building as the process of encouraging knowledge acquisition in the design, deployment, and management of locally suitable institutional and operational frameworks and procedures.

The Integrated Financial Management Information System (IFMIS) assists the County and National Ministries of Kenya with financial management, accounting, and reporting. Implementation of IFMIS followed a survey of government accounting performed by the International Monetary Fund (IMF) in beginning 1993 and diagnostics study financed by the World Bank. One of the main objectives of this project was to roll out an integrated national automated auditing and accounting framework. A centralized computer system was implemented to aid in the generation of reliable financial statements, the monitoring of budgetary shortages, the accurate forecasting of cash flows, the effective management of debt, and the implementation of rigorous controls over public monies (Kinyua, 2003).

The purpose of the corporate auditing activity is to set up a system of internal controls to guarantee accurate financial reporting, safekeeping of assets, and adherence to all relevant rules. Having a reliable internal controls' system in place is crucial to any company's success since it ensures goals are met. Reference: (Journal of Research in Business and Management, 2014) (Journal of Research in Business and Management, 2014) Internal auditing's ability to detect and deter fraud has been found to have a notable impact on monetary reporting.

The function of senior management in budgetary reporting and management is essential in any company. According to Section 148 of the Public Finance Management Act, 2012, the County Executive member for finance is allowed to choose the accountant professionals to handle the accounts of the county government organizations as specified in the designation. In accordance with Section 149 (2) of the Public Finance Management Act, 2012, the accounting officer must prepare annual financial statements for the fiscal year in question and submit them to the Auditor-General for audit within three months of the end of the fiscal year, with a copy also being submitted to the County Treasury.

1.1.1. Financial Reporting Quality

In this context, financial reporting means the process through which a company informs its external and internal stakeholders of its financial performance and related data (Breen et al., 2018).

It is crucial to considerthe quality of financial reports since they define an organization’s financial performance (Breen et al., 2018). Consequently, investors, regulators, creditors, analysts, customers, and other stakeholders can use information from financial reports to make informed decisions. Additionally,financial reporting quality can be used as a measure of accountability and transparency within an organization (Breen et al., 2018). Organizations with higher financial reporting quality are generally more accountable and transparent than those with lower financial reporting quality (Breen et al., 2018).

Financial reporting's primary goal is to supply decision-makers with accurate and reliable accounting data about an organization's operations (IASB, 2008). In light of this definition, we can say that high-quality financial reporting occurs when investors are provided with accurate and reliable details about a company's financial performance and standing (Tang et al., 2018). Under order for market participants to make educated decisions about investment, loans, etc., it is imperative that enterprises voluntarily increase the quality and extent of information disclosure in the name of financial reporting quality.

Various measures have been employed in previous research to define and assess the quality of financial reporting. Punctuality of reporting financial results; financial reporting integrity; and the verifiability and reliability of financial information were the metrics by which Breen, Cordery, Crawford, and Morgan (2018) evaluated the quality of financial reporting. Finding a single globally acknowledged indicator of fiscal accounting quality is difficult, as recognized by the research of Garven, Beck, and Parsons (2018).

Financial reporting in a number of county governments in Kenya faces difficulties due to questionable information systems making it hard to determine the culmination of income (for example stopping charges), Lack of ability to deal with the budgetary complexities (deficient staffing, insufficient aptitudes, powerlessness to draw in the best talents in financial management), Frequent staff moves of key accounting officials, Political impedances of recruiting and staffing, Weak administration structures for financial controls and reporting and unseemly chronicled culture for financial reporting (ICPAK, 2013).

The Constitution of Kenya 2010 has presented essential changes in the manner public funds are overseen. These progressions had, tragically got next to zero consideration preceding the submission and the ensuing proclamation of the Constitution in August 2010 (Kirira, 2011). Public Finance Management Act No. 5 of 2004 envisioned improving the administration of money related concerns in Kenya and allocated individuals to oversee government assets before the constitution was enacted in 2010.

Article 163 (1) requires the county treasury to consolidate the yearly budget reports in regard of all local government entities in the organizations recommended by the Accounting Standards. Article 64 (1), requires the head of finances of a county government element to get ready yearly financial reports which incorporates an allocation record demonstrating the administrations for which the appropriated cash will spent, sums really spent on each administration, status of every vote differentiated and the apportionment of the same vote, proclamation clarifying any varieties between the genuine consumption and voter totals and information from county coffers. Different articulations to be incorporated into the list according to PFM Act 2012 Sec 164
(1) incorporate the statement of entity's assets and liabilities, a report of fiscal policies followed in setting up the fiscal summaries and a report of county entity's enactment against foreordained goals, among others.

As indicated by the IPSASB (2015), selection of IPSAS and IFRS has improved government fiscal reporting through consistency in the use of accounting norms, capacity building of staff by the IPSASB and inclusion of partners like ICPAK in the Public Sector Financial Reforms. Nonetheless, as per the Auditor General, devolved units in Kenya for the financial period 2013-2014, 100% of the fiscal reports inspected had a disclaimer of conclusion. This pattern has proceeded in the 2014-2015 financial year while in 2015-2016 six local governments had a qualified audit opinion while the rest had a disclaimer of conclusion. This is a reasonable sign that local governments in Kenya have attempted to report enough on their financial related issues.

Staffing levels, the availability of an Integrated Financial Management Information System (IFMIS), the results of an internal audit, and the knowledge and experience of the company's top management were all factored into this analysis of what affects the quality of financial reporting.
Groot and Molen (2000) define capacity building as the process of improving the knowledge, skills, and attitudes of individuals and groups that play a critical role in the creation, improvement, management, and maintenance of domestically substantial operational and institutional procedures and frameworks. This approach is more comprehensive while still placing

a primary emphasis on learning and development as well as human capital growth. According to this concept, employee capacity development may mean enhancing everyone's ability to do their jobs well within the larger framework of the organization's performance standards. Developing people's abilities is a crucial component of human capital if strategic goals at higher levels are to be realized (Canadian Social Science, 2013)

When it comes to planning, purchasing, and reporting, IFMIS is a computerized system that aids both the Central and devolved Governments in Kenya. Midway through 1993, the IMF and the World Bank completed an assessment of government accounting and delivered their evaluation reports, which ultimately resulted in the creation of IFMIS. The fundamental goal of this initiative is to fully computerize the nation's accounting and auditing systems. The plan to automate the entire framework would allow for precise and trustworthy budget summaries, deficit monitoring, cash flow calculations, debt management, and tight fiscal management (Kinyua, 2003).
In the old accounting model, these qualities were paramount. Records, whether kept by a large or small association, are the best way to prevent corruption by tracking the distribution of funds and, more importantly, to provide partners a glimpse behind the scenes so they may make educated business decisions (Kearney, 2004). That's why we're digging into this topic—to see how this arrangement has changed the way local governments in Kenya disclose their finances.

In order to ensure that all operations are adequate and effective, as well as that budgets are reported accurately, that resources are maintained in good condition, and that all applicable laws and regulations are followed, an internal auditing is conducted. It is impossible to ensure the success of a company without a proper internal control system.(2014, Journal of Research for Business and Management) There is substantial evidence that internal audit operations have an impact on financial reporting by detecting and preventing deception.

Management at the highest levels is responsible for overseeing the organization's finances and preparing regular reports on its performance. Kenya's Public Finance Management Act, 2012, Section 148 grants the county minister for finance the authority to appoint accounting professionals to supervise the financial management of the devolved entities in accordance with the assignment. According to Section 149 (2) of the Public Finance Management Act of 2012, annual financial reports for that financial season must be prepared and submitted to the Auditor-General for assessment, with a duplicate to the County Treasury, not later than a quarter just after end of the financial year. Therefore, there is a strong indication that the accounting officers of all county government entities are responsible for the preparation of budget reports. The county's chief financial officers also oversee all other county departments. According to the upper echelons hypothesis in management, a company's actions andmajor choices may be predicted mostly by the managers in charge.

1.1.2. County Governments in Kenya

The 47 regions established by the Constitution of Kenya (CoK, 2010) as part of the devolved governance system are referred to as devolved units in Kenya. The total is based on the administrative districts as pictured in the Territories and Districts Act of 1992. The county parliament and the executive make up the county government. The CoK 2010 and the Public Finance Management Act are two of the primary statutes that control county governments' financial management and reporting (2012). For example, article 201 of the CoK 2010 provides, among other things, the regulations that should control all areas of Public Finance in Kenya. The Constitution of Kenya, 2010, establishes the devolved units of Kenya. The frameworks for financial reporting by state and local governments are same. The Public Finance Management Act of 2012 and the National Treasury Policy Documents detail the mechanism for financial reporting and the oversight of county government treasuries.

Kenya entered a decentralized system of government with the adoption of the present constitution in 2010. The previous, central administration was replaced by 47 autonomous regions. The term "devolution" refers to a type of decentralization in which the ruling party of a democratic nation voluntarily transfers some of its authority and resources to a lower level of government. Chapter 11 of the Kenyan constitution establishes devolution (Republic of Kenya, 2010). Governmental services are being brought closer to the people through decentralization. However, it is envisaged that these newly established county governments will actively include county residents in order to create more efficient and accountable county governance institutions. It's important to learn how the county government works under the new system and what each department is responsible for.

Counties' administrations if Kenya's county administrations have several governance systems in place to aid in running the counties. Governmental structures consist of the Governor's office, the County Executive Committee, the County Assembly, the County Public Service Board, the Senate, the Women Representatives' office, the County Public Service Board, and the Audit Committee. Accountability, good governance, and enhanced performance are anticipated to flourish when these county governing structures collaborate. If citizens are to hold their county institutions accountable and see that they carry out their constitutionally mandated tasks, they must have a thorough understanding of what each entity is responsible for doing.

1.2. Statement of the Problem

Standards, rules, policies, and the regulatory environment all contribute to the reliability of financial reports. Improved service delivery is a central tenet of the public finance management rationale that underpins the importance of high-quality financial reporting (Oslo, 2018). Improving service delivery is one of the main reasons why accurate public sector financial reporting is crucial (IPSASB, 2014). Quality financial reporting helps improve government accountability and transparency (Opanyi, 2016) Despite such theoretical foundations supporting quality financial reporting, evidence on important predictors of outstanding financial governance in the public sector are inconsistent and inconclusive. One body of research found that reliable financial reporting is especially important for government agencies (Balunywa et al., 2017; Freinkman & Okure, 2019). Although some research has demonstrated that poor financial reporting has a negative effect on service provision (Muraina, 2020; Ochung, 2017; Opanyi, 2016). As a result, there are debates about the factors that actually matter when it comes to the accuracy of financial statements. The market pressures, organizational incentives, and commercial restrictions that affect the quality of financial reporting in different government sector and public corporations are not uniform (Isidro & Raonic, 2012). These contradictory findings underscored the importance of conducting a research inside a Kenyan setting to identify the factors that contribute to reliable financial reporting by Kenya's county governments.

The process of reaching one's financial goals ought to be methodical and cautious. Financial reporting, responsible spending, budgetary planning and controls, and justification of variations all require a deep understanding of financial statements. Though quality financial reporting has been the subject of scant research thus far, it has been examined a few times. Dewata, Hadi, and Jauhari (2016) drew on empirical studies on the indicators of quality of financial reporting and its consequences on the business results of state-owned enterprises (SOES) to conclude that the number of board members of executives, the efficiency of the internal auditors, and financial reporting quality all had a positive and significant effect on SOES's financial performance. With the addition of contextual factors, Nirwana and Haliah (2018) tried to determine the determining aspect of financial reports quality and effectiveness of the state. Competence on the part of individuals was found to have an effect on the accuracy of financial reports. Abang'a (2017) examined the factors that influence the financial reporting quality by Kenya's SAGAs. The results showed that after using IPSAS, the quality of financial reports increased. The regression results demonstrated a statistically significant association between the log size of SAGAs, the age of SAGAs, and their liquidity, as well as the quality of their financial reporting.

In addition, Naghshbandi and Ombati (2014) looked into the problems and difficulties that have been harming Kenya's financial reporting quality. They claimed that the low levels of expertise in developing economies, the belief in those countries that they are European or politically tamed, the varying degrees of regulatory and compliance regulations, structural and cultural discrepancies, and the ownership structures of different businesses all played a role in slowing their adoption. King'wara analyzed the impact of quality of financial reports on productivity from a Kenyan viewpoint (2015). No financial institutions or insurers were included in the study's sample of publicly traded enterprises operating between 1994 and 2003. It was found, through a comparison of data collected before and after IFRS adoption, that the quality of financial reporting significantly impacted business outcomes. According to Lugwe (2016), who looked into what factors affect financial management in Kenya's decentralized units, Budgetary management of devolved entities in Kenya is influenced by factors such as record keeping, which was shown to be crucial in a case analysis of Kwale county government.

The results of Onyango's (2014) study of the impact of audit committees on the efficiency of Kenya's county governments show that accurate financial reporting has a positive impact on government efficiency. He found that for every additional unit of reporting, the county government's performance would improve by 0.752. While he recognizes the importance of county governments' financial reporting to the success of those governments, his research does not bring out the reasons that are hurting the financial accounting efficiency of county governments in Kenya. Nyamasege et al., (2016) discovered that erroneous and unreliable financial records are contributing to a loss of organizational integrity, which in turn affects the project implementation at counties in Kenya. Mungai and Naiseku's (2015) study of variables impacting actual expenditure by county governments in Kenya likewise identified inadequate reporting on public finances as a primary source of sub-optimal performance. This research examined the variables that have an impact on how well Kenyan counties stick to their budgets. While these studies highlight the role of inadequate financial reporting in less-than-ideal county government budget execution and project completion, they do not examine the factors that influence the financial reporting quality by Kenya's county governments.

Since they focused solely on the pros and cons of high-quality public sector financial reporting, the studies by Agustina and Setyaningrum (2020), Ochung (2017), Muraina (2020), and Opanyi (2016) were limited in scope and had conceptual and methodological flaws. This study aims to fill the void left by the lack of a unified body of research on what factors actually make a difference when it comes to the credibility and reliability of county governments' financial reports in Kenya.

1.3. Objective of the Study

The purpose of this study aimed to discover what factors influence county governments' commitment to transparent financial reporting in Kenya.

Specific Objectives

i. Studying the effect of staffing levels on financial reporting quality in Kenyan counties.

ii. Examining the role of Kenya's Integrated Financial Management Information System (IFMIS) in improving the credibility of county governments' financial reports.

iii. Finding out how much of an impact internal audit has on the credibility of county governments' financial reports in Kenya.

iv. Examining the effect of experienced leadership on the credibility of county governments' financial reports in Kenya.

1.4. Value of the Study

Research like this is vital to the federal government and local administrations since it serves as a reference point for further research and planning. Moreover, policymakers and accounting officials will get a deeper understanding of quality financial reporting, allowing them to make better decisions. The conclusions of this study are relevant to stakeholders and county budget managers across Kenya. It would help investors and financial executives in Kenyan county governments analyze the impact of factors like upper executives, workforce competence, and auditing on financial reporting quality. Perhaps this will help you get through the tough situations you face every day on the job. Through this improved and more recent financial reporting, the academic community will benefit and grow. They will learn a great deal more about the present and existing situations in Kenya that call for governmental actions to provide quality financial reporting. Standards and quality benchmarks for financial reporting will be established with the use of the information and advice provided by this study. Top management, staff capability, internal audit, and IFMIS may all have a role in the quality of financial reporting in Kenya's county governments, and this knowledge could help both internal and external policymakers make more informed decisions about the counties.

The research provides economic and financial planners with tremendous problem-solving avenues, economic diversification, economic viability, solving community problems and creating public awareness. Furthermore, it will help county and national government staff in promoting efficiency, effectiveness, productivity, and economic use of resources.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The second section of this thesis analyzed the literature that corresponded to the study of establishing the factors that can affect the financial reporting quality by counties.

2.2 Theoretical Framework

The research was focused on the upper echelons hypothesis, the technological acceptance model, and the positive accounting theory. The following is an explanation of these hypotheses:

2.2.1 Positive Accounting Theory (PAT)

With an eye toward trying to predict and describe why directors have a predilection towards given accounting approaches, Watts and Zimmerman demonstrated promising Accounting Theory (PAT) in 1978 and 1986. (Sugut, 2014). According to Abdulrazak (2013), PAT is the rationale for selecting particular bookkeeping practices, methods, and procedures. PAT represents the association as a collection of agreements necessary to help selfish people agreeing to coordinate, such as agent agreements and so on (Mutai, 2014). PAT shows that there are multiple ways in which data can be manipulated, each of which depends on the mindset of the administration (Oluoch, 2014).

There is an irreconcilable condition between the administrators (operators) and the owners of an economic unit, which gives the administration regime a data edge over other partners. This advantage could be used to distort the showing of profit and investment structure in financial reports (principals). As such, PAT makes an effort to shed light on the CEO's choice of accounting methods with regard to background and ties to business partners. This hypothesis is useful for our investigation because it describes the reasoning for the preference of one bookkeeping method over another by those responsible for putting together financial reports. To keep up with the ever-changing authoritative climate, county governments need to consistently invest in staff capacity development so that they can implement complicated accounting concepts and preparations, such as conformity to substantial accounting frameworks like IPSAS cash basis.

One of the major complaints leveled against Positive Accounting Theory is that it fails to offer any prescriptions for accounting and, by extension, does not offer any ways to enhance accounting practice. So, this causes professional accountants to feel excluded. It has been suggested that it is not sufficient to merely explain and anticipate accounting practice. There is a total lack of prescription, so nobody knows what they should do. Others have pointed to flaws in the premise of Positive Accounting Theory, which holds that people always act with the goal of increasing their wealth, as the root of these problems. This is seen by many academics as a very unfavorable remark. According to them, PAT encourages a cynical and dishonest outlook on life.

2.2.2 Technology Acceptance Model (TAM)

The Theory of Acceptance Model (TAM) elaborates the determinants of customer confirmation of a vast demographic of end-user managing improvements, while the Theory of Reasoned Action (TRA) and the Theory of Planned Behavior (TPB) focus primarily on the determination and use of Information and Communication Technology (ICT). Perceived Ease of Use (PEOU) and Perceived Usefulness (PU) are theoretical constructs recognized by TAM that have an affective influence on users' decisions to engage with a system. The Technology Acceptance Model (TAM) has been utilized as a theoretical framework in a variety of studies to elaborate on ICT allocation and usage. Researchers have proven that a high level of PU is correlated favorably with both the initial goal of obtaining information (Davis, 1989) and the ultimate goal of maintaining that information (Ritu and Agarwal, 2000).

Anol (2001), Moez (2007b), Hirt (2007c), and Cheung (2007d) found that post-allotment studies showed a correlation between PU and both satisfaction and attitude toward technology. According to research by Anol and Hikmet (2008), PEOU influences both choice objective and PU (Davis, 1989). To the extent that TAM is considered a credible speculative foundation for considering ICT adoption and usage, it is examined for a number of imperatives, such as the primary model's inherent steadiness of development and frugality (Dishawand Strong, 1999). Disregarding the non-progressive situation (Venkatesh and Davis, 2000) and ignoring the coordinated effects of ICT distribution and use on many contexts (Sun &and Zhang, 2006).

One of the aims of this analysis is to determine how relevant this theory is to achieving those aims, specifically the widespread acceptance and effective implementation of IFMIS in local governments. The persuasive distribution of IFMIS in county governments may depend on two speculative factors: the perceived usefulness of the system and the ease with which it is used.

User behavior is a mutable aspect of TAM that has been criticized. A subjective norm, interpersonal influence suggests that one is susceptible to persuasion from those close to them, such as friends and coworkers. According to the IT policy, a supervisor may require an employee to use technology to complete a certain assignment. An employee who reports to a line manager is not free to take advice from friends or colleagues. It has also been argued that the idea that social pressure from friends and family members might affect an employee's use of technology is not justified, as behavior is highly subjective and influenced by things like values, conventions, and personal features and traits (Ang et al.,2015).

2.2.3 The Upper Echelons Theory (UET)

The UET theory presented a model in which administrators tend to circumstances happening about organizational goals whereby key decisions are made as a component of the one- of-a-kind attributes these people show. Because of the decisions made by these people, authoritative execution is contended to be legitimately affected. To accommodate the effect that these "more elite classes" have on authoritative execution, Hambrick and Mason (1984) contended that center ought to be coordinated towards those information promptly detectable reflecting individual qualities regarding the instructive, expert, and social foundations of conspicuous chiefs in organizational settings.

To apply Upper Echelons Theory (UET) adequately to look at hierarchical execution, the issue of causality is a significant thought (Hambrick& Mason, 1984). In the first place, those administrators with huge expert experience inside an association or modern setting come to act as per these past encounters more so than based on their individual properties. Techniques utilized in organizational life as an element of official basic leadership are regularly a component of full-scale powers driving the quest for organizational objectives. For instance, an official who is recently employedfrom an outside firm may carry an alternate point of view to the basic leadership process than an individual advanced from inside the association to the situation of supervisor. In this manner, distinguishing the powers most legitimately driving the basic leadership procedure is significant in UET.

Whereas the Top Management Team (TMT) has also been defined as formal leaders who also serve on the directorate (Finkelstein &Hambrick, 1990), the majority of surviving applications of the Upper Echelons Theory (UET) define the TMT in terms of power and prestige (Carpenter et al. 2004). Most Upper Echelons Theory (UET) analyses identify the TMT as individuals operating at the highest amounts of the board since statistical data on TMT delegates is typically acquired from public sources like annual reports. Since researchers would often employ information on those authorities acknowledged in common data channels in formulating and testing hypotheses, the definition of the TMT in Upper Echelons Theory study is malleable from study to study.

This hypothesis is important to the inquiry because it elucidates how supervisors' experience, ability, and learning affect their judgements about different kinds of authoritative issues. In this investigation, the author seeks to deduce the factors that contribute to effective management and healthy financial records.

The research on top management teams (TMT) that was conducted based on demographics was challenged by Priem, Douglas, and Gregory (1999) for compromising construct validity, explanatory power, and the practicality of its recommendations. Cognitive diversity is essential for success in a volatile business environment, according to Hambrick and Mason (1984), who also argued that demographics acted as a proxy for more fundamental individual qualities like interests, values, personality, and power. Carpenter et al. (2004), for example, described the demographics features of senior executive personnel as measurable factors. This piece of guidance, along with the consistency and simplicity with which demographics may be measured, contributed to their widespread adoption. The risk here is that you can't be sure which facet of the deep-level property is being recorded, or if you're using the right combination of demographics to capture a certain deep-level feature.

2.3 Determinants of the Quality of Financial reporting

The purpose of financial reporting is to disseminate reliable financial information to the company's upper management and any interested parties outside of the company, such as its clients, creditors, shareholders, and government regulators. Therefore, reliable financial accounts are crucial to the decision-making process for all parties involved in an economy. Therefore, the study hypothesizes that superior accounting information by the organization may result from autonomous variables such as increased workforce competency and capacity, increased IFMIS implementation and usage, strengthened internal controls, and the knowledge and experience of the organization's top management.

Experts have disagreed on a number of elements that, taken together, establish the significance of a company's financial reporting. According to Vander (2001), the board's decisions, the quality of the external administration system (such as review quality), the nature of the internal administration instrument (such as the nature of the ruling authority), and rules as components of both external and internal administrations are all potential variables that determine the value of financial reports. Mechanized innovation, the introduction of competent people, and internal trainings all contribute to the high quality of Kenya's government agencies' financial reporting (Tarus et. al, 2015).

Staffing levels, senior management expertise, integrated financial management information systems (IFMIS), and the quality of internal audits were all investigated in this study. Particular attention was paid to how these factors affect the presentation of financial reports at the county level in Kenya. Capacity development is defined by Groot and Molen (2000) as the process by which key individuals and groups acquire the skills, knowledge, and attitudes necessary to design, implement, manage, and sustain locally relevant operational and institutional procedures and frameworks. This strategy is more all-encompassing while still placing primary emphasis on learning and development as well as human capital growth. Therefore, in view of this concept, broad employee capacity building may refer to enhancing the ability of all employees to do suitable tasks within the broader layout of productivity standards of the organization. Enhancing human resources' capacities is crucial for achieving top-down goals (Canadian Social Science, 2013).

IFMIS is an automated framework that improves the efficiency of the devolved and Central States in Kenya in their respective roles of planning, arranging, acquiring, and reporting. IFMIS was introduced because the International Monetary Fund (IMF) had finished an overview of government accounting in the middle of 1993, followed by an analytic report sponsored by the World Bank. All of the country's accounting and auditing processes will be streamlined through the implementation of this project. The concept for completely automating the system was conceived to ensure accurate and reliable budget summaries, the detection of financial shortfalls, the calculation of cash flow, the management of public debts, and the achievement of strict monetary control (Kinyua, 2003).

A practical, precise, and especially straightforward accounting structure was necessary in the past. The records of any association, no matter how large or small, are the most important tool for preventing corruption by monitoring the flow of funds, and, perhaps even more importantly, for providing an inside look at the organization to the partners, who can then make more well-informed decisions as a result (Kearney, 2004). This study therefore aims to learn how this framework has affected the way local governments in Kenya disclose their finances.

The objective of an internal audit is to set up an internal control structure that promotes adequacy and efficiency in all activities, sound budget reports, resource health, and fidelity to laws and rules. The success of any organization depends on its internal control system, which helps ensure that its objectives are met. (The 2014 Journal of Research for Business and Management) Internal audit operations have been shown to have a major impact on financial reporting with regards to detecting and preventing deception.

The effectiveness of internal audit work in carrying out the aforementioned tasks is rated. The primary credible study linking IAF quality to financial reporting quality is Prawitt, Smith, & Wood (2009). Recent studies have looked at how different facets of administration affect the clarity and character of budgetary reporting. Nonetheless, the value of internal auditing in terms of financial disclosure has only been the subject of a limited number of studies (Al-Shetwi et al., 2011). One of the purposes of this study is to establish the impact of internal auditing proficiency on the worth of financial reporting. To this end, the study will estimate audit quality with respect to factors including the usefulness of internal audit reports, the average familiarity of in-house examination staff, and the size of the inner inspection unit.

The responsibility for managing and reporting an organization's finances falls squarely on the shoulders of upper management. The county minister for finance in Kenya is authorized to appoint accounting professionals to supervise the financial administration of the devolved entities in accordance with Section 148 of the Public Finance Management Act of 2012. Planning annual fiscal summaries for that financial year and submitting them to the Auditor-General for evaluation, with a duplicate to the County Treasury, is required by Sec 149 (2) of the PFM Act 2012 by no later than a quarter of a year after the part of the financial year. Therefore, there is a strong indication that the accounting officers of all county government entities are responsible for the preparation of budget reports. In the absence of a permanent chief executive officer, the county's accountants run the show. According to the upper echelons theory in management, a company's actions and major choices may be predicted mostly by the managers in charge.

Integrating financial management information systems (IFMIS) and the knowledge and experience of the company's upper management are two of the most important factors in ensuring accurate and reliable financial reporting. An IFMIS is a database with the potential to be used to store, manage, and provide easy access to financial data. Details on cash inflows and payments, as well as complete inventory of finance resources (such as equipment, property, and buildings), and liabilities, are recorded, together with the allocated finances for the current and prior fiscal years (debt). A robust PFM framework is necessary for economic growth and prosperity. It ensures that all government agencies are transparent and responsible in how they collect, administer, and disperse taxpayer funds. Systems, laws, and regulations that have been in place for some time, as well as a competent and efficient government bureaucracy, are all crucial parts of a successful PFM regime. New methods of public financial management have been widely agreed upon as a means to boost public service output, GDP growth, and job creation (McKinney, 2004). In the accounting literature, managers are typically portrayed as rational actors whose financial reporting decisions are influenced by their own personal objectives and character attributes. On the other hand, the vast majority of managers work together and depend on the input of their peers when making important decisions. Two characteristics of the top management team (TMT) are examined in terms of their impact on the reliability of financial statements.

2.4 Empirical Studies

The widespread quest for information and the constant investigation have yielded ambiguous and contradictory results. Most academics agree that deficient financial reports in state can be traced back to a number of causes, including a lack of qualified staff, an inappropriate foundation for general populace sector book keeping, incompetent management, and faulty accounting systems.

2.4.1 Staff Capacity and the Quality of Financial Reporting

The private sector is where most of Africa's fewer than a hundred professionally trained bookkeepers work. Angola and Mauritania each have only one certified bookkeeper, Mozambique has two, Mali has five, Eritrea has seven, Sierra Leone has ninety-one, and Ethiopia, the second largest country in Africa, has fewer than three hundred. "(World Bank, 2007) Most bookkeepers in Kenya pass KASNEB but don't sign up for enrolment, according to a United Nations study conducted in the country, but ICPAK provides up-to-date guidance on the new standards through its members. This indicates that many people who put out financial reports are not up-to-date on industry developments (Outa, 2011). A strong case may be made for fiscal responsibility and openness when reporting on public funds. The financial reporting quality is the real lifeline of all counties, as it reflects the efficiency, effectiveness, and economic management and consumption of resources. Nur Affiah and Rahmatika (2014) on their paper; Factors affecting the nature of money related revealing and its suggestions on government administration discovered their outcomes steady withpast research. Skill of work force in budgetary administration, particularly in the administration segment is significant. Mechanism's failure to deal with budgetary administration, absence of foundation in bookkeeping will prompt the powerlessness to break down the fiscal summaries or the failure to comprehend the inside bookkeeping reports (Rita, 2002). These studies have not comprehensively covered how staff capacity affects quality of financial reporting in various institutions in the mentioned countries. Furthermore, Nur Affiah (2004) simultaneously and in part expressed officials' skill, the capability of local government bodies, usage of bookkeeping data frameworks, planning and budgetary data quality influence the standards of good administration. Competence is seen as the most important part of public administration reform, so following the improvement of fitness as a sign of change shows how the board and public administrations think in order to do a good job. This is similar to the work of Hood and Lodge (2004), who looked at the skills of top public servants at the global rank in 3 nations (the United Kingdom, Germany, and the United States). It is obvious from these research that competency has a major impact on the quality of financial data used for bookkeeping, planning, and budgeting. However, this research is centered on the topic of competence and its effect on the quality of financial reporting.

This research further bolsters Palmer (2013)'s assertion that the quality of financial summaries is directly related to fitness. In the short to medium term, countries need a certain threshold of trained personnel at the higher and specialized echelons to enhance civil service accounting information and compliance. To address public and private sector needs on a long-term sustainable basis, countries require an accrediting framework that can produce qualified Financial Management faculty (bookkeepers, evaluators, public fund leaders, etc.). The World Bank reported that in 2007. Since different countries take various techniques to accounting information in order to achieve the needed criteria, these studies have not pinpointed the most important factors of quality financial reporting.

The impact of employees' levels of competence, dedication, and communication on their productivity on the job in Indonesia was investigated by Friolina et al. (2017). The investigation was conducted by the DET (Department of Environment and Transportation) in Bondowoso, Indonesia. Results indicated that competence was a significant factor in determining success on the job. Those workers who were more competent than average were able to outperform their less skilled colleagues. As a result, it was essential that the workforce be staffed by highly competent individuals if productivity was to increase.

Research conducted by Wambui et al. (2017) in Nairobi County examined the relationship between human resource management skills and the efficiency with which money is handled. Among the several NGOs in Nairobi County, 61 were randomly chosen to represent the sector. Financial managers from each of the surveyed NGOs made up the survey pool. Most respondents in the study agreed that the efficiency of the financial control system is significantly impacted by the level of expertise of the people working in that system. The study's authors urged for effective human resource management within organizations, stressing the importance of ongoing staff training for the development of cutting-edge skills and deeper understanding of financial matters.

2.4.2 Internal Audit Quality and Financial Reporting Quality

Griffiths (1999) study on inside 92 FTSE 200 organizations uncovers that budgetary chief's impression of interior review is in no way, shape all around positive. In any case, their fundamental concerns were that; the capacity will excessively serene and essential (and in this way inadequately operationally or business hazard situated) or that the capacity will be deficient in abilities (or had a poor blend of aptitudes/staff). Following the budgetary chiefs in his investigation, inner review needs to turn out to be considerably more business (hazard) and operationally situated, be increasingly proactive, responsive, and creative and improve the abilities inside the capacity just as the nature of the staff. The study failed to link how internal audit quality could include influence quality financial reporting in the organizations. The purpose of this research is to examine the interplay among corporate auditing and budgetary accounting in the public sector, zeroing in on Kenya's county administrations.

There is evidence from a few different types of analyses that link high-quality internal audits with improvements in financial reporting (Al-Shetwi et al., 2011). It has been determined through research conducted by Nuraini (2015), who wrote the paper "the role of business management on financial accounting quality (Evidence from Indonesia Stock Exchange)," that there is a correlation between the quality of in-house checks and the depth of financial reporting. To evaluate IAF, Prawitt, Smith, and Wood (2009) used a single, added-substance composite with equally weighted measures pertaining to awareness, confirmation, education, accounting format, time spent on finance activities, and relative IAF size. It is important to highlight that the quality of financial reporting cannot be evaluated merely by the period of time spent on budgetary activities, the structure of the IAF's reporting, or the size of the IAF in comparison to other organizations. Internal audit plays a crucial role. Based on this premise, the present research will investigate the role of internal audit in improving the credibility of financial reports issued by Kenya's county governments.

Using data from 2000–2005, the authors observed that a higher overall quality of IAF was associated with lower numbers of salary-decreasing collections and higher numbers of salary-increasing ones. By breaking down IAF characteristics, they find a correlation between IAF expert accreditations (pay reducing accumulations) and IAF size relative to industry and financial reporting quality (pay expanding collections). Whether or not the IAF reports to the review council, Prawitt, Smith, and Wood (2009) do not find a significant correlation between the IAF freedom trademark and the quality of financial reporting.

It is unclear when both traits are present for a given organization and whether their connection is instinctive or has extra substance, despite the fact that their composite fraction of IAF quality encompasses characteristics of wellness and autonomy.

Internal audit and its connection to the proper administration of public funds were the subject of a 2016 study by Nwaobia et al. Desktop research was used as the methodology for this study. The study concludes that internal auditing can help increase openness in government by exposing potential problems before they become serious. The research did find, nevertheless, that internal audit functions better when given independence and resources like computers and people to use. Similarly, if the administration of government institutions follows the constitutional structure of the country as a guide for preparing and presenting financial reports, then openness in money planning will be attained. Accountability and openness in the administration of financial resources are also aided by the prompt filing of the auditor's report.

The purpose of the research conducted by Marius and Wallek (2016) was to examine the connection between the internal audit function and the fiscal accounting of German listed businesses. Their findings demonstrated that an effective Internal Audit Function (IAF) can improve both the accuracy and efficiency of financial reporting. Their research lends credence to the idea that the Internal Audit Function (IAF) is an integral part of sound corporate governance and has a major impact on the accuracy of financial statements. They further note that regulators and management may benefit from outside accreditation of the IAF and domestic audit-related accreditation of IAF workers because it may lead to improved quality of financial reporting and reduced audit fees.

2.4.3 Integrated Financial Management System (IFMIS) and the Quality of Financial Reporting

The United Kingdom's Department for International Development (DFID) published its guidelines on government spending administrations in the year 2003. These guidelines revealed an astounding surge of enthusiasm for general consumption issues among nations, donor agencies, and the general population as a whole. This move will be found according to World Bank to offer Africa an opportunity to jump middle level advancement (DFID, 2003). Thus, experts and different counsels of governments in Africa began playing with the possibility of the presentation of current data innovation, the IFMIS (World Bank, 2004). It is important to recognize the enormous contribution that IFMIS has made to the improvement of the accuracy of financial reporting in industrialized countries. Contextually, IFMIS is relatively a new concept in developing countries such as Kenya. The current study seeks to establish whether IFMIS enhances quality financial reporting in county governments of Kenya.

When researching the role of IT on financial reporting quality, Salehi and Elahe (2012) found that the use of IT has significantly altered financial reporting, particularly in regards to the significance of accounting data. The development of online financial detailing is largely attributable to the fact that IT can help customers make more informed financial and administrative decisions (this is especially true when it comes to the Internet, its tools, and conventions, or the sensitive product businesses that rely on them). It is important to recognize the impact that IT has had on financial reporting across industries. Yet, generating reliable public sector financial reports in Kenya is difficult. In light of this, the purpose of the present research is to determine IFMIS's effect on the accuracy of financial reports issued by Kenya's county governments.

Regression analysis revealed that IFMIS practices have significantly impacted the fiscal enactment of national and local governments organizations in Kenya during the period under investigation, as Moochi (2012) explained in her exposition, The impacts of Integrated Financial Management Information System on Financial execution of state enterprises in Kenya. This is supported by the fact that the effect of e-procurement procedures is statistically significant at the 5% confidence interval and the Coefficient of Multiple Determination (R2 Square) is 0.843. The Corporation's alignment of her goals to public financial sector changes has the highest regression coefficient (0.170) and the lowest probability of failure (0.000), making it the most convincing IFMIS practice. The research examined the ways in which Kenya's state-owned businesses benefited financially from the implementation of an integrated financial management information system. The purpose of this research is to learn more about how the Integrated Financial Management Information System will help Kenya's county governments provide better financial reports.

2.4.4 Top Management Expertise and the Quality of Financial Reporting

Several lines of study have found a correlation between the strength of an organization's upper management and its financial success. Klein (2002), for instance, examines the independence of both the board of directors and the audit committee and finds a positive correlation between the two factors and the firms' monetary disclosing performance. Bedard et al. (2004) look at the effect of an audit committee's knowledge, independence, and engagement on aggressive earnings management and conclude that a board with higher knowledge and independence is definitively related with better financial disclosing quality. Their knowledge of financial matters and their familiarity with the skills of senior management allow them to aid external auditors in preparing reports and ensuring that the recommendations made in such reports are put into practice. However, this research could not find any statistically significant correlation between financial knowledge and financial reporting quality.

Omoro, Aduda, and Okiro (2015) found that an increase of one unit in the educational diversity of Top Management Team leads to an increase in fiscal revealing in government entities in Kenya in their paper titled "Demographic diversity in top management team and financial reporting quality in commercial state corporations in Kenya." Human diversity is thought to have a major bearing on the commercial government entities' financial reporting in Kenya. It's worth noting that the public sector's performance and service delivery may be influenced by demographic factors, such as the educational diversity of the Top Management Team. However, the ability of the top management team to improve service delivery by means of accurate financial reporting can be used to gauge the results of top management. The purpose of this research is to analyze how the knowledge and experience of county government leaders in Kenya affects the reliability of their financial reports. However, Leong et al. (2015) indicates that the participation of accountants who serve on both the audit and compensation committees has less of an impact on the accuracy of financial reports. According to the theory proposed by Laux and Laux (2009), the audit committee members in the remuneration panel will realize significant information on the executives' compensation for- performance remuneration perks, putting them in a strong position to identify the executives' motivations to control financial statements. The research found that having members who overlap did not improve the process of verifying financial transparency. Minimal progress has been made in checking fiscal exhibition processes due to the lack of suitable efforts by double membership executives. Liao and Tsu (2013) found that organizations with twice as many members had poor financial transparency. Based on this context, this research will analyze how the knowledge and experience of senior management affects the reliability of financial reports in Kenya.

.

2.5 Summary of Literature Review

Inadequacies in public sector financial reporting have been highlighted by a number of studies. This is especially high in third world countries. The low quality of financial statements in governments can mostly be attributed to faulty accounting frameworks, a lack of skilled employees in the accounting profession, and ineffective controls resulting from the absence or weakness of internal audit activities. The Public Finance Management Act of 2012 regulates governmental activities including the handling of public funds. On the other hand, financial reporting in Kenya has barely improved. Kenya's government does not retain transparent financial records, hence the public lacks access to accurate information. The government's multiple budgetary disclosures have been huge, complex, and mind-boggling. According to the published research, most Kenyan bookkeepers who pass their professional exams (CPA) do not become members of the Institute of Certified Public Accountants of Kenya (ICPAK), which prevents them from participating in continuing education opportunities designed to improve their skills.

Few academic investigations have focused specifically on county governments' budget reports in Kenya. Although various studies note that inadequate financial reporting contributes to problems with local governments' ability to execute their budgets and carry out their projects, they fail to consider the factors that affect the quality of financial reporting by Kenya's counties. This study fills a gap in the literature by examining the factors affecting the quality of financial reporting for local governments in Kenya.

.

2.6 Conceptual Framework

Orodho (2009) argues that the link between the research variables is best described by a conceptual framework. A variable is a quantitative attribute that can take on a variety of values depending on the study's subjects. The word "independent variable" refers to a factor that is not the dependent one (Jabareen, 2009). In statistics, a dependent variable is one that must rely on the value of another variable, such as the independent variable, in order to be calculated. One definition of a dependent variable is "the thing that the study is designed to measure" (Mugenda, 2012). The research's conceptual structure, depicted in Figure 2.1, is as follows. Capacity of employees, knowledge of upper management, an IFMIS (Integrated Financial Management System), and an internal audit are the four independent variables in the theoretical framework. The governmental regulation is the operative variable. Good accounting practices are the dependent variable.

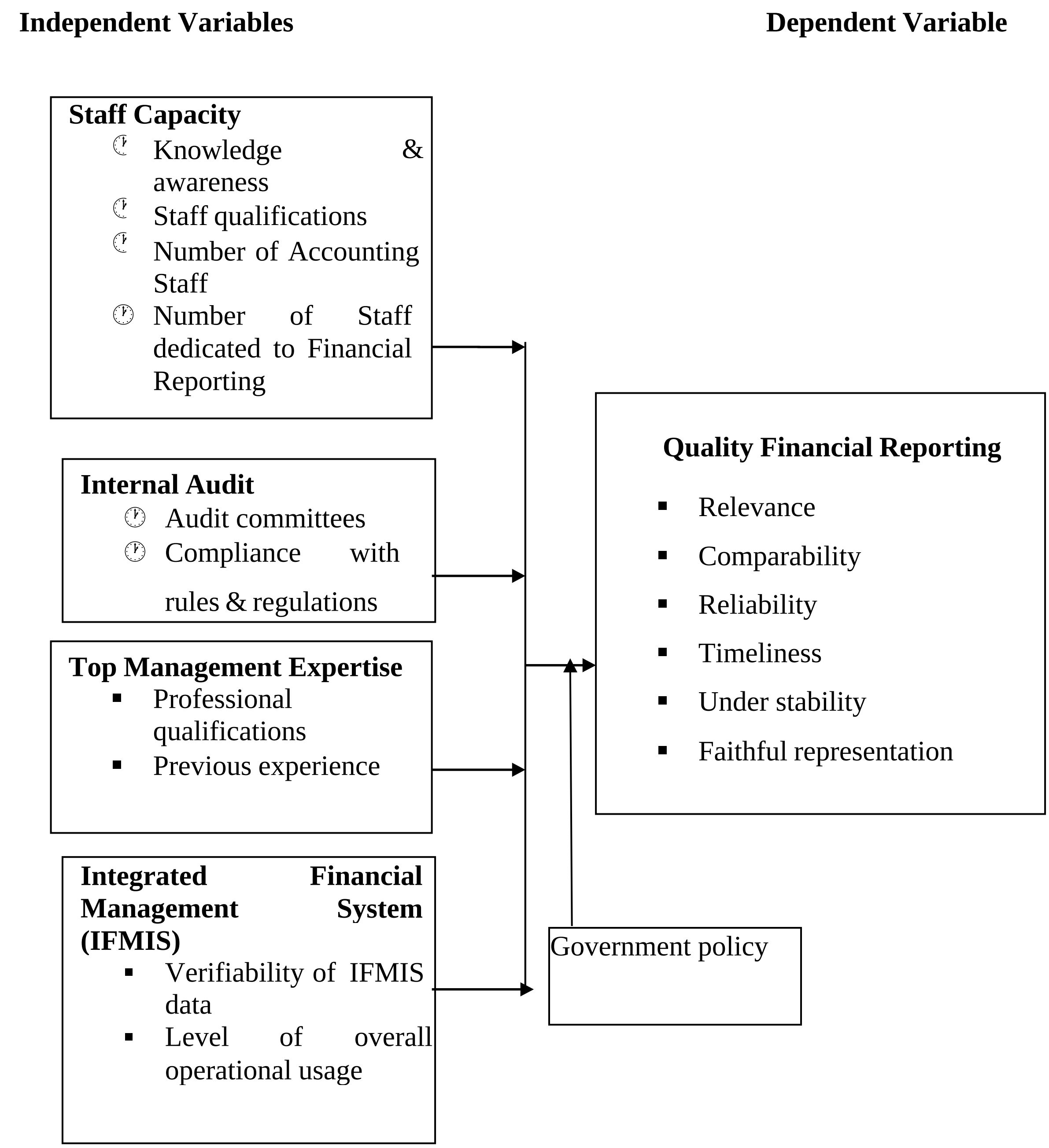


Figure 2.1: Conceptual Framework

Control variable

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

In order to put the study's theory to the test, this section lays out the data collection study technique. It elaborates on the methods, design, and size of the sample to be taken. It will also be possible to pinpoint the data's origin, the research population, and the intended audience.

3.2 Research Design

An examination's research design refers to the overall methodological framework within which the study will be conducted (Ngechu, 2004). The methodological approach taken in this study can be described as descriptive. Using a descriptive method allows for a real-time description of the respondents' thoughts, feelings, and beliefs. Also, the researcher was able to extrapolate the results of the research to a larger population because to this design. Therefore, the results of this study might be applied to the public sector as a whole in order to create a more reliable reporting system and enhance the credibility of financial accounts.

3.3 Target Population

A study's target population consists of all the people, events, or things that the researchers are interested in learning more about (Borg& Gall, 1989). According to Kombo and Tromp (2006), a population is any group from which samples are drawn for scientific investigation. Thus, all 47 counties in Kenya became the study's primary population. In this case, the county administration served as the unit of analysis.

3.4 Sampling

Sampling is the process of selecting an appropriate model (sample) or a statistically valid subset of a demographic to use as a basis for selecting parameters or features of the entire population. To learn about a statistical population as a whole, it is necessary to first learn about a subset of that population called a sample (Webster, 1985). When referring to human beings, it was typically defined as a subset of a broader population chosen to participate in a survey. A comment given on the sampling should be representative of the whole population (Orodho, 2012). Taking a representative sample of a population for statistical purposes (University of Kentucky, 1865). The study included all 47 county governments in Kenya, where the demographic is quite tiny, by using a census sample strategy. The county level point of contact was the Chief Financial Officer. That's why we polled 47 CFOs from different counties in Kenya. We focused on CFOs because they are in the best position to answer our questions about what factors influence the accuracy of county governments' financial reports in Kenya.

3.5 Research Instruments

To gather information, we used questionnaires. The questionnaires were selected due to their ability to provide standardized data collection and successful management. It also takes very little work to reach a very large percentage of the population. Questionnaires provide responders with a forum for sharing their thoughts and offering suggestions (Gay, 1992). This study employed questionnaires with both open-ended and closed-ended questions.

3.6 Validity and Reliability of Research Instrument

The validity of conclusions drawn from the data constitutes its "soundness" (Mugenda &Mugenda, 1999). To what extent do findings from the analysis of the data provide evidence for or against the hypothesis being evaluated? (Borg & Gall, 1989). Borg and Gall (1989) state that "professional opinion enhances the material validity of an instrument." The mentee will rely on the guidance of the supervisor, an expert, to strengthen the foundation of the tool's content (Omamo, 1995).

According to Joppe (2000), dependability is the degree to which results are repeatable. If the results of the study can be replicated using the same procedures, then the research instrument may be trusted to provide an accurate representation of the entire population being studied.

Two separate observers were used to assess the value of every qualitative factor. This was crucial since judging the quality of financial reporting depends on qualitative features, and if you don't have any insider knowledge, you might have trouble comprehending and assessing such attributes (Botosan, 2004). Krippendorff's alpha was calculated as a measure of agreement amongst raters. This reliability assessment has its roots in content analysis and can be applied in a variety of settings, such as when an ordinal scale is used or when a sample size is quite small (krippendorff, 1980). If the krippendorff's alpha is more than 0.7, the results can be trusted. The Cronbach's alpha coefficient was used to determine the degree of internal consistency. If the instruments have a Cronbach's alpha of 0.8 or higher, they are reliable.

3.7. Data Collection Procedures

Once the university gave its blessing to the research, a research authorization was requested from the county governments through the county secretary's office. Before the action began, word had already made its way to the county seat. Respondents in this study were 47 county government chief financial officers, who filled out questionnaires as the study's major source of information. Checkboxed questionnaires were emailed to all respondents. Participants will have three days to complete the surveys and submit their answers through email. We did this to reduce time spent gathering data and save money.

3.8 Data Analysis

Analyzing the results of a study or test in order to draw conclusions from the data collected is known as data analysis (Kombo and Tromp, 2011). The financial reporting quality was analyzed by employing a descriptive statistic. The surveys used a Likert scale from 1 to 5, with 1 indicating strongly disagreeing, 5 indicating strongly agreeing, and 3 indicating no strong feelings either way. The lowest possible score on the Likert scale is 1, and the greatest possible score is 5. The significant levels of all the autonomous variables were determined, and their relationships to the dependent variables were explored. Quantitative and qualitative data were collected by the researcher. Descriptive statistical analysis and regression evaluation were used to examine the numbers, while content analysis was applied to the qualitative information. For the purpose of regression, mean scores were calculated for each indicator of the independent variable. The results of the analysis are presented in tabular form, with theoretical justifications for the observed patterns. In order to ensure that the responses were of high quality, the data was cleaned up before being analyzed.

3.8.1 Model Specification

The study adopted a Regression model as shown below.

□ = □0 + □1□1 + □2□2 + □3□3 + □4□4 + □

Where □ is the Dependent Variable, Quality of Financial Reporting

□1 = Staff Capacity

□2= Top management expertise

□3= Integrated Financial Management Information System (IFMIS)

□4= Internal Audit Quality

□0−□4= Coefficients of the Variables being measured

□= Error term

3.8.2 Diagnostic tests

The data was examined for normality before regression analysis was performed. The premises of OLS are used in the normality test to determine if the data collected follows a normal distribution. A measure for multi - collinearity is included. If the coefficient of the independent variable is above 0.8, then the relationship is likely deceptive, and one of the factors should be eliminated. The breusch-agnostic test was used to assess the data for heteroskedasticity and determine the variance in the error term. VIF quality was computed as a multicollinearity test. If the value is between 1 and 10, then multicollinearity does not exist; otherwise, it is possible to enter a multicollinearity condition and eliminate a single independent factor.

3.9 Ethical Considerations

The investigator assured the test takers that their responses would be treated with the utmost secrecy. The respondents comprehended aim and imperativeness of data given. Respondentswere allowed to pull back at their desire and guaranteed of privacy and that data given was used for the intended reason, this was ensured by guaranteeing secrecy of where respondents were required to unveil their identity

Table 3.1. Operational definition of Variables

tive	Type of Variable	Indicators	Scale of Measurement
To evaluate how available resources affect the precision of county governments' budgetary reports in Kenya.	**Independent** Staff capacity **Dependent** Quality financial reporting	- Adequate Number accounts' staff - Adequate Number of financial reporting staff. - Effective Allocation of duties - Timely - Faithful factual Representation	- Ordinal - Ordinal - Nominal - Nominal - Nominal
To evaluate how experienced upper-level management affects the reliability of financial statements.	**Independent** Top management **Dependent** Quality financial reporting	Professionally qualified staff Experience in Financial reporting Academically qualified Past experience Timely Faithful factual Representation	All are Nominal.
To evaluate how IFM has influenced the accuracy of financial statements.	**Independent** IFMIS	operational usage Computerization Reliability of IFMIS IFMIS Verifiability	All are Nominal.
	Dependent Quality financial reporting	Timely Faithful factual Representation	
To evaluate how well-executed internal audits affect the reliability of financial statements.	**Independent** Internal audit **Dependent** Quality financial reporting	- Timely internal audit report - Experience in internal audit - Number of internal audit staff - Timely - Faithful factual Representation	All are Nominal.

CHAPTER FOUR: DATA ANALYSIS, RESULTS, AND DISCUSSION

4.1 Introduction

This chapter provides background information on the data that was used to support the subsequent discussion, interpretation, and conclusions. The chapter contain vital knowledge that build the foundation for future considerations and references. The data is geared by the inferential and descriptive analysis.

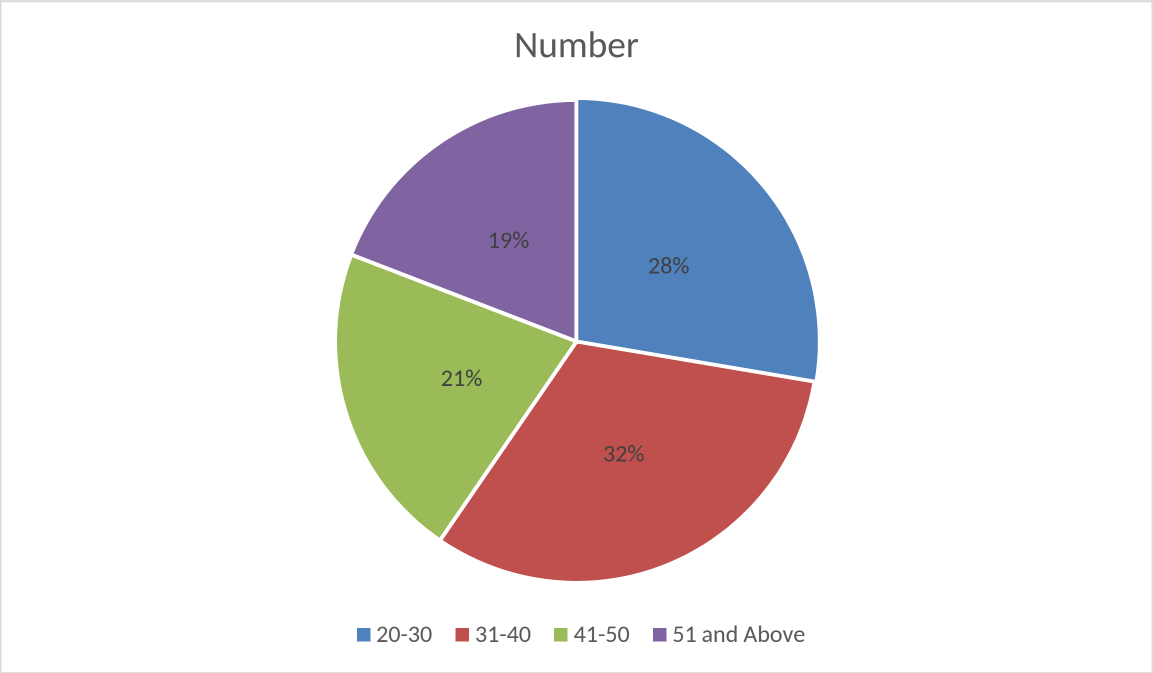
4.2 Demographic Characteristics

The demographics were subdivided into age, gender and work experience. The researcher wanted to know if the population was sufficient and adequate to make sound decision and to respondent to the questions. The researcher looked at the gender to ensure balance without partiality and biasness.

4.2.1 Age Bracket

The findings from the research findings elucidated that the population under the study was balance, sufficient and adequate for interpretation and sound decisions.

Figure 4.2: Age Bracket

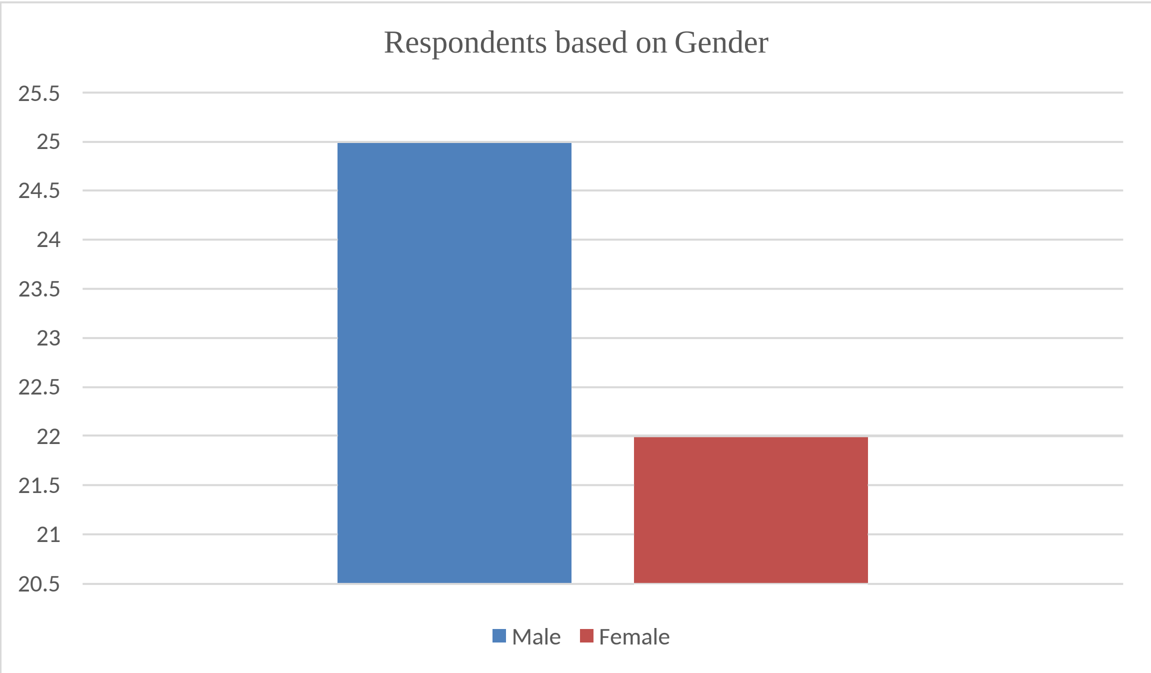


From the illustration above the majority of the respondent were within 31-40 years of the age bracket as represented by 32% followed closely by 20-30 years which accounted for 28% while 41-50 was represented by 21% and finally the lowest was age bracket of 51 and above years. This shows that the population were in a position to give accurate and the reliable answers.

4.2.2 Gender

Individuals were prompted to identify their gender. The majority of the respondents were male though there was minimal range. The males were 25 while the females were 22. The research findings show a balance figure since the respondent represent both gender hence the diversity was balance.

Figure 4.3: Respondents Based on Gender



4.3 Descriptive statistics

This study set out to evaluate what factors, if any, affect the quality of county government financial reports in Kenya. All 47 of Kenya's counties contributed to the data set. The study opted for a descriptive survey approach. The researcher wanted to get relevant, adequate and sufficient information from the devolved units in Kenya. The Researcher survey all the counties to arrive at a conclusive finding.

4.3.1 Staffing Capacity and the Quality of Financial Reporting

The purpose of this study was to investigate how much of an impact staffing level have on the credibility of county governments' financial reports in Kenya. Inadequate manpower might negatively impact the accuracy of financial reports. It isa driving engine towards prudent, efficient and effective. The researcher looked at the staffing process, recruitment and selection. The researcher further assessed the adherence to the rules and regulation that informed the decision making in quality financial reporting. The knowledge on accounting and financial standards were crucial for quality financial reporting. The research findings were in concurrence with the previous research. Sugut (2014) postulated that the staffing enhanced good and quality reporting. It helps in sealing the loopholes and timely presentation of the financial reports.

Table 4.1: Staffing Capacity

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
1.	Adequate staffing	0	12	4	1	30	47
2	The staff handling financial reports have knowledge and awareness of the ICPAK requirements	2	14	15	14	2	47
3.	There is adequate accounting staff	2	12	16	15	2	47
4.	The top staff promotes PFM Regulations governing county government financial reports	0	7	20	18	2	47
5.	The national government reinforces the IPSASB as a standard of financial reporting in counties	2	13	15	15	2	47
6.	Adequate procedures for recruitment process	2	9	20	14	2	47
7.	County organized regulations	2	11	10	20	4	47
8.	The accounting staff under policies and regulations	5	6	15	13	8	47
9.	There is strict adherence to policies	2	8	15	17	5	47
	Mean	3.90	21.70	31.27	30.25	12.88	100

4.3.2 IFMIS and the Quality of Financial Reporting

In order to evaluate the quality of financial reporting in the 47 Counties' government, they looked to the IFMIS. The researcher intended to determine how the effectiveness and efficiency of IFMIS in the financial reporting quality. The purpose of the research was to analyze how well IFMIS was being used and how well it was being used technically. The researcher aimed to get conclusive result on the execution and deployment of IFMIS in the counties in Kenya. The study's stated objective was to examine how far IFMIS had been adopted, the accuracy and timeliness of financial reports, and whether or not they had improved in quality. The high respond rate agreed that IFMIS promoted Quality financial reportingthrough; relevant knowledge to staff, technical support, well stipulated regulation, efficiency and timely results. Furthermore, it aided achievement of objectives and increased timeliness. The research agreed with previous publication that IFMIS increase service delivery, enhance quality and provide cheap and up to date information (CoK, 2019).

Table 4.2: IFMIS

		1	**2**	3	4	5	total
1.	nance staff have knowledge and skills on IFMIS	3	0	7	17	20	47
2.	p county staff support usage of IFMIS	2	5	14	11	15	47
3.	ational government has provided technical support to county government staff on IFMIS	3	3	9	21	11	47
4.		0	9	7	15	16	47
5.	ports generated by IFMIS full reinforces regulation by IPSASB	0	5	14	16	12	47
6.	tional government has trained all the accounting staff in the county government	2	4	8	20	13	47
7.	supports timely financial reports and full representation of facts	3	10	11	11	12	47
8.	has promoted quality financial reporting	3	4	7	22	11	47
		3.15	10.2	20.5	36.1	30.5	100

4.3.3 Internal Audit and the Quality of Financial Reporting

This research aimed to examine the role of internal audit in influencing reliable financial statements. The purpose of an audit is to ensure that financial statements are complete and accurate.

The research analyzed the adequacy of staff and the level of experience. Furthermore, the research sought to know the operational efficiency of internal auditing in the devolved county governments. The aimed of auditing in the counties was to provide balance-check, enhance quality reporting, improve financial credibility and increase transparency (ICPAK, 2020). The fundamental role played by internal auditing included creation of transparency and presentation of true and fair financial statements. The research found out that majority of internal audit staff didn't have audit experience and training. Furthermore, the researcher found out that internal auditing inthe county government did accomplished the intended plan of ensuring true and fair financial information was presented. The findings were not in agreement with previous findings that internalauditing increase efficiency and effectiveness of the county government (PFA, 2012). The mandateof County Internal Audit was to enhance the credibility of financial reporting. Furthermore, internal auditing was mandated to enhance periodicity of financial reporting, strengthen the controlmeasures and protect the value and county resources (Kipkirui, 2020). The County Internal Audit should enhance assurance, objectivity and build internal control (PFA, 2012). The research findingindicated that the internal control has not live to the spirit.

Table 4.3: Internal Audit

		1	**2**	**3**	**4**	**5**	**Total**
1.	ternal audit staff are adequate	25	0	6	14	2	47
2.	ternal audit staff have experience and are qualified	6	12	6	11	12	47
3.	ternal audit is operational, efficient and effective	15	8	15	3	6	47
4.	rget of internal audit is to promote quality financial reporting	14	7	21	3	2	47
5.	lance-check generated by internal audit department are fully implemented	14	7	21	3	2	47
6.	counting and internal audit liaises to enhance financial reporting	21	12	5	9	0	47
7.	al audit seals loopholes in the counties	20	10	19	6	2	47
8.	county government promotes the efficiency and effectiveness of internal audit	12	12	13	7	3	47
		32.4	16.7	25.2	16.9	3.75	100

4.3.4 Top Management and the Quality of Financial Reporting

The purpose of this research was to look into the quality of management and accounting at the top levels. The presumption that top management are the driving force toward stable and sustainable financial state (Kipkirui, 2020). The top management have been the fuel toward quality financial reporting. Quality financial reports indicates the going concern of the company. Management increases the efficiency and effectiveness of Quality financial reports. Management in the county government are mandated to ensure timely financial reporting, upholding the standards and increasing the verifiability of financial statements (County Internal Audit, 2020). The research findings were in full concurrence with previous studies that top management enhance efficiency, effectiveness and promote the quality financial reporting (Ocharo, 2019).

Table 4.4: Management Quality

	1	**2**	**3**	**4**	**5**	**total**
Top management promotes timely financial reporting	3	0	8	17	19	47
Top management have relevant experience, academic and professional qualifications	5	5	14	10	17	47
Top management builds guideline that supports financial reporting	3	3	10	20	11	47 47
Top management have extensive knowledge of ICPAK, PFA and IPSASB	1	10	7	15	14	47
Top management reinforces the IPSASB as a standard of financial reporting	2	6	13	15	11	47
anagement provides periodic recommendation on Prudential Financial reporting	2	5	7	20	13	47
management promotes staffing of adequate financial ng personnel	3	10	12	10	12	47
	2.95	10.2	20.3	30.3	29.3	100

4.4 Pearson's Correlation

The Pearson is crucial for analysis and determination of strength, magnitude and direction. This analysis delves deeper into the ratio of predicted-to-predictor-variable change in this study. Staffing levels, IFMIS, an internal audit, and top-down leadership are the four determinants. All the four independent variables studied in this research explain 83% of the factorsaffecting quality financial reporting as expounded by R^2. In nutshell, it postulates that the variablesnot studied in this research accounts for 17%.

4.4.1 Regression Analysis

The study used a regression analysis to determine what factors contribute to reliable financial reporting. The researcher findings postulated that

Table 4.5: Regression Results

Coefficients:

	Estimate	**Std. Error**	**t value**	**Pr(>|t|)**
Intercept	0.4311	0.62950	0.690	0.4960
Staffing Capacity	-0.1425	0.1816	-0.808	0.4260
IFMIS	0.7499	0.1635	4.591	5.52e-05***
Internal Audit	-0.0430	0.1239	-0.348	0.7298
Management	0.3130	0.1180	2.648	0.0126

Signif. codes: 0 '**' 0.001 '**' 0.01 '*' 0.05 '.' Residual Standard error: 0.3100 on 43 degrees of freedom

Multiple R-squared: 0.8327, Adjusted R-squared: 0.8136

F-statistic: 43.60 on 4 and 43 DF, p-value: 3.999e-13

4.4.2 Multiple Regression Analysis

Based on the data in the table above, it seems that there is an inverse correlation between available employees and the quality of financial reports discovered through internal audit. The findings confirm the existence of a favorable correlation between IFMIS and Management. This suggests that neither the available workforce nor the internal audit yielded desirable outcomes in terms of the reliability of financial reporting. These discoveries led to the posting of an equation of the type;

$(\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4})$ this was expounded to mean

$Y = 0.4311 - 0.1425X_1 + 0.7499X_2 - 0.0430X_3 + 0.3130X_4$

Y= Quality Financial Reporting, X_1=Staffing Capacity, X_2 =IFMIS X_3=Internal Audit, X_4 =Management. The findings showed that an increase in one unit of staffing capacity led to a decrease of quality financial reporting by 0.1425 which translated to 14.25% when all other factors are kept constant. Further, an increase of 1 unit in IFMIS resulted in an increment of 0.7499 in quality financial reporting, which is equivalent to 74.99%. In contrast, an increase of 1 unit in internal audit resulted in a decrease of 0.0430 in quality financial reporting, which is equivalent to 4.30 %. An increase of 1 unit in management resulted in an increase of 0.3130 in financial reporting quality which is equivalent to 31.3 %. IFMIS was the most important factor, followed by Management.

4.4.3 Analysis of Variance of the Model (ANOVA)

Staffing capacity, IFMIS, and management were all significant and meaningful predictors at the 5percent F-critical exponentiation.However, internal audit indicated insignificant association. ANOVA is very important in determination of magnitude andlevel of influence.

Table 4.6: ANOVA

	Df	Sum Sq	Mean Sq	F Value	**Pr(>|t|)**
Staffing capacity	1	0.401	0.398	4.139	0.0498*
IFMIS	1	15.722	15.722	163.070	59.90-15***
Internal Audit	1	0.008	0.008	0.075	0.7890
Management	1	0.670	0.098	6.980	0.0128
Residual	43	3.358			

signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05

4.4.4 Multicollinearity

The importance of multicollinearity in the study's analysis and results cannot be overstated. There must be a connection between the predictor variables for multicollinearity to hold true. This study aimed to see if there was a connection between the variables. In order to improve the precision and dependability of the dependent variables, it was crucial to first identify the variable of concern and then eliminate it. Data were analyzed using Variance Inflation Factors (VIF). With a VIF greater than 5, collinearity is required. The numbers in this study were all less than 5, so collinearity was not a problem.

Table 4.7: Variance Inflation Factor

Staffing Capacity	IFMIS	Internal Audit	Management
1.105408	1.642125	1.030688	1.762048

4.4.5 Diagnostic Plots

The research sought to establish and examine suitability in explanation of the data. The research utilized Durbin Watson and established that error terms was normally distributed. The study indicated the normal distribution. The results opined that data was valid and relevant for the study. The researcher found out that the error terms was within the stipulated range. Durbin Watson is important in determination of possible abnormalities.

Durbin Watson auto-correlation Test

Table 4.8: Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.477[a]	.227	.158	.398116630360782	.667

a. Predictors: (Constant), Staffing Capacity, IFMIS, Internal Audit, Management
b. Dependent Variable: Quality Financial Reporting

4.5 Summary and Interpretation of Research Findings

The study's hypothesized primary goal, the factors that contribute to reliable financial reporting, provided the impetus for the investigation. This study employed a descriptive research strategy to provide a concise overview of the field. The strength, direction, and confidence of the connection were calculated using an improved regression approach. Financial Management Information Systems (IFMIS) and top-level management both saw a correlation between high-quality reporting and their own performance. Despite the high standard of financial reporting, there was a negative association between staffing levels and internal audits.

Researchers found an inverse correlation between training and improvement in County governments' financial reporting quality in Kenya. When controlling for other variables, the findings demonstrate that a one-unit increase in personnel capacity resulted in a 14.25% decline in the quality of financial reporting. However, Canadian Social Science (2013) argues that capacity building is an essential part of human resources for every company to reach its goals. It has been theorized by Wambui et al. (2017) that the efficiency of a company's financial management system is significantly impacted by the level of expertise of its employees. The study's authors stressed the importance of a well-trained, dedicated personnel in every firm, recommending that HR departments provide ongoing training to their employees.

The financial reporting quality by Kenya's county governments was found to improve after their implementation of IFIMS. The financial reporting quality improved by 0.7499, or 74.99%, for every additional unit of IFMIS. In line with the findings of the study, Salehi and Elahe (2012) analyzed the role of IT in quality of financial reporting with a focus on the Iranian context and found that the incorporation of IT has substantially altered financial reporting, especially in regards to the significance of bookkeeping data. The development of online financial detailing is largely attributable to the fact that IT can help customers make more informed financial and administrative decisions (this is especially true when it comes to the Internet, its tools, and conventions, or the sensitive product businesses that rely on them). It is important to recognize the impact that technological advancement has had on the financial reporting of many different types of businesses.

The results of the study showed an inverse correlation between corporate auditing and the credibility of financial reports submitted by Kenyan county administrations. For every 1 U of internal audit, the financial reporting quality drops by 0.0430, or 4.30 percent. On the other hand, Al-Shetwi et al. (2011) theorized that inner auditing is linked to improved financial reporting. According to the research presented by Nuraini (2015) in his paper titled "the role of company management on financial accounting quality (Evidence from Indonesia Stock Exchange)," researchers have established a correlation between the quality of in-house checks and the depth of financial reporting. To evaluate IAF, Prawitt, Smith, and Wood (2009) used a single, added-substance composite with equally weighted measures pertaining to awareness, confirmation, education, accounting format, duration spent on fiscal activities, and relative IAF size. It is important to highlight that the quality of financial reporting cannot be evaluated merely by the duration of time spent on budgetary activities, the structure of the IAF's reporting, or the size of the IAF in comparison to other organizations. Internal audit plays a crucial role.

It was found that the financial reporting reporting by Kenya's county administrations was positively correlated with the level of knowledge at the top. If you add one unit of experience to your company's upper management, you'll see a 31.3% improvement in the accuracy of your financial reports. According to a paper by Omoro, Aduda, and Okiro (2015) titled "Demographic diversity in top management team and financial reporting quality in commercial state corporations in Kenya," similar results were discovered when the educational makeup of the Top Management Team was altered. It is generally accepted that the nature of the financial reports filed by Kenya's commercial government agencies has been profoundly affected by the wide range of human characteristics. Results from the Top Management Team may be influenced by factors such as the educational backgrounds of its members, which could improve public sector efficiency and effectiveness. The results are consistent with the top-down theory of management, which is also supported by the literature. According to this hypothesis, a company's actions and strategic decisions can be predicted, at least in part, based on the professional experience of its administrators (Hambrick and Mason 1984, Thomas et al., 1991, Hambrick, 2007).

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section provides a thorough and extensive overview of the study's findings. It covers the conclusive results while creating a blueprint and the yardstick for the recommendation. This section looks at the foundation that kept the research standings, summarize the shortcoming and highlighting the fulcrum areas for the scholars. It anchored the theories and spearheaded the policy formulation and emerging issues. The study also does a special recommendation and areas of further research.

5. 2 Summary of the Study

This research set out to discover whether factors in Kenya's county governments were associated with reliable financial reporting. This research set out to answer several questions about how different factors affect the quality of financial reports from Kenya's county governments. These included the impact of staff capacity, the role of Integrated Financial Management Information System (IFMIS), the value of internal audit, and the weight of top management's knowledge and experience.

The methodological approach taken in this study can be described as descriptive. Thus, all 47 counties in Kenya became the study's primary population. In this case, the county administration served as the unit of analysis. The study included all 47 county governments in Kenya, where the demographic is relatively tiny, by using a census sample strategy. The county level point of contact was the Chief Financial Officer. That's why we polled 47 CFOs from different counties in Kenya. We focused on CFOs because they are more likely to provide accurate data on what factors influence the accuracy of county governments' financial reports in Kenya. To gather information, we used questionnaires. The questionnaires used a Likert scale from 1 to 5, with 1 indicating strong disagreement, 5 indicating agreement, and 3 suggesting neither agreement nor disagreement. The lowest possible score on the Likert scale is 1, and the greatest possible score is 5. The significant levels of all the autonomous variables were determined, and their relationships to the dependent variables were explored. Quantitative and qualitative data were collected by the researcher.

Descriptive and regression analysis were used to examine the numbers, while content analysis was applied to the qualitative information. For the purpose of regression, mean scores were calculated for each indicator of the independent variable.

The study revealed that knowledge on accounting and financial standards were crucial for quality financial reporting. In addition, the study established that IFMIS increase service delivery, enhance quality and provide cheap and up to date information. The fundamental role played by internal auditing included creation of transparency and presentation of true and fair financial statements. The research found out that majority of internal audit staff didn’t have audit experienceand training. Furthermore, the researcher found out that internal auditing in the county government did accomplish the intended plan of ensuring true and fair financial information was presented. The leadership has been the driving force towards reliable financial reporting. Excellent financial statements are an indication of a viable business. Management increases the efficiency and effectiveness of Quality financial reports. Management in the county government are mandated to ensure timely financial reporting, upholding the standards and increasing the verifiability of financial statements

5.3 Conclusion

The study found that the reliability of financial reports was affected by the number of available employees. It's a rocket fuel for getting smarter, more efficient, and more productive. In addition, the findings of the research indicate that understanding of accounting and financial standards is crucial for producing high-quality financial reports. The bulk of the internal audit teamlacked both auditing expertise and training, according to the findings of the research. In addition, the study's findings demonstrated that the county government's internal auditing program was successful in achieving the goal of the planned plan, which was to guarantee that accurate and impartial financial information was provided. The existence of quality financial records implies that the organization is still in business. Quality financial reports are produced with increased efficiency and effectiveness thanks to management's efforts. The management in the county government is required to comply with a requirement that requires them to provide timely financial reporting while also maintaining standards and strengthening the verifiability of financial statements.

The research found an inverse correlation between training and improvement in County governments' financial accounting quality in Kenya. When controlling for other variables, our results showed that a one-unit increase in personnel capacity resulted in a 14.25% decline in the quality of financial reporting. According to the results, the financial reporting quality by Kenya's county governments improves once they implement IFIMS. One more IFMIS unit resulted in a 0.7499-point improvement in financial reporting quality.

Internal audit was found to have a detrimental impact on the financial reporting quality for Kenyan county administrations. As internal auditing was ramped up by one unit, the financial reporting quality dropped by 0.0430, or 4.30%. It was discovered that the financial reporting quality by Kenya's county governments was positively correlated with the level of management experience at the top. The quality of financial reporting improved by 0.3130, or 31.3%, for every additional unit of top-level managerial expertise.

5.4 Recommendations

According to the research, severe disciplinary actions should be taken against county government employees who violate fiscal policy. This plan will lessen the number of instances of stolen money and increase the responsibility of those in charge of the budget. This research also suggests that, in order to reduce waste and corruption in public-funds management, county governors should take the initiative to strengthen the budgetary accounting rules in those places where they are lacking.

According to the findings of the study, the county government should make greater investments in information and communications technology and should continue adopting IFIMIS in financial management through the automation of its various financial management practices. These practices include revenue collection, budgeting, cash management, reporting, and procurement. It has been established that the use of IFIMIS has a positive effect on the quality of financial reporting. The study recommends that the county government should follow these recommendations. In addition, the study suggests that there is a requirement for internal audit to have sufficient personnel and resources in order for it to be able to perform routine county government's auditing. This will result in an increase in the quality of the financial reports produced by the county government.

The researcher recommends for the policy formulation that guides County Internal Audit department and increase their independency in order to increase the oversight and watchdog of the county resources. The researcher recommend for the standardized report from counties to Ministry of Finance and County Revenue Allocation should follow the specific guidelines and standards. The quality financial reporting in the county government should meet a minimum threshold to seek an increase in the subsequent financial year allocation.

The researcher suggests for the independent internal auditors in the county government that are employed by independent body such as office of the auditor general. The county government must be directed to produce quarterly report for analysis and scrutiny on the expenditure. The researcher recommends for proper staffing, selection and recruitment based on competence, knowledge and skills.

The report concludes by advising Kenya's county governments to staff their financial departments with people who have the right education and work experience. In addition, counties ought to invest in ongoing staff training in order to keep their employees' abilities sharp and themselves abreast of changes in their field. The competency of workers may be increased, and financial reporting might be enhanced, through the hiring of experienced individuals and the provision of ongoing training in financial management.

5.5 Limitations of the study

The research data was collected using the primary method by utilizing the questionnaires. The questionnaires method was costly. The researcher followed the unresponsive respondents via emails and calls and finally they cooperated when they were assured of confidentiality.

The primary data was affected by the attitude of the respondent and health of the potential staff. Some staff had been affected by covid-19 hence selected the email and phone questionnaires. This provided quick information but the researcher was affected by network, time and based the interview on the convenient time for the potential respondents.

The study also planned to analyze the factors that influence quality financial reporting at the county level to ensure more reliable outcomes. Furthermore, the connection between the factors may be tempered by the impact of other factors on the quality of financial reporting. Keeping this in mind, the research investigated the efficacy of the preexisting connection in preventing this.

Finally, the respondent data may have limited the ability to find relationships or altered the results in unexpected ways. A change like this could originate from different statistics data showcasing the primary variables' measurements. A more actual and inherent connection between the factors could be sought out, however, through the introduction of control variables. This allowed the researcher to devote more time and energy to a thorough examination of the data at hand, which ultimately aided in the realization of the study's aims.

5.6 Areas of Further Research

This study calls for greater research into how County Internal Audit affects the accuracy of financial reporting so that we can better understand the role this division plays in managing county funds.

The researcher further advocate for the study of credibility of financial reports presented by county government. The researcher further suggests the study of impacts of county executive on the quality financial reporting.

The researcher also advocates for the explorative analysis, survey study and comprehensive research using both primary and secondary data to come up with a conclusive finding while filling the existing conceptual, contextual and methodology gap.

There is room for more investigation into the issues that affect financial reporting and comparisons at the national level of government. To better comprehend the particular independent factors and their effect on financial management, and to arrive at objective evidence concerning the deciding elements of quality financial reporting, future studies in this area could make use of mixed research methods.\\\\\\\

REFERENCES

Accountant. (2008). ICPAK Celebrating 30 years of Accounting Excellence. *Journal of the Institute of Certified Public Accountants of Kenya*, 32-36.

Biddle, G. H. (2009). How does financial reporting quality relate to investment efficiency? *Journal of Accounting and Economics*, 48, 112–131.

Board, I. P. (2012). *International Public Sector Accounting Standards.* September 2012 Edition. Creswell, F. (1989). *Success in Statistics Prentice Hall.* New York: Prentice Hall.

D, B. W. (1989). *Educational research an introduction, 5th edition.* White Plains: NY Longman.

Dictionary, B. (2017). Qualified Opinion. Retrieved on 31st March 2017 from http://www.businessdictionary.com/definition/qualified-opinion.html.

Eduardo, U. C. (Year not mentioned). *The expenses of participative budgets in Porto Alegre. Brazil.*

IASB. (2008). *Exposure Draft on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information.* London.

Jensen M C and Meckling, W. (1976). Can the Corporation Survive? *Financial Analysts Journal,34, 31-37*, 34,31-37.

Kenya, R. (2010). *The constitution of Kenya.* Nairobi: Act Press. Kenya, R. o. (2012). The Public Finance Management Act, 2012.

Kenya, R. o. (2017). *County Government of Samburu Budget Review and Outlook Paper.* Kenya, R. o. (2017). *County Government of Samburu Integrated Development Plan, 2013-2017.*

Kirira, N. (2013). Public Finance under Kenya's new constitution working paper under Series No.5.Society for International Development (SID), Regional Office for East & Southern Africa, Britak Centre Nairobi.

Krippendorf, K. (1980). *Validity in Content Analysis.*

Lambert, R. C. (2007). Accounting information, disclosure, and the cost of capital. *journal of Accounting Research*, 45, 385-420.

M, N. (2004). Understanding the research process and methods. *An introduction: Starbright Services; Nairobi*.

M., A. (2013). The Effect of Adopting International Financial Reporting Standards on Quality of Accounting Reports of Small and Medium Enterprises in Nairobi County. *International Journal of Business and Management*, 2(4), 17–25.

McDermott, K. (2011). *Financial Reporting Quality &Investment in Corporate Social Responsibility, PhD Thesis.*

Mugenda, O. M. (n.d.). *Research Methods, Quantitative & Qualitative approaches.* Nairobi: Acts Press.

Mulgan, R. (2000). *"Accountability": an ever-expanding concept? Public Administration, 78 (3) 555-573.* Nasser, K. &. (2003). Quality of Financial Reporting. *Evidence from the listed Saudi nonfinancial Companies, The International Journal of Accounting*, 38, 41–69.

Office, R. o. (2016). *Report of the Auditor General on County governments financial statements.*

Oluoch, O. (2014). Demographic Diversity in Top Management Team. Corporate Voluntary Disclosure, Discretionary Accounting Choices and Financial Reporting Quality in Commercial State Corporations in Kenya. *International Journal of Business and Management*.

Orodho, A. (2012). *Techniques of writing research proposals and reports in education and social sciences.*
Kanezja Publisher.

Outa, E. (2011). The Impact of International Financial Reporting Standards Adoption on Accounting Quality of Listed Companies in Kenya. *International Journal of Accounting and Financial Reporting*
, 1(1).

P, G. M. (1993). Problems of recruiting and retaining qualified Government Accountants and Auditors in developing countries. *Research in third world accounting*, 2, 187-200.

PricewaterhouseCoopers. (2012). Public Sector Insight Governance and Leadership in the Public

Sector.

PricewaterhouseCoopers (2012).Public Retrieved on 31st March, 2017 from http://www.pwc.com/ke/en/pdf/public-sector-insight-november - 2012.pdf.

PricewaterhouseCoopers. (2013). *Towards a new era in government accounting and reporting.*

Sugut, O. (2014). The Effect of Computerized Accounting Systems on the Quality of Financial Reports of Non-Governmental Organizations in Nairobi County Kenya. *Journal of Accounting and Finance*, 2(2), 15–23.

APPENDIX I: QUESTIONNAIRE

PROJECT TITLE: DETERMINANTS OF THE QUALITY OF FINANCIAL REPORTING OF COUNTY GOVERNMENTS IN KENYA

PART 1: General Information

1. Name of Your County Government………………………….

2. Age Bracket in Years

20-30	
31-40	
40-50	
51 and above	

3. Gender

Male	
Female	

4. Work experience in County Government

Less than one year	
1-2 years	
2-3years	
3 and above	

PART 2

INSTRUCTION: please indicate your level of agreement or disagreement with each of the following statements by placing a checkmark in the appropriate checkbox.

Key: 1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

PART A: Staffing Capacity and the quality of financial reporting

1.	The staff capacity in the county is adequate					
2.	The staff handling financial reports have knowledge and awareness of the ICPAK requirements					
3.	There is adequate number of accounting staff					
4.	The top staff promotes PFM Regulations governing county government financial reports					
5.	The national government reinforces the IPSASB as a standard of financial reporting in counties					
6.	The county government has adequate procedures for recruitment, selection, and placement of accounting staff					
7.	The accounting staff working under policies and regulations					
8.	There is strict adherence to policies by the accounting staff					

10. Based on your own opinion what is the step forward in quality financial reporting…………………………………………………………………………
…………………………………………………………………………………
…………………………………………………………………………………
…………………………………………………………………………………

PART B: IFMIS and the quality of financial reporting

1.	The finance staff have knowledge and skills on IFMIS					
2.	The top county staff support usage of IFMIS					
3.	The National government has provided technical support to county government staff on IFMIS					
4.	The reports generated by IFMIS full reinforces regulation by IPSASB					
5.	The national government has trained all the accounting staff in the county government					
6.	IFMIS supports timely financial reports and full representation of facts					

7.	IFMIS has promoted quality financial reporting					

8. Based on your own opinion what could done to promote quality financial reporting with the aid of IFMIS

……………………………………………………………………….………

…………………………………………………………………………………

…………………………………………………………………………………

…………………………………………………………………………………

…………………………………………………………………………………

………………………………………………………………………………..

PART C: Internal Audit and the quality of financial reporting.

1.	Internal audit staff are adequate					
2.	Internal audit staff have experience and are professionally qualified					
3.	The internal audit is operational, efficient and effective					
4.	The target of internal audit is to promote quality financial reporting					
5.	The balance-check generated by internal audit department are fully implemented					
6.	The accounting and internal audit liaises to enhance financial reporting					
7.	The county government promotes the efficiency and effectiveness of internal audit					

8. In your opinion, what can be put in place to enhance internal audit department………………………………………………………………………

…………………………………………………………………………………

…………………………………………………………………………………

…………………………………………………………………………………

…………………………………………………………………………………

………………

PART D: Top Management and the quality of financial reporting

1.	Top management promotes timely financial reporting					
2.	Top management have relevant experience, academic and professional qualifications					
3.	Top management builds guideline that supports financial reporting					
4.	Top management have extensive knowledge of ICPAK, PFA and IPSASB					
5.	Top management reinforces the IPSASB as a standard of financial reporting					
6.	Top management provides periodic recommendation on Prudential Financial reporting					
7.	Top management promotes staffing of adequate financial reporting personnel					

8. Based on your own opinion what is the way to go on financial reporting and top management

…………………………………………………………………………

…………………………………………………………………………

…………………………………………………………………………

…………………………………………………………………………

…………………………………………………………………………

END OF QUESTIONNAIRE

Thank you very much for participating.