

**FINANCIAL REPORTING IN PUBLIC PRIMARY SCHOOLS IN KENYA AND
THE AUDIT EXPECTATION GAP: A SURVEY OF PUBLIC PRIMARY
SCHOOLS IN NAIROBI.**

PRESENTED BY;

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**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL
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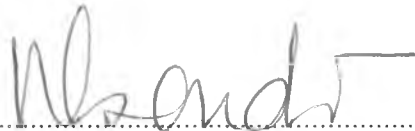

DECLARATION

This research project is my original work and has not been submitted for a degree in this or any other University.

Signed.......... Date..........

Omoro Nixon Oluoch

This research project has been submitted with my approval as the University Supervisor.

Signed.......... Date..........

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DEDICATION

First and foremost, this project is dedicated to my God whose provision, grace, and care I cherish. Secondly, this project is dedicated to Gandhi Asmirack Nidhi Fund through the University of Nairobi for awarding me a University scholarship which enabled me accomplish the entire MBA programme.

Finally, this project is dedicated to my dear wife Mrs. Diploma Oluoch, my daughter Faith Wonder Oluoch who have tirelessly endured my absence.

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LIST OF ABBREVIATIONS

AICPA	American Institute of Certified Public Accountant
OMB	Office Management and Budget
FRS	Financial Reporting Standards
FASB	Financial Accounting Standard Board
IRS	Internal Revenue Authority (America)
DAU	District Audit Unit
CPA	Certified Public Accountant
SEC	The Security Exchange Commission
NPO	Non Profit Organizations
NCC	Nairobi City Council
NGOs	Non Governmental Organizations
INTOSAI	International Organization of Supreme Audit Institutions
IASB	International Accounting Standards Board
MOEST	Ministry of Education Science and Technology
MOE	Ministry of Education
IFAC	International Federation of Accountants
SMC	School Management Committee
TSC	Teachers Service Commission
ICPAK	Institute of Certified Public Accountants

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ABSTRACT

This study set out to establish if financial reporting in public primary schools in Kenya is of quality and influence the audit expectation Gap.

Case study was carried out and a stratified random sample of 48 public primary schools in Nairobi Province was used to collect primary data. The data was analyzed using the SPSS soft ware using the percentages, mean and mode to draw the conclusions.

The project examined various aspects of quality financial reporting and causes of audit expectation gap. It was evidence that financial reporting has a lot of influence on audit expectation gap between the public and the auditors.

Secondary data was obtained from the relevant education departments with in the NCC which was further used to develop the quality of financial reporting in public primary schools since 2004.

The study determined that financial reporting carried out in public primary schools is still below average and this was attributed to poor policies and procedures involved in preparing the financial statements. Therefore it was strongly believed that financial reporting is the major contributing factor to audit expectation gap in public primary schools. The statements prepared failed the quality test index of reliability, relevance, consistency, comparability and neutrality, hence a lot of questions a rise as to what role the auditors play towards building trust in the stakeholders. Otherwise the study has noted the role the current government is play towards equipping primary head teachers with financial management skills. The quality of financial reporting is expected to improve in future.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

A School is a functional unit of the education systems of society and in economic terms it refers to an industry that transforms a given quality of input into a required output. According to Okumbe (1998), a School is regarded as a unique and complex industry in the sense that its raw materials that is the students are animate and are to be translated into appropriate products whose quality can not be judged from the external appearance but judged by the way its past students perform in society. This makes returns to be on a long term for the investors thus not like the corporate entities where returns are immediate.

According to the statistics of 2004- 2006 of the Ministry of education, there are approximately 18000 public and 2000 private primary schools that have been officially registered. A public school according to education Act cap 211 is a school which the Ministry of Education or Local Authority accepts general financial responsibility for maintenance. Fee paid are of subsidized rates and academic staff are supplied by the TSC Kenya.

According to Humphrey et al (1991), Audit expectation gap is the gap between the auditor's actual standard of performance and the various public expectations of auditor's performance (as opposed to their standard of performance). The audit expectation gap may be attributed to failure by the management through abdicating their responsibilities of keeping all the necessary books of accounts. Keeping of these accounting books will culminate into preparation of sound financial statements, which may enhance the credibility of the auditors. In the corporate world today the auditor's credibility is being called into question.

Sound financial management is important in schools and colleges, though due to wide scope and diversity non-profit organizations and their activities, proper financial

management may turn out to be more complex than in profit making organizations Nzomo (2002). The accounting systems for all non profit organizations must provide financial data to internal management for use in planning and controlling operations and external parties (donors and tax payers), for use in determining the effectiveness operations in order to reduce the audit expectation gap, Fess and Warren (1984).

Kamiri (2005), defined audit expectation gap as the difference between the level of expected performance as envisioned by the independent accountant and by the user of the financial statements. The audit expectation gap has been recognized by the audit profession as an issue of fundamental importance and schools are not excluded.

Kelly and Mohwreis (1989) examined the impact of statement on audit report on users' perception regarding messages conveyed by their report based on bankers and investors. Monroe and woodliff (1993) segregated the issues related to the audit expectation gap into three: auditors' responsibilities, reliabilities of audited financial statements and prospects of the audited entity. Their study was based on Accounting and marketing graduates students perception on the audit expectation gap.

Financial reporting focuses on microeconomic entities, such as sole proprietorships, partnerships, branches, divisions, corporations, ventures, not-for-profit organizations, state and local governmental units. The first choice in designing a financial report is selection of the reporting entity, or the focus of attention and what unit the report covers.

Stewart (1989), called the reporting entity 'the subject of financial reporting' and Vatter (1947) called the reporting entity 'the center or the area of attention'. You cannot report on the whole world and therefore reporting in our schools should be tailored to focus on given areas. Financial reporting is a process by which companies and other entities report their financial performance during the period and show their financial position at the end of a particular period, Mutinga (2006).

Financial reporting and auditing is essential in enhancing corporate governance, corporate governance is essentially about leadership for efficiency, transparency,

responsibility and accountability in all the resources under the management. Gekas (2002). Financial reporting and auditing entails disclosure to the stakeholders (investors) in education Sector on how the funds invested in schools have been expended. Financial reporting and auditing should be timely and of material information on corporate performance in a form that can be compared with other institutions, Mutinga (2006).

Many financial statement users in Kenya appear to misunderstand the nature of attest function, especially the context of unqualified opinion, Kamiri (2005). Some users believe that unqualified opinion means that the entity is financially sound. The majority of the public feel that auditors should not only provide an audit opinion but also interpret the financial statements in such a manner that the users could evaluate the financial position of the entity McEnroe et al., (2001).

Hank (1992) suggests that the audit report should be expanded to convey more specifically what an audit entails and implies. There are many public primary schools in Kenya with specific areas that audit work would address(finances, equipment, teaching and learning materials, time Management, Office Administration and School Project Management), the management would not report on the whole entity.

A number of studies have been carried out on audit expectation gap more so in relation to the corporate entities. My major interest is in the financial reporting in the public primary schools as the study carried out by Kamiri (2005) on corporate institutions indicated that an audit expectation gap was found concerning the responsibility of maintaining accounting records. He looked at the reliability of the statements, usefulness of financial statements in monitoring the performance and in decision making.

1.2 The problem statement

The government is making a significant contribution to the financing of educational management, administration, professional services and technical support services for education in Kenya. This can be traced with the cost- sharing policy recommended by the Phelps –stokes commission in 1922, the Kamuge Report in 1988 and the FPE of

2003. Many parents now make substantial contributions to the educational services in this country as well .

According to Mutahoed Company Consultant (1999) through their assessment of the audits in government Ministries and Parastatals, it was determined that there was an inadequate basic working tool at the MOEST for the audit work. This rendered the audit Unit at MOEST ineffective. Primary School Management Training is an important milestone in its effort to strengthen management capacity of Primary School headteachers in Kenya (PRISM 1996-2000). In Public Primary Schools the head teacher is the Principal Accounting Officer for all the School funds and property. This requires the head teacher to understand budgeting and keeping of financial records, though some of these responsibilities may be delegated but in final analysis the head teacher is accountable to the school committee and other stakeholders (Management Resources 2000).

As a result of introduction of free Primary Education in 2003 the School headteachers have been added extra responsibilities of financial managements and reporting. The major problem is whether the public primary school heads are equipped with the financial management and reporting skills since major part of success in a good school is how well resources are managed and maintained, and this calls for an effective accounting system which would support the headteacher in managing the school finances, Grainger (1994). Unfortunately most school heads are appointed before being trained in management and some serve their complete term before undergoing any induction or training Micheal (2006).

The Koech report (1999) also noted a back log in the audit of Education Institutions as a major factor contributing to mismanagement of funds. "It is unfortunate that a number of school heads do not submit books of accounts in time, to the district schools auditors for audit. This has led to backlog of unaudited reports dating as far back as 1995/96. This leads to a situation where the issues raised are in most cases overtaken by events such as transfers or retirements Prof. Mutahi, Permanent Secretary, MOEST (2003). Hence the public expectations of auditor's performance tends to go beyond the actual standard of performance by auditors, which finally leads to the term 'expectation gap'".

1.3 Purpose of the Study

In the recent past, there has been a growing involvement of NGOs and the private sector in the provision of education and training services. This has introduced new challenges relating to the management and coordination of the provision of education services, especially with regard to reporting and consultative mechanisms between providers and the MOEST. In order to continue getting support, there is a great need for this study to investigate the quality of financial reporting and audit expectation gap in the public primary schools Kenya.

1.4 Objective of the study

The objectives of the study sought to:

- i) Assess the quality of financial reporting carried out by headteachers in primary schools in Nairobi.
- ii) Establish the existence of the audit expectation gap in public primary schools in Nairobi province.
- iii) Relate the quality financial reporting and audit expectation gap.

1.5 Significance of the study

The findings of the study would be:

- i) Help researchers and Academicians in Kenya to explore more on financial reporting and narrowing of audit expectation gap in public schools and colleges.
- ii) Useful to the accounting profession in Kenya particularly those in public practices.
- iii) Useful in enhancing the regulations on financial reporting in non-profit organizations.
- iv) Useful to both the government and the school management in hiring of auditors, and training the school financial officers on proper accounting techniques.

CHAPTER TWO: LITERATURE REVIEW

2.1 General Accountability in Non Profit Making Organizations

Recent growth in calls for, and examination of, the accountability of non-governmental organizations Edwards (2000) has arisen from the corporate, state and civil sectors. Such calls raise a number of intriguing issues about; inter alia, the nature of accountability, and the rights of those who call for it as well as unresolved issues about the means for its discharge. More especially such calls direct our attention to largely unaccustomed articulations of the accountants' craft within a civil society context Lehman (1999, 2001, 2005) and the challenges this may raise for such matters as the elusive nature of the "accounting entity" and what constitutes appropriate financial reporting of performance. Accountability is the duty to provide an account of action of which one is held, Gray et al (1996) and it comprises of the following elements- leadership, integrity transparency and commitment Gekas (2002).

In a wider context this challenge to NGOs and other non-profit organizations raises the specter of the suppression of civil society in the name of neo-liberal agendas a suppression that employs the very language and concepts with which civil society has sought to control neo-liberal organization. For accountants, accountability is typically seen as a straightforward if contested notion. It is a view in which the world comprises an array of defined organizations (principally companies) typically intersecting via markets (and with the state typically under-theorized). This implicit assumption that accountability is a basically straightforward concept is challenged by the introduction of the notion of "civil society" especially so when the organizations of interest Non-profit making organizations especially NGOs are elusive accounting entities which actually seem to defy definition.

Central to the understanding of the issues is the call for greater accountability for organizations to which the accounting literature has not much paid attention, O'Dwyer et al. (2005). The opportunity to focus such attention provides an ideal prompt to return to and reexamine the essence of accountability and, thereby, to perhaps contribute a little more to it's understanding and the way in which the notion operates in both for-profit and

not-for-profit contexts. Thus place accountability at the heart of our enquiry and thereby develop prior work in the field Bebbington et al. (1999) Gray (1983); Gray et al (1996).

Non-profit Organizations are variously described as autonomous, non-profit-making, self-governing and campaigning organizations with a focus on the well being of others. They have been characterized as organizations “whose stated purpose is the promotion of environmental and/or social goals rather than the achievement or protection of economic power in the market place or political power through the electoral process” (Bendell, 2000). So, given a basic requirement for transparency, what would an accountable Non Profit Organizations look like? For many, it might look a great deal like it does now. But, generally speaking, it will depend on the form of the Non Profit Organizations, its particular circumstances – including most particularly, its closeness and its exposure to political pressure. For example, Anheier and Themudo (2002) usefully differentiate between membership-based and supporter-based organizations. Apparently the trend is away from membership (even inactive membership) towards supporter-based Non Profit Organizations (Fries (2003). Although this need not result in weaker accountability and financial reporting, it is just more likely to do so without the constant awareness within the organization of an outside presence requiring answers or accounts. Many of our public primary schools are getting support from various organizations.

However, the ultimate point is that an organization can be accountable and still have its legitimacy questioned by either mischief makers or powerful vested interests. If the intention or the effect is to emasculate, muzzle or remove the independence (and hence the feisty disrespectfulness) of Non Profit Organizations then it is a poor accountability and must be eschewed; Kamat, (2003); Fries, (2003); Fox and Brown, (1998); Bendell, (2000).

2.2 Agency theory

This theory is very critical for the stakeholder in education sector in that it asserts that managers as agents will not always act in the best interest of the stakeholders and may pursue their own interest at the expense of the stakeholders Letza (2002). The primary school headteachers act like managers of their institutions therefore they need to be watched so as to act in best interest of the principal (the public and development partners in education). This can be achieved through reporting to the stakeholder promptly and accurately. A school manager can be defined as a person or body of persons responsible for the management and conduct of a school Education Act Cap211.

2.3 Quality Financial Reporting

Financial Accounting Standard Board (FASB 2004) Concepts Statement 2, Qualitative Characteristics of Accounting Information, defined quality as a hierarchy of accounting qualities, with relevance and reliability considered the primary ones. In addition, the statement has a set of criteria, such as representational faithfulness, verifiability, neutrality, predictive value, feedback, comparability, consistency, and timeliness.

The 1994 AICPA Special Committee on Financial Reporting (the Jenkins Committee) did not refer to the “quality of financial reporting” but rather the “quality of reported earnings.” Its definition is not very instructive, and it appears that quality is related to both the ability to predict and the relevance of the information. In identifying quality, the Jenkins Committee used several concepts that emphasize users’ needs, such as understanding the nature of a company’s businesses and performance, changes affecting the company, management’s perspective, and others. We need to understand how our primary schools operate and the nature of services offered.

Firms that consistently make timely and informative disclosures are considered less likely to withhold relevant unfavorable information. Despite the lack of a standard definition, quality financial reporting must be the natural consequence of quality work performed by management, auditors, and accounting standards-setters. Importance of High-quality Accounting Standards serves to deliver relevant, useful information to investors or stakeholders. The Securities Exchanges Commissions (SEC) in USA requires

that companies comply with initial and continuing disclosure obligations; the goal is to prevent misleading or incomplete financial reports and facilitate informed investment decisions. Quality is represented by the usefulness of financial information in making these decisions (CPA journal 2005). In ISO 8402 quality audit is defined as being a systematic independent examination to determine whether quality activities and related results comply with planned arrangements, Diana and Ogello (2001).

For quality financial reporting the information given must be relevant, reliable, neutral, comparable and of material value. Reliability deals with timeliness, feedback and predictive values. Reliability encompasses verifiability, neutrality and representational faithfulness, (Accounting professional journal 2004). The question is, does the reporting in the public schools in Kenya have all these characteristics? And why is there an audit expectation gap as perceived by the stakeholders? According to Diana and Ogello (2001) Accounting data should be reported on time and if the information is not available when it is needed, or becomes available a long after the reported events occurred so that it has no value for action, it lacks relevant.

2.4 Financial Reporting

Financial reporting focuses on microeconomic entities, such as persons, families, sole proprietorships, partnerships, branches, divisions, corporations, groups of related corporations, joint ventures, not-for-profit organizations, and national, state and local governmental units. The first choice in designing a financial report is selection of the reporting entity, or the focus of attention. In selection of the focus of attention select what unit the report covers, Stewart (1989) called the reporting entity 'the subject of financial reporting' and Vatter, (1947) called the reporting entity 'the center or the area of attention'.) You cannot report on the whole world.

Financial reporting according to Larson (1990) is the process of preparing and issuing financial information about an organization. He compressed reporting into three areas: provision of information to the investors; provision of information about economic resources and claims to those resources and finally provision of information to other

users in assessing the amount of timing and uncertainty. Financial reporting should include disclosures.

The focus of attention for financial reporting gradually evolved away from the proprietor and towards the enterprise: 'a new concept of a business as an entity with an existence separate from that of the owners began to take root' Skinner (1987). However, the evolution has been incomplete, A report should have a single, unified, internally consistent focus of attention it should be about one unit. Either the proprietor or the enterprise (or conceivably something else) should be the sole focus. The incomplete evolution of the concept of the focus of attention caused it to be fragmented and internally inconsistent. That caused disagreements about the nature of the reporting entity for financial reporting and related issues. Those disagreements centre on the debate between the proprietary theory and the entity theory of the firm or organization.

It is financial reporters who pay attention to the theories generally feel they have to apply one of them and all it entails for any particular issue, that they cannot pick and choose aspects of more than one. To define the area of attention in terms of an enterprise merely restricts the scope of a set of books or a series of reports; the way in which materials are dealt with within them is quite another matter. For the proprietary theorist the proprietor is the person to whom and for whom reports are made, and the concepts of net worth and profit are personal ideas, in that the proprietor's interest is the axis around which the processes of accounting revolve. Vatter, (1947).

For governments to achieve the objective of accountability, financial information must be both relevant and reliable for reasonably informed users. Financial reports must satisfy numerous and diverse needs or objectives, including short-term financial position and liquidity, budgetary and legal compliance, and issues having a long-term focus such as capital budgeting and maintenance. Additionally, differences exist in the amount of detail that various users need.

Following a decade of research and analysis in the USA, the GASB recently concluded that to meet the varied needs of a wide range of users, governmental reports must provide information regarding the public entity as a whole in addition to the traditional fund

financial statements. Accordingly, in June 1999 GASB introduced a new financial reporting model in Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The new model integrates the traditional focus of governmental fund financial statements relating to fiscal accountability (and the modified accrual basis of accounting) with new forms of reporting (e.g., government wide financial statements). The two levels of financial reporting are intended to ; provide more relevant information that will result in greater accountability by state and local governments and enhance the understandability and usefulness of the annual financial reports to users of these reports to enable them to make more informed economic, social, and political decisions.

It is important for governments to provide effective financial information to constituencies in a consistent and clear format. Specifically, the information provided by governments should contribute to accountability in the following areas: financial position and results of operations; actual financial results compared with adopted budgets; compliance with finance related laws, rules and regulations; efficiency and effectiveness of operations; maintenance of governmental assets; consistency in financial reporting by governments is provided through accounting standards. GASB is the standard-setting authority of generally accepted accounting principles (GAAP) for state and local governments, including school districts. In cases for which no GASB pronouncement is applicable, other authoritative sources of guidance exist. The following chapter presents a hierarchy of GAAP in descending order of authoritative literature for governments. The hierarchy was established in Statement of Auditing Standards (SAS) 69, The Meaning of Presents Fairly in Conformity with Generally Accepted Accounting Principles in the Independent Auditor's Report, effective March 15, 1992, and issued by the American Institute of Certified Public Accountants (AICPA).

The unit of experience and outlook for accountable activities is a human being or small group of human beings who has or who have the power to deploy resources over which they have economic and, in certain cases, legal control the term 'commander' is here used to signify the person who has such command over resources. Goldberg (1965). Further, the perspective of the users of financial reports should be considered in defining success

or failure of the reporting entity which has been perceived as one of the contributing factors to audit expectation gap.

2.5 Audit expectation gap

The expectation gap can be defined as “the difference between what the public and financial statement users believe that auditors are responsible for and what the auditors themselves believe their responsibilities are” (AICPA; 1993). In the United States this expectation gap was identified in Cohen Commission’s report which showed that the public expectation of auditors responsibilities was more than what they were receiving (AICPA Cohen Commission Report 1978). Researchers in several countries have demonstrated that an auditing expectations gap does exist and that the expectation gap is not limited to USA. This can be seen from research work carried out in Singapore, Australia and Kenya has discussed below. The audit expectation gap refers to differences between the public’s perceptions of the role and responsibilities of the auditor and the auditor’s perception of these roles and responsibilities.

2.5.1 Causes of audit Expectation Gap

Humphrey et al. (1992, 1993) indicate that the gap relates directly to the uncertainty associated with the purpose, value, nature and effect of the audit. As a result, they indicate that the potential causes of the audit expectation gap are many and varied, including: unreasonable expectations of non-auditors; hindsight evaluation of audit performance; corporate crises that lead to new expectations and accountability requirements; and the profession attempting to control the direction and outcome of the expectation gap debate to maintain the status quo.

Although a consensus as to the cause of the audit expectation gap has not been achieved, its persistence has been acknowledged. Many studies have been done to examine the perception of messages communicated through audit reports. According to Fadzly and Ahmed (2004) early studies on audit expectation gap focused on explaining its foundation and origin. CPA Australia (The Australian Society of Certified Practicing Accountants) and the Institute of Chartered Accountants in Australia (1993, 1996) in

their Expectation Gap Reports made a number of recommendations to reduce the expectation gap in financial reporting and auditing. However, the Institute of Chartered Accountants in Australia (2003) acknowledged that attempts to reduce the gap by moving community expectations in line with the audit product have largely failed and consequently there is a need to expand the scope of audit and assurance services to meet market expectations. I concur with the statement but the expectations should be determined without biasness.

The audit expectation gap debate has consistently centered on a number of perennial issue including: the role and responsibilities of auditors, the quality of the audit function, the structure and regulation of the profession, the nature and meaning of audit report messages and the auditor's ability to communicate different levels of assurance to users.

Many members of the public expect that; auditors should accept prime responsibility for the financial statements, 'certify' financial statements, a 'clean' opinion guarantees the accuracy of financial statements, auditors perform a 100% check, auditors should give early warning about the possibility of business failure, and auditors are supposed to detect fraud. (James 2004).Such public expectations of auditors, which go beyond the actual standard of performance by auditors, have led to the term 'expectation gap'. According to the auditing profession, the reality is that; management, as preparers of the financial statements, is primarily responsible for their content, even though management may request the auditors to prepare them; an audit only provides reasonable assurance that financial statements are free of material misstatement. (The CPA Journal entitled The Past and Future of Reasonable Assurance); an audit is no guarantee of solvency or financial performance; auditors are only required to test selected transactions - it does not make economic sense, in to-days world, to check all transactions; and although auditors plan and conduct an audit engagement with an attitude of professional skepticism recognizing that circumstances such as fraud may exist that will cause the financial statements to be materially misstated, an audit does not guarantee that fraud will be detected Talha (2003).

2.5.2 Components of the expectation gap

The expectation gap may be decomposed initially into two components; the requirements gap and the feasibility gap. Requirements gap; this is the gap between auditors' actual standard of performance and the performance required of them by the current standards of society. The required standard of performance is the standard of performance set out in both professional standards and statutes, the latter being subject to interpretation through courts of law. The requirements gap may be further divided into; Performance gap (the requirements gap is the gap between the actual standard of performance and the standard of performance determined by reference to professional standards and statutes), Standards gap (this is the gap between the standard of performance as determined by reference to professional standards and statutes, on the one hand, and society's required standard of performance on the other) Liggio (1974).

Society's required standard of performance, as stated above, is the standard of performance set out in the statutes and professional standards augmented by the decisions handed down in the courts of law. Feasibility gap is the gap between society's required standard of performance and various public expectations (the expected standard of performance). The examples given in the opening paragraphs of this section, including expectations that auditors are responsible for the preparation of the financial statements that auditor 'certify' financial statements, and the failure to recognize the limitations of an audit fall into the feasibility gap Hank (1992).

It is in the interests of both the public at large and the auditing profession that the expectation gap be narrowed as much as is practicable this may be achieved by individually considering each component of the gap but that is not the purpose of this study.

The performance gap is caused by the failure to conform to statutory requirements and professional standards. This gap can be narrowed by closer monitoring of auditors' performance and by improving the professional education of practitioners. Performance monitoring includes peer review (the review of work policies, procedures and work performed in an auditing firm by a member of another auditing firm) and quality reviews

or the systematic evaluation and review of the practices and procedures performed within an auditing firm by a committee or task force established within the firm. Finally, improved or more extensive disciplinary procedures assist in promoting greater compliance with statutory and professional requirements Gay (2003).

Humphrey et al. (1992, 1993), standards gap exists where statutes and the professional standards fail to properly reflect the appropriate standard of performance deemed appropriate by the courts of law. Establishing professional standards and legislation that anticipates the feasible demands of society, as handed down in common law decisions, may only narrow this gap. As this would require a voluntary extension of auditors' duties and an extraordinary degree of foresight, this gap is unlikely ever to be completely eliminated. The feasibility gap is caused by society's increasing, and often unrealistic, demands for accountability.

2.5.3 Narrowing Audit expectation gap

One way in which the gap may be narrowed is by improving public education in order to demonstrate to the public that existing professional standards and legislative requirements are adequate. Alternatively, auditors may either accede to society's more reasonable demands or improve the manner in which they communicate their findings to financial statement users. The accounting profession has adopted this approach in the past on a number of occasions and in a number of countries when a revised professional standard was released requiring the content of the standard audit report to be expanded in order to better explain the objectives and limitations of an audit to readers of the report. It is on this type of audit expectation gap that the study is based on. Most of the primary users of public schools do not understand both the scope of financial reporting and auditing of these statements.

Best et al, (2001) revealed a wide expectation gap in Singapore, mainly in the areas of auditors' responsibility in fraud prevention and detection, maintenance of accounting records and auditors judgment in selection of audit procedures. A number of studies carried out have suggested on ways of reducing of the audit expectation gap. Nair and

Rotenberg (1997), Kelly and Mohrweis (1987) suggested on the structuring of audit methodology and limiting liability language in the engagement letter.

2.6 The Auditor and the Public Audit

The public, tax payers, public servants and legislators who authorizes public spending and scrutinize its outcomes with reference to supreme Audit Institute (SAI, 2004) report in Pakistan highlighted the following challenges in public auditing; the challenge of quality management in public auditing is to address the differing and sometimes competing interests, expectations and need of the clientele by providing adequate assurance regarding public spending and its out come. According to international Organization of Supreme Audit Institutions (INTOSAI, 2004) the full range of public auditing should include; financial, regularity and performance audits. Though designing a comprehensive audit products that meet both audit standards and clients expectations is an issue still open to debate, research and improvement.

2.7 Control structure of reporting

An integral part of proper accounting procedures rests in issues of controls and begins with internal accountability structures. The AICPA's Statement on Auditing Standards No. 78, Consideration of Internal Control in a Financial Statement Audit: An Amendment to Statement on Auditing Standards No. 55, (which incorporates the Committee of Sponsoring Organizations Report, Internal Control Framework) indicates that the elaborateness of the system of internal controls established within an organization is a matter of judgment on the part of management, with careful consideration for circumstances, such as the size of the organization and the number of personnel available, and the relationship between the costs and benefits of designing and implementing controls. In addition, the nature of internal control is such that even appropriate methods and systems will not guarantee that an entity's objectives will be achieved.

Internal control is a process affected by an entity's board of trustees, management, and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories; reliability of financial reporting; effectiveness and efficiency of operations; compliance with applicable laws and regulations.

2.8 Non profit making organizations

Non-profit making organizations are owned collectively and this gives rise to the need for organization accountability it is to be noted that the duty to render accountability is enshrined in the laws of the land, section 99 of the constitution of Kenya. Most of the financial reporting in these organizations is designed to measurably improve the quality

of financial reporting in these sectors. There is a wide spread evidence that non profit accounting is not at the quality it needs to be. This is attributed to a high rate of errors and omissions which limits its usefulness for decision making and public trust, as well as for advocacy on behalf of non profits. This has possibly led to the existence of audit expectation gaps in public primary schools in Kenya.

2.8.1 Importance of financial Reporting in NPO

Non profit making organizations such as, sport association, churches, social clubs, Educational institutions, hospitals and charity organizations are energized by acquisition and use of resources to provide goods and services. The accounting information reported is useful in decision making concerning the use of limited resources, effectively directing and controlling the human and material resources; maintaining and reporting on the custodianship resources; contributing to effectiveness in fulfilling the desires and demands of the society and finally demonstrating compliance with the rules and regulations governing the organization. . Nzomo (2002). The government in the public primary schools will of great importance in managing the limited resources direct this.

2.8.2 Objectives of non-profit making organizations

The NPO revolve around the acquisition of resources and expending them in a legal and appropriate manner. The major difference between profit and non profit making organizations financial reporting is in the source of funds and budgetary control. According to Nzomo (2002) the primary consideration in Non profit organizations is compliance. It is upon this that the study will be developed to assess the relationship between financial reporting in public primary schools and audit expectation gap. The

compliance can be assessed through accounting, reporting and auditing in these institutions. The study will assess whether the financial reporting in these public schools is used as a tool of compliance, control and demonstration that the fiduciary duty 'to account' has been properly and adequately carried out, Nzomo (2002).

2.8.3 Accounting concepts applicable for financial reporting in Non profit Organization.

There are a number of accounting concepts that are applicable when preparing financial statement in our schools in Kenya. These are guidelines laid down by the professional Accounting bodies (ICPAK/IASB). The concepts include: The entity concept relates to the separate fund entities not the organization as a whole, there is usually no unified accounting or reporting entity for the organization in its entity especially in government accounting where the public schools fall. According to Nzomo (2004) fund accounting is one independent fiscal and accounting entity with a self-balancing set of ledger accounts.

The period concept relates to the flow of funds during the budgetary period. It also relates to the budgetary comparisons rather than to income determination. Nzomo (2004) the sine qua non element of fund accounting is essentially the budget and budgetary accounting. This is a device of internal control and compliance with regulations. The Matching principle is both similar in profit and non profit organizations. The expandable Accounting used in schools and colleges emphasizes the inflows out flows and balances rather than the determination of revenue, expenses and net income.

The going concern will only have relevance in the non profit organizations that are commercial type of self supporting activities are involved in non profit making organizations. Regulations and control in a free enterprise system the profit motive and profit measurement constitute and automatic regulating devices in that profitable enterprises thrive while unprofitable once die. It is well known that these devices are non-existence in non-profit organizations. Therefore this calls for alternative devices to help regulate and control these organizations against inefficiency, un economical operations. In my paper public primary schools should be subjected to more stringent legal,

regulatory and other controls than the other non-private commercial profit organizations since they fall under government accounting.

2.9 Sources of funds for the public primary schools

Primary schools are under the Management of School management Committee (SMC) according to MOEST Financial Management Instruction for Educational Institutions (2002). Most of the public primary school gets financial resources from, the government disbursement, charity donations, development partners, fund raising (harambee), and other incomes from within the schools projects.

2.10 Financial management in public Schools

To successfully establish the new financial management and reporting units, it is important to assign qualified and competent professional staff, as well as support staff to our primary schools so that each unit has the capacity to successfully implement the investment and financial reporting procedures financial management Act (2004

To streamline financial reporting, supervision, and coordination in the public primary schools in Kenya, it is important that head teachers are authorized to report directly to their stakeholders without passing through a number of Education Officers. This arrangement will also reduce delays and thus enhance the rate of preparation and financial reporting in order to reduce audit expectation gap. However, the education officers need to be kept fully informed a report on management of FPE by Michael (2005).

2.11 Empirical Findings on Financial Management in Schools

Hagar (1972) studied the current practices in the administration and supervision of students activity finances in public secondary schools in Midwest mainly to focus on the sources of revenue used to finance students activity programme. He evaluated on the procedures used to receive and expend the funds. The procedures were only found applicable in small schools.

Kneal (1977) studied on the effect of individual schools being allocated money in lump sum based on the number of students enrolled at the school. The head teacher is given a great discretion to spend the money as he sees fit. This is quite relevant with FPE of 2003 in Kenya.

Adams (1979) studied on financial practices in vocational centers and noted the following: funds generated from sales of goods and services were frequently managed by the programme instructors and that there was lack of planned system of equipment acquisition.

Lincoln (1981) studied on practices in administration of students activity finances in public secondary schools. His findings were that majority of schools did not adhere to all financial practices in management of finances. Muganda (1986) studied on repercussions of financial mismanagement in secondary schools in Kenya. His findings associated mismanagement of finances with rampant strikes in schools.

Ngaba(1990) studied on working capital management practices in Kenyan Secondary schools; he looked at financial management of cash receivables inventory management and credit management. His findings were that there was weak management practices in place. Oblemire (2006) also studied on budgeting practices in public secondary schools in Kenya. His finding highlighted on factors influencing budget practices.

After going through the empirical studies on financial management and practices it was determined that there is an education gap in financial management in public primary schools. This gave the researcher enough justification to carry out studies on financial and audit practices in public primary schools.

2.12 School budgeting

Hansen et al (1998) indicated that setting of realistic standards and frequent feedback are key features of sound budgetary system. Based on the study that was carried out by Oblemire (2006) he had further suggested on more study to be carried out on other factors affecting school financial management. Budgeting is very crucial for the sound financial reporting especially for the non-profit making institutions.

In the public primary schools a school budget is approved by the school Committee and it shows the income and expenditure plans based on the school development plan (SDP) for a particular year, Knight (1994). The primary school budget guides and controls the school income and expenditure plan while fulfilling the educational objectives of the schools.

2.13 Functions of Education Management

According to (MOEST Financial management instructions for educational institutions 2002) management of resources in primary schools shall be the responsibility of the head of that institution who may delegate to teaching or support staff as appropriate. The school management committee (SMC) or other stakeholders groups may lend their support to the head of institution in respect of the resource management, which does not constitute a change to the primary responsibility. The management of primary schools shall be accountable to parents, students, and the government and development partners as appropriate for the use of the institutions resources.

Based on (the Financial Managements instructions for Educational institutions 2002) the institution management should maintain accounting records and financial statements which shows how the institutions resources have been obtained and used and also financial position of the institution at a specific date. The financial statements of Educational institutions shall be audited once every year in accordance with the provision of Education Act. Non-compliance with these directives constitutes breach of duty and those responsible shall be liable for disciplinary action under the provision of the Teachers Service Commission (TSC) Act and code of regulation of Teachers.

2.13.1 Educational accountability.

Educational accountability has become a key policy issue at both state and national levels and has resulted in a number of recent reforms. Several educational accountability (in USA) reforms have required school districts to collect and present school-level financial information. In addition, school level financial information is often related to non-financial information (e.g., student achievement) in published reports and is used for

comparison purposes. As a result, school districts must increasingly focus on ensuring that financial information reported by schools is accurate and consistent across the district.

School districts, like other governmental entities, must annually compile financial data and report on their financial position. Accounting and reporting standards for this information are set forth by a number of oversight agencies, including GASB, FASB, and

AICPA. A major change in reporting requirements for governments was recently established by GASB Statement 34. This accounting standard requires governmental agencies, including school districts, to increase their financial reporting to include government wide financial statements as well as the traditional fund reporting. Although this new reporting model does not change the basic internal control expectations for governments, GASB Statement 34 presents new financial reporting challenges for school districts.

2.13.2 Financial reporting and Auditing of Public School funds

School financial accounting has evolved over a period of many years. Each accounting record should serve some useful purpose. The financial Accounting system should provide a complete history of all the transaction and information necessary to carry on the business management operations of the school, Knight (1994).

2.13.3 Financial books of Accounts

The following are the books of accounts are to be maintained by the schools; Receipt books, Cashbooks, payment vouchers, journals, school levies registers, financial ledgers and bank monthly statements, Okumbe (1998). These books will help in developing controls which will ensure quality financial reporting, (Louise, 2006)

2.13.4 Auditing in Public Primary School

Internal and External audit is a systematic process of evaluating transactions to determine an organization's compliance with prescribed policies and procedures. In primary schools the objective of auditing may be to minimize the likelihood of fraud, misappropriation, waste or inefficiency. The audit report should indicate whether the organization is moving towards the desired goals. The audit process should be conducted on an annual basis (MOEST) Financial Instructions for education Institutions (2002).

Auditing school accounts is the final stage in the process of managing school funds. The main objective of auditing is to evaluate the accuracy of the financial statements prepared by the school for a given period. Auditing will help the head teacher improve the school accounting system and finally detect or prevent errors. Auditing finally is said to enhance headteachers' skills in financial management and evaluates his/her performance, Okumbe (1998).

Internal auditing is a management activity and is a service intended to ensure regular and frequent checking of a school's financial transactions and records. This should be carried

out by the head teacher. The general aim of internal audit is to promote efficiency in the school financial control and management, (School Management Resources 2000).

External audit gives an independent Report on the financial performance of the school. The auditor officially examines and verifies the books of accounts and writes a financial report, which gives a true and fair view of the financial status of the school. Auditor's report reflects whether the financial transactions were made and recorded according to accepted principles and practices.

The Education Act 1980, Cap.211 Part V 18 (2) and (3) empowers School Inspectors to enter any school at any time, with or without a notice and inspect or audit the accounts of the school and it is also a requirement by the MOEST that school books of accounts be audited annually by District Education Audit Unit.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

This research study took a descriptive survey approach. The purpose of the study was to assess the quality of financial reporting carried out in public primary schools and possibly determine the existence of audit expectation gap in public primary schools in Kenya. The survey approach was chosen given that no documented studies had been conducted in relation to financial reporting in public schools as related to profit making organizations. .

3.2 Scope of the study

The sampling scope was confined to financial reporting carried out in non profit making organizations, specifically in public primary schools in Kenya. These included the practices carried out by both the head teacher (financial officer) and the School Management Committee (SMC).However; the conceptual scope was confined to financial reporting and the perceived audit expectation gap in the public primary schools in Nairobi area. The assumption through out my project was that, there is feasibility audit expectation gap in public school as a result of poor reporting and audit practices.

The study included the following as the dependent variable, Auditors' standard of performance, which was assessed on (accepting prime responsibility for financial statements; certifying financial statements; performing 100% check on financial records and statements; detecting of fraud and giving a clear early warning a bout the entity's failure). The independent variables of the study included; number of accounting records kept in the schools; accounting procedures used, personnel used in the preparation of accounting statements; number of audits performed in schools and budgetary schedules prepared in the school.

3.3 Population

The targeted population consisted of all public Primary Schools in Nairobi Area (Province), the SMCs and audit Unit at the NCC Education department. Nairobi Area

was chosen due to financial constraints and time limit for the study. Financial reporting practices cuts across all public primary schools in Kenya, but it was not possible to carry out a National survey or census with the limited resources available. There were one hundred and ninety-three (193) public primary schools in Nairobi province. The public primary schools in Nairobi Area were classified into various educational zones and divisions. There are 11 zones and 8 divisions Nairobi City Education Council, 2006 records). Therefore Nairobi being the smallest province with all the population diversity and representative to the whole nation was quite relevant for the study.

3.4 Sample Plan

A sample size of 48 public primary schools was included in the study, at least six (6) primary Schools each from the eight Educational divisions in Nairobi area. This was obtained through the use of simple random stratified sampling to allow each possible sample of schools to have an equal probability of being picked. The sample chosen was considered to be ideal and large enough for generalization as economic aspect such as time and money were also taken into consideration. Gay (1992) recommends at least 20% of the total population to be studied.

3.5 Data Collection

The study used both primary and secondary data. The primary data was collected using a semi structured questionnaire consisting of both closed and open ended questions. There were two types of questionnaires and an interview giude for the respondents which included; primary head teachers, Audit unit at Provincials and NCC Education Unit and SMC. The questionnaire was divided into two sections I and II. Part One solicited general information on the schools and the respondent, part two focused on financial reporting and respondents' general attitudes on the role of auditors' work in public primary schools in Nairobi. The questionnaire for the SMC used to determine the factors contributing to audit expectation gap. Questionnaire for headteachers was used to assess the quality financial reporting carried out in public primary schools in Nairobi province. At one point a five-point likert scale was used to determine auditors' practices and quality of the

financial records and statements kept by the school heads. This helped rate or rank the practices carried, Muganda et al, (1999).

The secondary data was collected at the City Education Audit unit which was used to further assess the quality of the financial statements prepared by the public primary schools. In order to get reliable, relevant, comparable and neutral financial statements, the secondary data included three successive financial years running from 2003/2004 up to 2005/2006. Where secondary data was not available an interview was carried out to get detailed information. The data comprised all the relevant financial statements prepared by the public primary schools in Nairobi Province.

3.6 Data Analysis

The study used statistical tools of analysis (percentages, frequencies, and mean scores) . This was interpreted to show the relationship between financial reporting and audit expectation gap. According to Coopers et al, (1995) the descriptive statistics when used to describe the parameters of the population better. The views and feeling of the respondents that were portrayed in greater details were also included in the analysis. Descriptive statistics was used to analyze the qualities and aspects of financial reporting in the public primary schools. This entirely included questions on section One and Two of both the Head teachers and SMC. The factors contributing to the perceived audit gap the information was both got from primary and secondary data containing model and actual financial statements of public primary schools. The primary data on SMC section two was analyzed using percentages, mean and mode. Mode was meant to determine number of times respondents selected one role of the auditors .Percentages were used to evaluate the proportion of the respondents selecting one item on a likert scale where as mean was used to rank the perceived roles/responsibilities of the auditors.

CHAPTER FOUR: RESEARCH FINDINGS

4.1 INTRODUCTION

This chapter contains research findings from fully completed questionnaires. The data is summarized and presented in form of tables to facilitate analysis.

4.2 DATA PRESENTATION

The study sought to find out the quality of financial reporting and audit expectation gap in the public primary schools in Nairobi province. A response rate of 64.58% was achieved as shown on the table above. A total of 48 schools were supplied with questionnaires but only 31 schools returned the questionnaires.

Table 4.1: Description of Respondents

Categories	Number(N)	Sample(n)	Respondents
Primary School heads	193	48	31
SMC	193	48	31
Total	386	96	62

Source: Survey data

4.2.1 Existing History of the Schools

. Many of the schools visited were founded long time and the response showed that most of the schools have been in existence above 16 years. This was at 62.4%.

Table 4.2: Schools years of Existence

Below 4 years	4-8 years	8-12 years	12-16 years	Above 16 years
Percentage	10.7	10.7	10.2	62.4

Source: Survey data

4.2.2 How long the Head teachers have been in their Schools

The respondents were required to indicate for how long they had been in their station of work. The question sought to determine their experience in the school. The finding revealed that most of the head teachers had taken less than five years in their respective schools. The findings could be interpreted to mean that there is change of management

from time to time which could have a lot of implications on financial managements and audit carried out.

Table 4.3: Duration of head teachers in their Stations

Less than 5 years	5- 10 years	10-15 years	More than 15 years
98.0	2.0	nil	nil

Source: Survey data

The SMCs were also required to indicate their age bracket to help in analyzing their level of experience in terms of making independent decisions. The findings of the study revealed that SMCs in the public primary schools ranged between 36-55 years of age

4.2.3 Main Sources of Finances

Respondents were asked to indicate the main source of finances to their schools. The Findings indicated that majority of the schools get funds from the government.

Table 4.4: Sources of Finance

Sources of Funds	Percentage
Government funds	61.3
Parents funds	3.2
Funds drive	3.2
Government &parents	19.4
Other funds	3.2

Source: Survey data

4.2.4 Accountability of the school Finances

Respondents were asked to indicate their feelings on accountability and to whom they were accountable to. The response was 100% and they indicated that they are accountable to parents, school committees, MOE and other stakeholders such as donors and NGOS

4.2.5 Management of School Finances

The respondents were asked to identify who was responsible for the management of finances. The response indicated that the SMC is responsible for the management of finances in public primary schools. This could be interpreted to mean that head teacher must expend the finances with the authority of SMCs.

Table 4.5: Management of school Finances

Responsibility	Percentage
SMC	87.1
Head teachers	12.9

Source: Survey data

All the schools were found to be operating bank accounts for the safe custody of finances and both the head teacher and one of the SMC'S is a signatory of the three accounts maintained by the schools (SIMBA, GPA and others). This was interpreted to mean accountability and transparency in handling the public finances.

4.2.6 School Financial Records

In this question the respondents were asked to state whether they had been keeping records and preparing financial statements as from 2004 to date. The response was overwhelming at 100%. It was also noted that financial statements in most of the public primary schools were prepared by the head teachers themselves except in few schools that either sought the assistance of hired qualified account clerks and auditors. The following financial records were also maintained by the schools: cashbooks, school official receipts; bank statements, vouchers, trial balances and end year financial statements. It was determined that most financial statements for the public primary schools were prepared on time but lacked the quality as per the requirement of Financial Accounting Standard Board (FASB 2004) Concepts Statement 2.

4.2.7 Accounting Policies and Procedures

The question sought to determine whether the head teachers as the chief financial officers were aware of the required accounting policies accepted to be used by non profit making organizations. The findings revealed that majority are not conversant with the policies. On accounting knowledge quite a good number lacked the skills. This was interpreted to mean that many heads find it hard to comply with the accounting requirements. It is vital to take into consideration the accounting policies and procedures towards preparing quality financial statements which are highly acceptable to the stakeholders.

Table 4.6: Awareness of Required Accounting Policies

Response item	Frequency	Percentage
Yes	13	41.9
No	18	58.1
Total	31	100

Source: Survey data

Tale4.7: Level of compliance with accounting policies

Response item	Frequency	Percentage
Yes	12	38.7
No	14	45.2
Total	26	83.9

Source: Survey data

The remaining percentage of the respondents were not aware of the policies and this may not have been healthy for good accounting practices. Inadequate accounting knowledge may result into inaccurate reporting and further in concealing waste and inefficiency in resource managements.

4.2.8 Level of accounting knowledge Among the Head teachers

The level of accounting knowledge of the head teachers was found wanting and this was believed to have a lot of influence on the quality of financial statements. The respondents were expected to say Yes/No indicating their level or competency in accounting skills. The finding showed that 61.3% of the public primary schools accounting officers were not knowledgeable in handling and preparing quality financial statements. Good accounting and financial reporting aids school community in allocating its resources in the most efficient manner.

Table 4.8: Indicating level of accounting knowledge among Head teachers.

Response item	Frequency	Percentage
Yes	12	38.7
No	19	61.3

Source: Survey data

4.2.9 Preparation of School budget

This is a guiding tool for the non profit making organizations toward sound financial reporting to the interested parties. The respondents were asked to state whether they involved the SMC in their budget preparations. The response was 100% showing that all the school budgeting is inclusive and is approved by the SMCs.

4.2.10 School Financial Expenditure

The respondents being the principal Accounting officers were asked to give the general feelings of parents/public towards the school financial expenditures. They were expected to rank the feelings ranging from excellent to less satisfactory. The findings indicated that majority of the parents rated the financial performance in their schools as Good (38.8) and 22,6% as satisfactory. This could be interpreted to means that there were some financial expenditures that were raising doubts.

4.3 Financial Reporting Quality Index for 2004 to 2006

The secondary data reviewed and analyzed revealed that many of the end year financial statement were not of good quality. Statistical mode was used to rate the quality of the statements. It was not easy to locate balance sheets for many schools this was due to the requirements by the MOE that they only prepare monthly trial balances and end year income and expenditure statements. The qualities of good statement were evaluated as per the requirement of Financial Accounting Standard Board (FASB 2004) Concepts Statement 2. The information was obtained through interviewing the City and Nairobi provincial school auditors and reviewing Secondary data. The findings were determined through the use of mode to determine how many times one quality was ticked.

Table 4.9: Quality of financial Statements

Qualities	Below average	Average	Good	Very Good	Excellent
Free from Misrepresentation	Yes	-	-	-	-
Adequate disclosures of information.	-	Yes	-	-	-
Timeliness in preparation			Yes		
Consistency of the Statements	Yes				
Relevance of statement to users		Yes			
Support of the SMC		Yes			
Prepared from enough supportive documents	Yes				
Statement portraying predictive values	Yes				
Comparability with other Statements		Yes			
Personnel preparing the Statements	Yes				
Mode of response	5	4	1	0	0

Source: Survey data/ secondary

Assessment of quality Financial Statements

The auditors were expected to give a brief view on statements they usually audit at the end of every financial year. The responses ranged from below average -1 to Excellent-5. They were just expected to respond to questions asked by saying Yes/No. The survey was to be used where secondary data were missing.

Table 4.10: Quality Assessment

Financial practices	1	2	3	4	5
Internal control systems		Yes			
Proper maintenance of accounting records		Yes			
Management producing quality financial record	Yes				
Reliability of statements		Yes			
Management communicating effectively with the auditors	Yes				
Objective and unbiased audit				Yes	
Qualification of the personnel preparing the financial statements.	Yes				
School budgeting procedures		Yes			
Mode of Response	3	4	0	1	0

4.4 Audit expectation Gap

This part was meant to establish the existence of audit expectation gap among the school management committees and the parents. The type of gap that was sought to be established was feasibility audit expectation gap. It was determined through the findings that audit gap exist in public primary schools. In the literature review the following were identified as the causes of the audit gap; level of education of the public, number of audits done, audit reports, level of communication and nature, purpose and effect of financial statements.

4.4.1 Level of Education of the SMCs

In this question the respondents were asked to indicate their level of education to help determine the audit gap since it is believed to be reducing with the level of education. The response indicated that most of the SMCs were holders of tertiary education. This was interpreted to mean that they fall in the bracket of the informed lot.

Table4.11: SMC education level

Education level	Frequency	Percentage
O- Level holders	6	19.4
Tertiary College	25	80.6

Source: Survey data

4.4.2 Number of audit in the school

The respondent targeted were the School management Committee that represents the interest of the stakeholders. They were asked to indicate on the number of times they receive the auditors ranging from none to annually. The finding indicated that there are annual audits in every public primary schools but further survey indicated that only financial statements were submitted for audit every end of financial year at a centralized place for all the schools. This was an indication of expectation gap since statement alone do not convey the status of the schools.

Table 4.12: Indicating number of audits in public schools

Annually	Once in two years	After every 5 years	Not at all	When called to come
99.8%	-	-	-	3.2%

Source: Survey data

4.4.3 Audit reports

The respondents were requested to indicate whether they always got the audit report from the public schools auditors and the benefits they get from these reports in terms of financial managements in their schools. The response indicated that most audit reports were received but not always. The respondents attributed the delay to MOE logistic problems and protocols. The interpretation would be that prompt reports will narrow the existing audit gap.

The respondents further highlighted benefits of auditing as; improvement of school financial managements, strengthening corporate governance and keeping stake holders aware on how funds are used.

4.4.4 School Annual General Meeting (AGM)

The respondents were asked to state whether they hold school annual general meetings to brief the stakeholders on the financial performance and audit reports. The response was 100%. They attributed AGM to facilitate transparency, accountability and efficiency in handling finances.

4.4.5 Public expectation of the role of the auditors

The respondents were asked to give their views on whether they agree or not agree with the expected roles of the auditors. They were expected to use a five likert scale. The question was expected to determine the audit expectation gap. Auditing school accounts is the final stage in the process of managing school funds. The main objective of auditing is to evaluate the accuracy of the financial statements prepared by the school for a given period. Auditing will help the head teacher improve the school accounting system and finally detect or prevent errors. Auditing finally is said to enhance head teachers' skills in

financial management and evaluates his/her performance. The auditors responsibilities as reviewed really determine the extent of the audit gap.

Table4.13: Perceived roles of Auditors

Auditors Responsibilities	Mean	Mode	Ranking
Accepting responsibility for financial statements	3.9032	5	8
Certifying financial statements accurate	4.4839	5	2
performing a 100% check of all school records	4.0323	5	5
Giving clear warning on school financial failure	4.000	4	6
Detection of fraud in schools	4.6129	5	1
Detecting errors in books	4.1935	5	3
Sound internal control systems	4.0325	4	4
Determine the compliance of schools with the prescribed policies and accounting procedures	3.9355	4	7

Source: Survey data

The ranking was done to the perceived roles of the auditors to help in determining the gap. The responses indicated that the auditors are expected to detect fraud in the schools and certify financial statements accurate and performing 100% check of Books of accounts. This is opposed to the role of auditors as indicated in the literature review. The interpretation was that there existed a gap between the auditors and the public on their performance hence resulting to audit expectation gap.

Many respondents had the following complaints about the auditors; compromised by the head teachers, keen on matters concerning MOE not parents, not committed in comprehensive audit work.

4.4.6 Auditors Communication with Stakeholders

The respondents were asked to indicate whether there was effective communication between the auditors and management, SMCs and other education stake holders. The findings indicated that the level of communication with the SMCs was low as compared to other stake holder.

Table 4.14: Stakeholders Response Rate

Effective communication rate	Percentage	
	Yes	No
Other Stake holders	80.6	19.4
Management/ Head teachers	64.5	35.5
SMC	38.7	61.3

Source: Survey data

Quite a number of the respondents indicated that auditors do not communicate effectively with the, SMC given that the auditors should act as their watch dog. This is an indication of the audit expectation gap. Lack of effective communication between the auditors increase the expectation gap among the stake holders.

4.4.7 General information on improvement on financial reporting in public schools

The respondents were asked to give a general comment on how to improve on the quality of accounting records, financial reporting and narrowing the expectation gap. The respondents gave the following recommendations: prompt auditing, offer seminars and refresher courses to the school heads, educating the public on the role of the auditors Making the SMC to function effectively, prompt feed back audit reports, use of qualified personnel in public primary schools in preparation of financial statements and tabling the financial reports and audit report to the school stakeholders annually. Conducting audit in every school rather than centralized audit to help in verification of the existence of physical assets.

CHAPTER FIVE: SUMMARY AND RECOMMENDATIONS

5.1 SUMMARY AND CONCLUSIONS

The study was set out to investigate the quality of financial reporting in primary schools along with the existence of audit expectation gap. This was meant to determine the quality of financial statements prepared by the School chief Financial officers and their relation to the perceived audit gap among the school public. The data collected was edited before analysis.

The findings of the study indicated that most public primary schools in Nairobi province prepare financial statements and keep accounting records. The statements were found to be below quality as was expected. This was attributed to lack of qualified personnel, incomplete records, accounting policies and procedures in use, there was no clear financial reporting standard that was used by the head teachers.

The study determined existence of audit expectation gap between the public and the auditors. The gap was believed to be caused by; ineffective communication between the auditors, poor quality of financial statements, Conflicting roles of the auditors and corporate crisis as perceived by the public auditors', responsibilities, reliabilities of audited financial statements and prospects of the audited entity.

The study also determined that the quality of financial statements would influence the level of audit expectation gap. The level of society expectation is increasing and at times unrealistic since the demand for accountability has gone beyond the roles of the auditors. Most of the SMCs did not understand the scope of the financial reporting and auditing in their schools. The public often evaluate the competence of auditors on; areas of fraud prevention and detection, maintenance of accounting records and selections of audit procedures. Therefore a need for the MOE to strengthen reporting quality in the public schools since inadequate reporting will conceal inefficiency and thereby prevent economic resources being allocated rationally. It was generally found out through the survey that financial reporting is directly related to audit expectation gap.

5.2 Recommendations

The financial reporting should be improved through employing qualified clerks to public institutions. The personnel should be posted in every education zone to minimize the cost of every public school employing

The MOE should strengthen the policies and regulations that will enhance quality reporting in the public institutions. This would be achieved through carrying out reforms that would see every public institution publishing its reports to be used for comparison purposes. This will help ensure that public primary schools reporting are focused on accuracy, consistency, reliability and neutrality across the Republic. This method has worked successfully in the USA District schools.

The MOE through the Audit Unit should widen the scope of audit in public Primary schools to go beyond financial expenditures but be comprehensive on all the institutions assets and liabilities.

In narrowing the audit expectation gap the audit reports should be submitted back to the schools and SMCs, auditors to improve their level of communication with the stakeholders and finally educate the public on the scope of audit in public schools and their role in audit work.

5.3 Limitations of the Study

It was not easy to obtain a reliable secondary data on previous financial statements of the public primary schools. This was due to logistic problems and confidentiality therefore most information got was based on in- depth interviews with the departments concerned. This could have contributed to some level of biasness.

It was not easy to find the appropriate SMC members to respond to the questions relating to audit expectation gap. The researcher was forced to go through the school head teachers to identify the SMC to fill in the questionnaire which might have compromised the level of the responses.

Determining of quality financial reporting was not easy with in the two weeks that the study was carried out. It needed more time to carry research both at school level and District level, given that there was no proper Accounting standards applicable in the preparation of end year statements. In fact it was found out that the income and expenditure statements are prepare to ensure the balancing of figures have been taken care of.

5.4 Suggestions for Further Study

This is the first known study in public primary schools that has attempted to evaluate quality financial reporting and audit expectation gap. As with all such studies the findings of the study need collaboration in replication studies. It would be important to conduct a similar study covering all the public primary schools in Kenya.

Moreover the study only considered financial reporting a long side audit expectation gap. Other studies should be considered in areas of school budgeting, auditing, management and record keeping.

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APPENDIX I: LETTER OF INTRODUCTION

OMORO NIXON OLUUCH
PO BOX31907
NAIROBI
TEL: 0725527226
Email: oluochn@yahoo.ca

TO WHOM IT MAY CONCERN

I am a postgraduate student in the School of Business, University of Nairobi pursuing a Masters of Business Administration Degree Programme am undertaking Research on financial Reporting in public primary Schools in relationship to audit expectation gap in Kenya. The Research is aimed at establishing circumstances leading to audit expectation gap as a result of financial management and reporting.

You have been selected as one of the respondent. I therefore kindly request you to fill in the attached questionnaire; the information from the questionnaire is needed purely for academic research purposes and will therefore be treated with utmost confidentiality. In no way will your name or School appear in the final report. A copy of final report can be made available to you upon request.

If you require any further information please do not hesitate to contact me on the above mentioned contacts, or further still, University of Nairobi School of Business Po BOX 30197 Nairobi.

Thank you in advance for cooperation.

Yours Faithfully,

Nixon O Omoro
MBA STUDENT

APPENDIX II: QUESTIONNAIRE A (ADMINISTRATION')

SECTION ONE (GENERAL INFORMATION)

1. Name of the Institution (Optional).....
2. For how long as the school been in existence?
 - a) Below 4 years []
 - b) 4-8 years []
 - c) 8-12years []
 - d) 12-16years []
 - e) Above 16 year []
3. What is your position in this school?.....
4. State your gender Male []
Female []
- 5a). For how long have you been in this school?
 - a) Less than 5years []
 - b) 5- 10 years []
 - c) 10-15 years []
 - d) More than 15 years []
- 5b). Have you taken any training in financial management? Yes [] No []

SECTION TWO

6. Indicate the main source of finances of your school (Tick as appropriate)
 - a) Government disbursement []
 - b) Charity organizations []
 - c) Fund raising []
 - d) Parents contributions []
 - e) Other income []

7. Are you always accountable for all the funds expended by your school?

- a) Yes []
- b) b) No []

8. Who are you answerable to?

- a) Parents []
- b) School Committee []
- c) Quality Assurance officers []
- d) Other school stakeholders []
- e) All the above []

9. Who is responsible for the management of school finances?

- a) SMC []
- b) H/Teacher []

10. Does the school operate bank account? Yes []
No []

11. Do you keep financial records of all the transaction carried out in the school?

Yes [] No []

12. If yes which ones.....

13. How often do you use the records?

- Always []
- occasionally []
- When needed []

14. Does the school prepare financial statements (Income and Expenditure, Balance sheet) every year? Yes []

No []

If yes, which ones.....

15. Who prepares the financial statements?

- a) Head teacher []
- b) Hired qualified accountants []
- c) Auditors []

16. If answer to Question 14 is No, give reasons why the school does not prepare the statements?

17. Are you aware of the required Accounting policies and procedures accepted by Institute of Certified Public Accountant of Kenya (ICPAK) in the preparation of financial statements?

- Yes []
- No []

18. If your answer to Question 17 is yes, do you comply with the accounting policies and procedures laid down by ICPAK when preparing your annual financial statements?

- Yes []
- No []

19. Do you have accounting knowledge that would enable you work on the financial statements? Yes []

No []

20. Do you involve SMC in preparation of school Budget?

- Yes []
- No []

21. What is the general feeling of the parents /SMC toward the school financial expenditure?

- Excellent []
- Very good []
- Good []
- Satisfactory []
- Less Satisfactory []

QUESTIONNAIRE B (SMC)

SECTION TWO

1. How often does your school receive Auditors?

- a) Annually []
- b) Once in two years []
- c) After every five year []
- d) Non at all []
- e) When called to come []

2. Do you always receive the audit reports after the audit work?

- Yes []
- No []

3. What are some of the benefits you and your school get from the audit report?

4. Do you hold annual meetings to brief the school parents about the financial performance and audit report?

5. (i) If Yes, why?.....

(i) If No, why?.....

6a). Many school parents and committees always accuse the headteachers of compromising the auditors sent in your schools. In your view do you think this is true?

Yes []

No []

b) What are some of the complaints they attribute to the auditors?

7. Is there any weakness in the audit work that you might have encountered?

Yes []

No []

Please specify the weakness (es):

8. To what extent do you agree with the following as the role of external auditors in our public primary schools? (The Scale ranges from strongly agree to strongly disagree). Use the following key- 1- Strongly disagree, 2-Disagree, 3- Neither agree nor disagree, 4- Agree, 5- Strongly agree

Expected roles of the Auditors	1	2	3	4	5
Accept responsibility for financial statements in our schools					
Certify financial statements that they are accurate					
To perform a 100% check of all the school records					
Give clear warning about the possibility of school financial failure					
To detect fraud in our schools.					
To detect inefficiency in financial management					
Detecting errors					
Determine the school organization's compliance with prescribed financial policies and procedures					
Specify, Others;					

9. Give any general information that would improve the keeping of accounting records and financial reporting in your school with a view of narrowing over public expectation about auditor's performance.

APPENDIX III: INTERVIEW GUIDE FOR SCHOOL AUDIT UNIT

SECTION ONE

1. During the routine inspection/ audit do you always ask for financial records?
2. Do the public Primary schools keep sound accounting records?
3. If the answer to question 2 is No, what is your comment.....?
4. Do public Primary Schools statements prepared in accordance with ICPAK regulations or FRS?
5. Are public primary schools statements responsive to the public demands in terms of reporting?
6. Do School auditors do their work as required?
7. Is there any weakness in the audit work that you might have encountered?
8. Have you ever come across the complaints raised by the public about school fund mismanagement?
9. Do you find it necessary for the public primary schools to prepare all the financial statements annually?
10. Do public primary schools adhere to their annual budgets?
11. What should be the main purpose for financial reporting in the public primary schools?
12. Make a summary of the quality of the financial statements as you have always found them during your audit (Balance sheet and financial statements).Are the financial statement prepared by public primary schools of good quality?
(The Scale ranges from below average -1 to Excellent-5).

QUALITY/RATING	1	2	3	4	5
Reliability(Is the information representational and verifiable)					
Relevant(is information given timely, predictive value and offer feedback)					
Neutral/credibility (is information provided safe to be used for making decisions).					
Comparability/consistency(Can information given improve the capacity to predict feedback on earlier decisions)					
Material value					

13. How would you relate the following financial practices with the audit/ inspections expectations that public require of you during the performance? (The scale ranges from least essential to most essential).

Financial practices	1	2	3	4	5
Internal control systems					
Proper maintenance of accounting records					
Management producing quality financial record					
Reliability of statements					
Management communicating effectively with the auditors					
Objective and unbiased audit					
Qualification of the personnel preparing the financial statements.					
School budgeting procedures					

APPENDIX IV: LIST OF NAIROBI CITY COUNCIL PUBLIC PRIMARY SCHOOLS

1. A.E.F Reuben Primary
2. Agakhan Primary
3. Ainsworth Primary
4. Arya Primary
5. Ayany Primary
6. Baba Dogo Primary
7. Bahati Primary
8. Baraka Primary
9. Bidii Primary
10. Bohra Primary
11. Bondeni Primary
12. Buru Buru 1 Primary
13. Busara Primary
14. C.G.H.U Primary
15. Canon Apolo Primary
16. Catholic Parachial Primary
17. Cheleta Primary
18. City Primary
19. Dagoretti Muslim Primary
20. Dagoretti Special Primary
21. Daima Primary
22. Daniel Comboni Primary
23. Dondora 1 Primary
24. Donhom Primary
25. DR. Aggrey Primary
26. DR. Krapf Primary
27. DR. Livingstone Primary
28. DR. Muthiora Primary
29. Drive- In Primary
30. Eastleigh Airport Primary
31. Edelvale Primary
32. Embakasi Garrison Primary
33. Embakasi Primary
34. Farasi Lane Primary
35. G.S.U Primary
36. Garden Estate Primary
37. Gatina Primary
38. Githurai Primary
39. Gitiba Primary
40. Harambee Primary
41. Heshima Primary
42. Highridge Primary
43. Hospital Hill Primary
44. Huruma Primary
45. Imara Primary
46. Islamia Primary
47. James Gichuru Primary
48. Jamhuri Primary
49. Jehova Jireh Primary
50. Jogoo Road Primary
51. Joseph Apudo Primary
52. Joseph Kangethe Primary
53. Juja Road Primary
54. Kabete Primary
55. Kabiria Primary
56. Kagira Primary
57. Kahawa Garrison Primary
58. Kahawa Primary
59. Kaloleni Primary
60. Kamarock Primary
61. Kamiti Primary
62. Kangemi Primary
63. Karen C Primary
64. Kariobangi North Primary
65. Kariobangi South Primary
66. Karura Forest Primary
67. Kassarani Primary
68. Kawagware Primary
69. Kayole 1 Primary
70. Kenyatta University Primary
71. Khalsa Race Course Primary
72. Khalsa South C. Primary
73. Kibera Primary
74. Kiboro Primary
75. Kifaru Primary
76. Kihumbuni Primary
77. Kileleshwa Primary
78. Kilimani Primary
79. Kimathi Primary
80. Kinyanjui Road Primary
81. Kirigu Primary
82. Kiwanja Primary
83. Kongoni Primary
84. KwaNjenga Primary
85. Langata Barracks Primary
86. Langata Road Primary

87. Langata west Primary
88. Lavington Primary
89. Loresho Primary
90. Lower Kabete Primary
91. M.M. Chandaria Primary
92. Madaraka Primary
93. Mahiga Primary
94. Makongeni Primary
95. Mararui Primary
96. Mariakani Primary
97. Martin Luther Primary
98. Marura Primary
99. Mathare 4A Primary
100. Mathare North Primary
101. Mathari Primary
102. Maua Primary
103. Mbagathi Road
104. Milimani Primary
105. Moi Air Base Primary
106. Moi Avenue Primary
107. Moi Forces Primary
108. Morrison Primary
109. Muguga Green Primary
110. Mukarara Primary
111. Mukuru Primary
112. Muranga Road Primary
113. Murema Primary
114. Muslim Girls Primary
115. Muslim Primary
116. Muthaiga Primary
117. Muthangari Primary
118. Muthurwa Primary
119. Mutuini Primary
120. Mwangaza Primary
121. Nairobi Primary
122. Nairobi River Primary
123. Nairobi South Primary
124. Nduraru Primary
125. Nduruno Primary
126. Nembu Primary
127. New Eastleigh Primary
128. New Kihumbuni Primary
129. New Pumwani Primary
130. Ngei Primary
131. Ngethu W.W Primary
132. Ngong Forest Primary
133. Ngundu Primary
134. Ngunyumu Primary
135. Njathaini Primary
136. North Highridge Primary
137. O.L. Nazareth Primary
138. Ofafa Jericho Primary
139. Olm Shauri Moyo Primary
140. Olm South B. Primary
141. Olympic Primary
142. Pangani Primary
143. Park Raod Primary
144. Parklands Primary
145. Peter Kibukosya Primary
146. Plainsview Primary
147. Pumwani Primary
148. Rabai Road Primary
149. Race Course Primary
150. Riruta HGM Primary
151. Riruta Setellite Primary
152. River Bank Primary
153. Ronald Ngala Primary
154. Roysambu Primary
155. Ruai Primary
156. Ruthimitu Primary
157. S.S.D Primary
158. Salama Primary
159. Shadrack Kimalel Primary
160. SOS Hermann G. Primary
161. ST. Annes Primary
162. ST. Dominic's Primary
163. ST. George Primary
164. ST. Micheals Primary
165. ST. Patricks Primary
166. ST. Teresas Girls Primary
167. ST.Bakhita Primary
168. ST.Brigids Primary
169. ST.Cathrines Primary
170. ST.Elizabeth Primary
171. ST.Johns Primary
172. ST.Marys Karen Primary
173. ST.Pauls Primary
174. ST.Peters Clavers Primary
175. ST.Teresa'S Boys Primary
176. Star of Hope Primary
177. State House Primary
178. Thawabu Primary

179. Thika Road
180. Toi Primary
181. Tom Mboya Primary
182. Tumaini Primary
183. Uhuru Gardens Primary
184. Uhuru Primary
185. Umoja Primary
186. Unity Primary
187. Ushirika Primary
188. Utawala Primary
189. Valley Bridge Primary
190. Visa Oshwala Primary
191. Wangu Primary
192. WestLand Primary
193. Zawadi Primary