A SURVEY OF PERCEPTION ON THE ADOPTION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BY LOCAL AUTHORITIES IN KENYA

By

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D61/70448/2008

A RESEARCH PROJECT PRESENTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION SCHOOL OF BUSINESS

UNIVERSITY OF NAIROBI

SEPTEMBER 2010

DECLARATION

This research project is my original work and has not been presented for award of any degree in any University.

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ACKNOWLEDGEMENT

I thank the Almighty God for seeing me through this project.

I sincerely thank my supervisor Mr. Luther Otieno Odhiambo for the guidance, patience and understanding in the course of the project. The dedication and efforts shown by the supervisor in guiding me through the research are highly appreciated.

I am so grateful to the management of Local Authorities visited for providing useful information on this research project.

Finally I thank my entire family for the encouragement and support during the entire period of my study. May the Almighty God bless you all abundantly.

DEDICATION

I dedicate this research work to my dear wife Sophia Kinanu and my son Ryan Kithinji Mutuma, may this piece of work make you proud and always inspire you.

ABSTRACT

The purpose of the study was to determine the perception on the adoption of international public sector accounting standards by Kenyan Local Authorities in Kenya.

The research design used was descriptive survey. The population of the study consisted of 60 local authorities in the counties of Kisumu, Siaya, Homa-Bay, Migori Kisii, Nyamira Kakamega, Bungoma, Vihiga and Busia. A sample size of 60 respondents was used where probability sampling was adopted. Data was collected using a questionnaire which had both structured questions and unstructured questions. Data collected was then summarized, coded and tabulated using statistical package for social sciences software package (SPSS) version 17. Descriptive statistics such as means, standard deviation and frequency distribution was used to analyze the data. Data containing the study results was then presented using pie charts, bar charts, graphs, percentages and frequency tables.

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ACRONYMS

FASB	Financial Accounting Standards Board
GoK	Government of Kenya
IAS	International Accounting Standards
ICPAK	Institute of certified Public Accountants of Kenya
IFAC	International Federation of Accountants
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standards on Auditing
KLGRP	Kenya Local Government Reform Programme
LA	Local Authorities
NSE	Nairobi Stock Exchange
SFAC	Statements of Financial Accounting Concepts
TQM	Total Quality Management

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

1.1.1 International Public Accounting Standards

The need to achieve high standards of accountability through adoption of consistent accounting basis and user friendly financial reporting formats is vital. Government leaders need to plan for periods ahead. The quality of their decisions can be improved and made better only if they have access to a reliable source of performance reports, which give periodic comparisons and recognize all transactions in a transparent manner. The answer to this challenge lies in adoption of the International public Sector Accounting Standards (IPSASs) (ICPAK, 2009).

Long-term fiscal sustainability is the ability of a government to meet its service delivery and financial commitments both now and in the future. A number of demographic and technological factors have created fiscal pressures for many governments. The global financial crisis has significantly increased these pressures in many cases, which has led to heightened interest in the long-term financial consequences of government interventions. Amidst the challenges of unfavourable climatic conditions, poor infrastructural systems, ever rising unemployment levels etc, the question that lingers is whether the government can apply the limited resources at its disposal to meet these challenges. International Public Sector Accounting Standards (IPSASs) are accounting reporting guidelines developed specifically to offer reporting guidance to general purpose financial reporting officers in the public sector. IPSASs are developed and issued by the International Public Sector Accounting Standards Board (IPSASB), a specialty board of the International Federations of Accountants. IPSASB therefore, is an independent standard-setting board with special consideration to public sector financial reporting standards on ethics and public sector accounting. As a board of IFAC, IPSASB also issues guidance to support professional accountants working for the public sector organizations. In addition, IPSASB issues policy positions on topics of public interest (ICPAK, 2009).

IPSAS are designed to apply to the general purpose financial statements of all public sector entities. Public sector entities include national (central), regional and local governments, and their component entities such as departments, agencies, boards, commissions et cetera; IPSAS are developed and set out to recognize, measure, present and disclose requirements dealing with transactions and events in general purpose financial statements; There are two sets of IPSAS; one set that apply to accrual basis of accounting and another set that apply to the cash basis accounting however, there is a move towards adoption of IPSAS hinging on accrual basis of accounting. The adoption of IPSAS by governments improves both quality and comparability of financial information reported by their departments and agencies. Gathungu (2009) observes that the transition to IPSAS as an accounting framework is designed to improve the quality and consistency of financial reporting, enhance transparency and accountability, facilitate better decision making and financial management and good governance in our entire Public Sector.

Financial report or financial statement is a formal record of the financial activities of a business, person, or other entity. All the relevant financial information, presented in a structured manner and in a form easy to understand, is called the financial statements. They include the balance sheet also referred to as statement of financial position, income statement also referred to as statement of financial performance, the cash flow statement and statement of changes in net assets. In addition, these statements may include an extensive set of notes to the financial statements. The objective of financial statements is to provide information that is useful to a wide range of users in making financial as well as economic decisions.

1.1.2 Local Authorities in Kenya

With the attainment of independence in 1963, Kenya inherited a dual administrative structure consisting of Local Authorities and de-concentrated administrative units collectively known as the Provincial Administration. This dual structure remains the framework for local governance and decentralized service delivery, together with additional decentralized funding flows for regional and local agencies. Local Authorities were initially responsible for the provision of a wide range of services including primary health care, primary education, water supply and roads. However lack of resources and weak institutional capacity led to poor performance. Instead of addressing the weak institutional capacity, the resulting poor performance was used as an excuse to wrestle health and education responsibilities from the Local Authorities in 1969. During the 1970s and 1980s local government stagnated with central ministries taking the leading role in the delivery of services through de-concentrated offices (GoK strategic plan 2008/9-2012/13)

Today the Kenyan local governance system is composed of four tiers of Local Authorities (LAs), namely: Cities, Municipalities, Towns and County Councils. These councils are corporate entities that are established under the Local Government Act Chapter 265, which is currently under review. In addition to the Act, the LAs draw their legal powers from the Constitution of Kenya, other Acts of Parliament, Ministerial Orders and By-Laws. Currently there are 175 LAs in Kenya, which include 1 City Council, 45 Municipal Councils, 62 Town Councils and 67 County Councils with Ministry of Local Government as the overall overseer of their operations. While the above legal bodies constitute Local Government in Kenya, the local governance framework in Kenya is broader than the LAs. It consists of provincial, district, location and sub-location administration with technical staff drawn from various ministries. Inherent in the scope of Local Government and local governance system are various public and private institutions, including civil society organizations. Kenya has no decentralization policy that rationalizes power sharing, responsibilities, and resources between the central government ministries, parastatals, District Development Committees, LAs and the private sector. This has been a problem at an operation level, with most of the institutions and organizations lacking synergy. Although the position of LAs remains uncertain if the New Constitution Bill adopts the District as the level of devolution (GoK strategic plan 2008/9-2012/13).

The Kenya Local Government Reform Programme (KLGRP) was conceptualized by the government of Kenya in the early 1990s and became operational in 1996. The programme with three components: rationalization of central – local fiscal relationship, enhancing local financial management and revenue mobilization and improving local service delivery through greater citizen participation. KLGRP focuses on deepening the legal, financial management and institutional reforms in Local Government sector.

Whilst there are some very well run councils, the overall current state of local authorities in Kenya is precarious characterized by increasing debtors, financial statements not being timorously submitted to the Auditor-General, qualified audit reports, poor systems, poor long term planning, huge service deliver backlogs, increasing salary bills, unfounded mandates, government debt, concerns about sustainability, and greater demands and expectations by all stakeholders. In view of this, the optimum top agenda of the ministry of local government is to make LAs efficient entities by making sure that they are able to meet their liabilities from the local revenue they collect.

1.1.3 Financial Reporting in Kenyan Local Authorities

The Kenyan local authorities financial reporting systems that have been in use had not changed with needs and did not benefit (relevant and reliable) stakeholders the residents, councillors, council management the Government, business community, donors, Non-Government Organisations among others. To address the phenomenon, the Kenya Local Government Reform Programme which was established to spearhead local government reforms had a mandate of coming up with effective financial reporting framework for the local authorities. The Kenya Local Government Reform Programme revised the financial reporting system and the necessary templates to meet the needs of central government, local authorities and International Public Sector Accounting Standards (IPSAS). The financial reporting framework which is in line with IPSAS was gazetted (Kenya Gazette) under Notice No.6218 dated 11 July 2008 and disseminated across all the Local Authorities together with the Local Authority Financial Management Regulations 2007. It was first used in the preparation of the 2007/2008 final accounts. Challenges especially in some counties, municipalities and town councils without qualified accountants were expected

1.2 Statement of the Problem

The Kenyan local authorities used different approaches to prepare their financial statements to communicate financial results hence they lacked uniformity, comparisons, relevance, reliability and understability. Therefore a variety of users of local authorities' financial reports could not use them for effective decision making. The new financial reporting framework has been increasingly publicized as one of the most successful tools to address the councils' provision of financial information problems. The adoption of the IPSAS financial reporting by local authorities is however not known. A financial report that portrays a council has good financial performance, position and liquidity may not necessary mean reliability. It is expected that the IPSAS financial reporting will add relevance and reliability to council's financial statements and will also help local authorities begin identifying their assets and liabilities.

Previous studies have not conducted a survey of perception on the adoption of the IPSAS by local authorities in Kenya. For example Mwirichia (1983) did a study on financing local authorities in Kenya: a case study of Meru municipality. Omolo, (2007) undertook a research study on financial reporting in public primary schools in Kenya and the audit expectation gap. Mitullah and Waema (2006) conducted a study on ICTs and Financial Management in Local Authorities in Kenya: Case Study of Mavoko and Nyeri Municipal Councils. Hongo (2010) did a study on promoting regulatory reform at local government level in Kenya. Rahman (2001) prepared a Report on the Observance of Standards and Codes (ROSC) Kenya: accounting and auditing. Therefore, no know studies have surveyed the perception on the adoption of international public sector accounting standards by local authorities in Kenya.

1.3 Research Questions

What is the perception on the adoption of international public sector accounting standards by local authorities in Kenya?

1.4 Objectives of Study

To determine the perception on the adoption of international public sector accounting standards by Local Authorities in Kenya

1.5 Importance of the Study

The findings of this study will be valuable to a wide range of stakeholders as follows;

The management; Managers are able to not only discover problems and find corrective actions needed through financial statements but they are also able to make projections of these statements that act as goals and standards for upcoming periods. The management will as well benefit on the opinions on how employees feel about the international public sector accounting standards and thereby adjust swiftly to critical concerns for its efficiency .

The Government; The government will benefit from the picture drawn from various perception raised on international public sector accounting standards and there by draw conclusions on necessary interventions for effective implementation for better results . it will also help the planners to come up with the best approach in perfecting on possible challenges of IPSAS .

The researchers and academicians; the research is as an important contribution to a fundamental review of the overall International public sector accounting standards of local authorities. The study will further recommend future research study areas which will be of interest to other scholars.

Investors: potential investors and lenders always require financial statements for their lending or investment decisions.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This literature review chapter discusses issues that the study seeks to address, in specific the chapter addresses the various theories relating to financial reporting concept, empirical review of related local and international studies and structure of financial reporting in Kenyan local authorities, financial reporting models and conclusion.

2.2 The Financial Reporting Concept

Financial reporting in local authorities is the provision of information that is useful to the local authority, the central government, present and potential investors, creditors among other stakeholders, in making service delivery, financial, investment, credit, and similar resource allocation decisions. Financial reporting should also provide information to assist users in assessing whether funds in public sector are well spent and costs effective. And, financial reporting should offer information about the sources and uses of financial resources and about how the local authorities financed its activities and met their cash requirements. Financial statements, including the accompanying notes, are a central feature of financial reporting. However, the objective pertains to all of financial reporting, not just financial statements, because some types of both financial and nonfinancial information may best be communicated by means other than traditional financial statements, (FASB 2006). Cameron (2005) notes good financial information is essential and it is usually provided in 2 types of reports: internal financial reports to the council management (clerk and treasurer) and to councillors (the council), external financial reports to ratepayers, residents, government, creditors and investors. To properly discharge their financial management responsibilities, councillors and council management need internal financial reports to support decisions about resource allocation, monitor the performance and financial health of their operations and to demonstrate their stewardship of the financial resources for which they are responsible. In their study Mohamad et al (1999) found, in the absence of standard financial reporting requirements placed on these authorities, a large expectation gap between the needs and demands of local taxpayers and the financial reporting practices adopted by Malaysian local authorities.

2.2.1 International Public Sector Accounting Standards

Local authorities are continuously being subjected to changing legislation in regard to reporting requirements. The amount of time allocated to complying with external reporting requirements is often considered excessive and not always relevant – detracting from the ‘doing’. It was also revealed that the bottom line is perceived to be the most important indicator of a council’s performance by stakeholders. From this, several implications emerge – including the potential for manipulation of accounting figures to achieve a target operating result. Another includes councils losing their original identity as service providers to the community. Hence, financial, political and social costs appear to be associated with continually changing financial reporting requirements imposed on local government.

The adoption of this new financial reporting framework will herald significant changes to the systems and process of financial reporting by the government. This may come with new formats and financial reporting, Gathungu (2009). The new reporting financial framework is aligned to the International Public Sector Accounting Standards (IPSAS) requirements. IPSAS are a set of high quality, independently developed accounting standards aimed at meeting the financial reporting needs of the Public Sector. IPSAS are developed by the International Public Sector Accounting Standard Board (IPSASB) which is an arm of the International Federation of Accountants (IFAC); the global organization for the accounting profession founded in 1977. According to Gathungu, (2009) IFAC currently has 157 member bodies.

2.2.2 Relevance of Financial Reporting

Relevance is one of the primary qualities of accounting information. Relevance of information means information capable of making a difference in a decision context.” Ingredients of relevant information are timeliness, predictive value and feedback value – allows users to confirm or correct prior expectations. Mary, et al (2001) only if an accounting amount is relevant to a financial statement user can it be *capable of* making a difference to that user’s decisions.

2.2.3 Reliability of Financial Reporting

Reliability is the other primary quality of accounting information. Information is reliable when it can be relied on to represent the true, underlying situation. The ingredients of reliable information are verifiability and representational faithfulness neutrality (unbiased).

Relevance and reliability are the two primary criteria the FASB uses for choosing among accounting alternatives, as specified in its Conceptual Framework. The FASB's Conceptual Framework is set forth in Statements of Financial Accounting Concepts (SFAC) Nos. 1 through 7, which articulate the FASB's objectives and criteria to guide its standard setting decisions. Under SFAC No. 5, an accounting amount is relevant if it is capable of making a difference to financial statement users' decisions; an accounting amount is reliable if it represents what it purports to represent (Mary et al , 2001).

2.3 Theoretical Review

The following theories are applicable in informing the current study

2.3.1 Contingency theory

According to open system theory an enterprise interact with, adapts to and seek to control it environment in order to survive. Contingency theory postulates that effectiveness of the organization in coping with the demands of its environment is contingent upon the element of (its)various subsystems design in accordance with demands of the environment which they interact (Burrell and Morgan 1979). An enterprise's financial reporting system is one such subsystem.

Contingency theories first became as a means of explaining variations in organization structure. One of these postulates that organization design is contingent on environmental uncertainty (Duncan,1972), and organization size (child ,1975) this has led to various authors to suggest that contingency framework may provide more holistic approach to the design of management accounting systems (Waterhouse and Tiessen ,1978) the logical extension of these developments in the organizational theory and management accounting is that variation in the environment uncertainty among other factors give rise to difference in corporate financial reporting systems(Thomas 1986)

Therefore in this context management choice / adoption of new financial reporting practices is contingent upon different constrain on entities . Each of which can be conceptualized as falling into one of the four classes in the contingency framework. Such contingency variable include; social factors affecting the financial reporting systems, organization environment (different accounting methods , organizational attributes such as size ,capital out lay, etc) and lastly the user characteristics namely decision models , decision making styles and cognitive traits

The adoption of new financial reporting will therefore come with organizational adjustment to the contingencies both specific to the organization and outside the organization . For example such contingences will include; change in accounting system, need for technical experts to train on the new reporting. Some external contingencies will include; international community pressure through the government and also other interested partners in the financial reporting.

2.3.2 Stakeholder theory

According to Gray *et al*. (1997) note that one way of "theorizing the accountability relationship between an accounting entity and its 'outside world"' lies in the stakeholder perspective. They note that the stakeholder perspective is well-established in the literature, with its essence being "the definition of all those groups or parties who are influenced by and/or who influence the organization (or accounting entity reporting)" (Gray *et al*., 1997). Certainly, stakeholder theory has a rich history and contemporary significance in the strategic management, corporate governance, and corporate ethics literatures, and has also been used in accounting research, particularly in the area of corporate social responsibility disclosure, reporting (Roberts (1992).

Clarkson (1998) defines stakeholders as "those persons or interests that have a stake, something to gain or lose as a result of its activities"; and a "stake" as "something of value, some form of capital, human, physical, or financial, that is at risk, either voluntarily or involuntarily". Stakeholder theory has been mostly applied to organization-society interaction analysis in the corporate, private sector domain. However, it is equally applicable in our public sector context. First, it is consistent with the theoretical conception of accounting change as contextual and as deriving from external, social and political forces. Second, stakeholder theory provides the basis for identifying the groups or parties which constitute the external socio-political forces for the entity at issue, regardless of whether the entity is in the private or public sector. It does so through stakeholder power (Ullman, 1985), which is the power to influence organizations and management in their actions. Roberts (1992,) states that power is a function of the stakeholder's degree of control over resources required by the organization; while Gray *et al*. (1997) note that stakeholder power may derive from economic and/or legislative sources. In our context, stakeholder power is related to local authorities ability to win the confidence of the stakeholders(the public, government and ultimately the donor community) confidence through assurance of accountability and reliability through the adoption of best practice in financial reporting. The success of IPSAS adoption and implementation by local authorities in Kenya will therefore only depend on the efforts of various stakeholders who support the improvement of financial management and reporting in the public sector

2.3.3 Accounting Theory

Accounting theory is dynamic, not static—it is never a final and finished product pragmatic sense—it is concerned with improving financial accounting and reporting broad perspective—it includes a conceptual framework, accounting legislation, concepts, valuation models, reporting and hypotheses and theories that allow researchers to analyze accounting (ASB, 2000).

If it is to be comprehensible and reliable, accounting must be used in accordance with specific rules and regulations. It is essential that accounting is used according to generally accepted rules to avoid chaos that would occur in the process. The first prerequisite is that accounting should agree or conform to the basic truths according to which our economic system functions; the current economic and business practices and the applicable law as embodied in legislative regulations or common law. Consequently, it is important that uniformity is maintained in accounting and reporting practice. Accounting theory creates a framework that ensures that accounting practice complies with the requirements of conformity and uniformity. This theory is embodied in a set of principles, policies, methods, procedures and conventions. The continuously increasing scope and complexity of our economic system requires a corresponding process of adaptation in accounting and effective reporting in order that the relevant information regarding economic activities may be recorded (ASB, 2000)

Accounting theory is based on a set of basic economic truths that are of a dual nature. First, accounting theory is based on propositions generally accepted in the economic order of a particular society. Second, the basic economic truths have characteristics similar to those of natural laws in the sense that specific causes generate specific consequences. In the development of accounting theory, concepts and postulates serve as formulations of the basic truths or propositions upon which the theory is based. They do not attempt to prescribe the working of the accounting process, but simply the foundation upon which the structure of accountancy is based. In this context Kenya economic development has been so far impressive and as the economy becomes complex, the adoption of best accounting standards will only lead to compliance to the trends in the economic growth . As such local authorities in Kenya are poised to handle huge sums of money and therefore proper accounting and reporting will therefore be imperative for future resource sustainability.

2.4 Empirical Review

Over the years, quantitative management accounting research has become the main approach to assess such major questions as to what extent managers are likely to succeed with their management accounting and control and reporting systems in various settings. Since many forms of empirical research have been taken and a wide range of topics analyzed, it is not possible here to acknowledge them all. The local research on financial reporting is minimal however, similar research studies exists.

In his study Rahman (2001) observes that Kenya has recently made progress in closing the gap between national accounting and auditing practices and international standards, notably by adopting the IASs and ISAs as national requirements. However he notes that compliance with the requirements of IASs and ISAs is partial, due to enforcement mechanisms that continue to evolve and inadequate resources. Research by Gathungu, (2009) also notes that adoption and implementation of IPSAS is not a requirement for the Government or any of its entities, it is a best practice issue, IPSASB or even IFAC cannot enforce compliance. The success of new financial reporting framework (which is in line with IPSAS) adoption and implementation in Kenyan local authorities will therefore only depend on the efforts of various stakeholders who support the improvement of financial management and reporting in the public sector

Study by Musyoka (1982) on finance management in parastatals aimed at establishing the financial management infrastructure in the public sector I Kenya . The survey of that was cross-sectional in nature, surveyed 10 parastatals found that the financial management systems in public sector were weak and in most cases financial control systems were either lacking or were not observed at all . The study further noted that some parastatals had embraced good practice in their financial management which translated to better performance for such parastatals. He recommended implementation of strong audit systems to caution from the mismanagement of the public funds.

Omiti (2003) in his study on financial performance of firms with effective TQM programs in Kenya observed that embracement of TQM by firms leads to higher financial performance of such firm. He noted that firms with good TQM practices had elaborate financial control and reporting systems and such organization had leverage in attracting additional capital due to attraction of investment. This research recommended organizations to adopt best financial management practice for resource maximization and therefore high returns on shareholders value.

Recently a study on financial reporting in public primary school in Kenya and audit expectation gap was conducted by Omolo (2007). The study surveyed 17 public primary school and found that there was major Gap in financial management especially with special focus on accounting and overall financial reporting. The study sampled the school headmasters and committee chairmen concluded that financial reporting in public primary schools was poor and lacked uniformity where it existed. There was a general lack of standardized financial reporting systems in these organizations. The study further recommended that more resources should be allocated in training of school managers on the benefit of standardized financial management and ultimately financial reporting.

Similar study carried out by Mwarania (1983) on analysis of financial standards selecting process in Kenya, noted that there was need for compliance in observation of financial standards in Kenya so as to facilitate efficient financial management practices within organization. The study further observed that only few organizations in Kenya had adopted international financial standard more specifically financial reporting. Mwarania study can be seen as foundation on related studies on IPSAS. In conclusion the study recommended that financial education institutions and regulatory body should streamline the financial standards .

Winfred (2007) carried out a research study on testing for the existence of noise in financial statement based reporting for the listed firms in the NSE . The study found existence of accounting noise in almost half of the sampled firms. The study further established non disclosure of some important financial measurement items in the financial statement. In this case the researcher noted non compliance in application of Generally Accepted Accounting Principles. The study therefore recommended the adoption of internationally accepted accounting and reporting standard so as to caution such companies from misleading the potential investors by concealing the actual financial picture of the organization.

Researches have been conducted on financial reporting throughout the world globe due to the increasing importance of using financial information to make decisions. Karim *et al.* (1996) argued that annual reports of companies should be considered as the most important source of information about a company. Ettredge, et al, 1995; Hungerford (1984), observed that the primary role of accounting is to collect and communicate data that can be used for analysis and decision making. The way that financial data is provided and its content is of primary importance in its communication to information users, Hungerford (1984). However, FASB (2006) in developing financial reporting standards, standard setters presume that those who use the resulting information will have a reasonable knowledge of business and economic activities and be able to read a financial report. Standard setters also presume that users of financial reporting information will review and analyze the information with reasonable diligence.

Holthausen and Watts (2000), in evaluating the literature for standard-setting purposes, assesses the usefulness of accounting numbers on their stock market value association. For several reasons they conclude the literature provides little insight for standard setting. First, the association criterion has no theory of accounting or standard setting supporting it. Standard setters' descriptions of their objectives and accounting practice are both inconsistent with the criterion. Important forces shaping accounting standards and practice are ignored. Second, they say many tests in the literature rely on valuation models that omit important factors.

Cocker (2005) argues that Statement of Concepts is an important piece of guidance in the role of accounting. The Statement of Concepts was developed to outline the qualitative characteristics that external general purpose financial reporting information should possess. These qualitative characteristics are relevance, understandability, reliability, and comparability, ICANZ (2001). Cocker (2005), further noted that guidance is thought to have a conflicting nature in respect to the qualitative characteristics of relevance and reliability and concludes that the qualitative characteristics of relevance and reliability are perceptions which are held by interest groups who are associated with financial accounting information. In regard to the accounting standards, Solomons (1989, cited in Whittington, 1989) discussed the trade-off between various qualitative characteristics including relevance and verifiability, and verifiability is now acknowledged by the Financial Accounting Standards Board (FASB) as a component of reliability. It has long been acknowledged that different user groups have different requirements and concerns from information that is disclosed in financial statements, Rayburn, *et al.* (1991). In addition, it is also recognized that users and preparers hold different perceptions of relevance and reliability, Hooper, (1997)

2.5 Structure of Financial Reporting in Kenyan Local Authorities

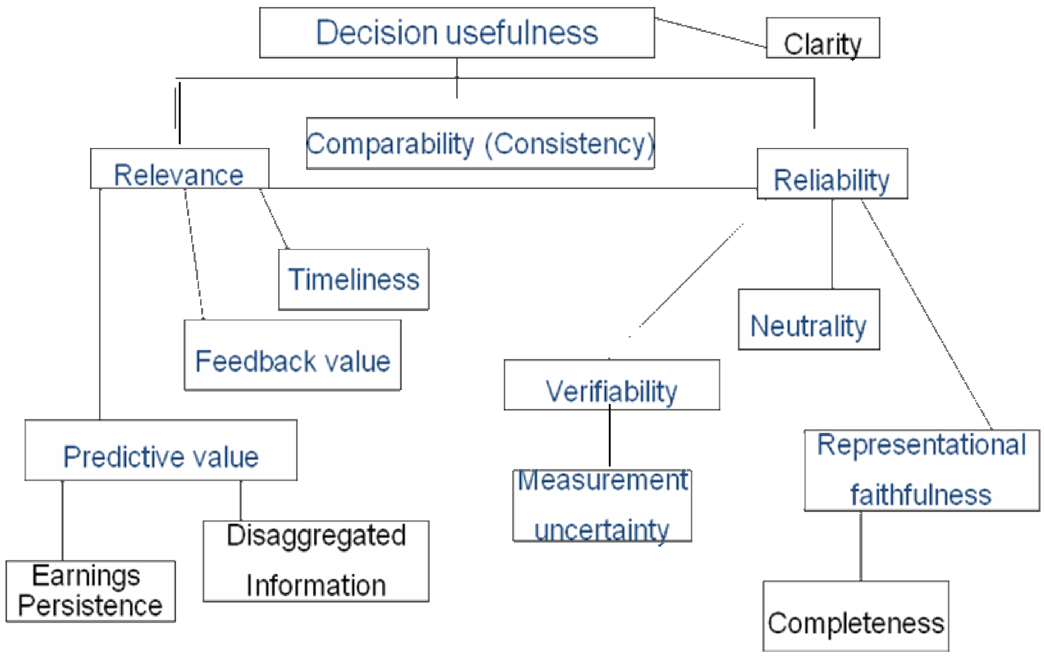
The Local Government Act mandates the Minister for Local Government to define the system of accounting and the format of the annual accounts to be used by local authorities as stipulated by the Local Government Act Cap 265 section 229 laws of Kenya. For decades, local authorities have been following the colonial British municipal accounting system. However, recently, there has been a migration to the Simplified Accounting System which was developed, though not formally adopted, in 1999, giving rise to audit qualifications. On 11 July 2008 the Minister for Local Government gazetted a new financial reporting framework for Kenyan local authorities which was first used in the preparation of the 2007/2008 final accounts. Local authorities' financial statements are important reports since they show how a local authority is doing and are very useful internally for a council's stakeholders, its managers and councilors and staff. Externally, they are important to government agencies, to lenders such as banks and to investors, researchers and academicians.

All councils are now required to prepare financial statements showing the council's annual financial performance, financial position, liquidity position and changes in net assets/ capital and reserves. It is also required that statements for external consumption be audited by the Controller and Auditor General (Muia2005).

2.6 Conceptual Framework for Financial Reporting

The Conceptual Framework for Financial Reporting establishes the concepts that underlie financial reporting. The framework is a coherent system of concepts that flow from an objective. The objective identifies the purpose of financial reporting. The other concepts provide guidance on identifying the boundaries of financial reporting, selecting the transactions, other events, and circumstances to be represented, how they should be recognized and measured (or disclosed), and how they should be summarized and reported. Mary et al (2001) by design, the FASB's Conceptual Framework is stated in broad terms and is not context-specific. Nonetheless, the Conceptual Framework, with context added in particular financial accounting standards, leads to tests of specific null and alternative hypotheses regarding relevance and reliability. A conceptual framework is a coherent system of interrelated objectives and fundamentals that can lead to consistent standards and that prescribes the nature, function, and limits of financial accounting and financial statements. It is needed to enable development of a coherent set of standards, better handle new and emerging problems, increase users' understanding of and confidence in financial reporting and enhance comparability among different local authorities' financial statements.

Criteria used by the FASB to make decisions



Source: Conceptual Framework, augmented by Jonas and Blanchet (Accounting Horizons, 2000)

2.7 Financial Reporting Models

The purpose of the new financial reporting model is to provide more understandable and useful financial reports to a wider range of users than did the previous model. The Statement applies to the audited financial statements of all local authorities. Mary et al (2001), the tests often focus on the coefficients on the accounting amounts in the estimation equation. For example, Holthausen and Watts (2000) observes some studies test whether the coefficient on the accounting amount being studied is significantly different from zero with the predicted sign. Rejecting the null of no significance or unpredicted sign is interpreted as evidence that the accounting amount is relevant and not totally unreliable. Holthausen and Watts (2000) adds other studies test whether the estimated coefficient on the accounting amount being studied differs from those on other amounts recognized in financial statements. Rejecting the null that the coefficients are the same is interpreted as evidence that the accounting amount being studied has relevance and reliability that that differ from recognized amounts.

The new model adds a highly aggregated set of government-wide financial statements. These new statements are designed to provide information about financial performance, financial position, liquidity position and changes in capital and reserves of the local authority. The financial statements are presented using the accrual basis of accounting, similar to a commercial entity's financial statements. A statement of financial position; statement of financial performance; statement of changes in net assets/ capital and reserves; and a statement of cash flows are presented together with notes to financial statements. The financial statements should discuss the current year results in comparison with prior year, with emphasis on the current year. This fact-based analysis should discuss the positive and negative aspects of the comparison with the prior year. The financial statements must have a brief discussion of the basic financial statements, including the responsibility statement, treasurer's report, purpose of the annual financial statements and report of the controller and auditor general. Condensed financial information derived from the financial statements comparing the current year to the prior year. At a minimum the statement of financial position should show total assets, distinguishing between current and non current assets, total liabilities, distinguishing between current and non current assets liabilities, total net assets, distinguishing among amounts invested in capital by Government entities, renewals fund and revenue reserve fund, see appendix II. The statement of financial performance should show operating revenues by major source, operating expenses by major cost category, non-operating revenues (expenses), surplus (deficit) before capital contributions, special and extraordinary items, and transfers, capital contributions, special and extraordinary items, transfers and change in net assets see appendix III.

2.8 Chapter Summary

In summary, the literature has fairly provided significant information on financial reporting with specific examples locally and globally. It is however evident from the literature that financial reporting systems are neither regulated by the government but instead are set and regulated by specialized financial bodies . Therefore their adoptions are voluntary and it is never without contingencies as observed by theories. The literature has ultimately reported the importance of financial reporting in promotion of financial transparency of a local authority. Despite the importance of corporate transparency as a recurring policy issue, there is limited research on the adoption challenges of financial reporting system in the public sector. Instead the current researches have attempted systematically recommended the need for the adoption of effective accepted financial reporting both in the public and private sector, this motivates the current study as it aims at assessing the adoption of such financial reporting systems among local authorities in Kenya.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

Methodology refers to the theoretical analysis of the methods appropriate to a field or to the body of methods and principles particular to a branch of knowledge (Sekaran 1992). This chapter discusses the research design, target population, sampling data collection and analysis techniques to be used.

3.2 Research Design

This study used descriptive survey research design. Sekaran (2000) defined a descriptive research as a process of collecting data in order to test hypotheses or to answer questions concerning the current status of the subjects in study. It determines the reports the way things are. According to Mugenda and Mugenda (2003), descriptive design is a process of collecting data in order to test hypothesis or to answer the questions of the current status of the subject under study. Descriptive research design was chosen because it enables the researcher to generalize the findings to a larger population. The descriptive research design approach has been credited due to the fact that it allows analysis of the relations of variables. This will enable the researcher to describe the perception on the adoption of international public sector accounting standards in Kenyan local authorities.

3.3 Target population

The population of the study will consist of 60 local authorities in the counties of Kisumu, Siaya, Homa-Bay, Migori Kisii, Nyamira Kakamega, Bungoma, Vihiga and Busia. The accounting professionals will constitute the study respondent.

3.4 Sample size

According to Siegel, (2003), a sample is a set of entities drawn from a population with the aim of estimating characteristic of the population. This is a fraction of the population selected such that the selected fraction represents the population adequately. The local authorities will be stratified into three categories; municipal councils, county councils and town councils. Due to the constraint of time and money the research will randomly select 50% of the 60 local authorities. It is from the sample local authorities that two respondents who will include the accountants and treasurers will be randomly selected. This constitutes a study sample size of 60 respondents.

3.5 Sampling Design

This study will adopt probability sampling design. This means that various sampling units have equal chance of selection and therefore reduces on the biases. In this case simple random sampling was used in selection of both local authorities and the participating respondents.

3.6 Data Collection

The primary data will be collected using structured questions and unstructured questions in the questionnaire. This will make more comprehensive view than any other research tool. The questionnaires have the advantage of being cheap and easy to administer and results in data suitable for analysis as designed by the researcher. Drop and pick method will be used to distribute the study instrument. On drop off, the researcher and the assistants ensure that the questionnaire is intact and clarifies the questions to the respondents. The date and time when to pick the questionnaire is agreed upon to enhance response rate.

3.7 Data Analysis

Data collected will be checked for completeness, it will then be summarized, coded and tabulated with assistance of statistical package for social sciences software package (SPSS) version 17. Descriptive statistics such as means, standard deviation and frequency distribution will be used to analyze the data. Inferential statistic specifically factor analysis will be used. Data containing the study results will then be presented using pie charts, bar charts, graphs, percentages and frequency tables to ensure information gathered is clearly understood. The qualitative data gathered from open questions will be presented in prose form.

3.8 Data Reliability and Validity

Validity is the accuracy or meaningfulness and technical soundness of the research. According to (Mugenda and Mugenda, 1999). It is the degree to which a test measure what it purport to measure. To enhance validity of a questionnaire, a Pilot study of similar to the target population will be necessary. Also to increase validity of the study, data will be collected from reliable sources, the language used on the questionnaire will be kept simple to avoid any ambiguity and misunderstanding.

Reliability of instruments measures consistency of the instrument. Best and Khan (2001), consider reliability to be the degree of consistency that the instruments or procedure of measurement demonstrates. A pilot study, data collected will be subjected to analysis using the cronbach's alpha reliability coefficient. The closer the reliability coefficients get to 1.0 the better. According to Sekaran (2007), reliability coefficient above 0.80 is regarded as good. Hence the internal consistency reliability of the measures used in this study was considered to be good.

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATION AND PRESENTATION

4.1 Introduction

This chapter presents the analyzed results captured in the study instruments. raw data retrieved from the field was checked for errors and completeness, coded entered and finally analyzed using statistical package for social sciences . The retrieved questionnaires were 50 out of 60 distributed questionnaires resulting to a response rate of 83 %. The following were the study results.

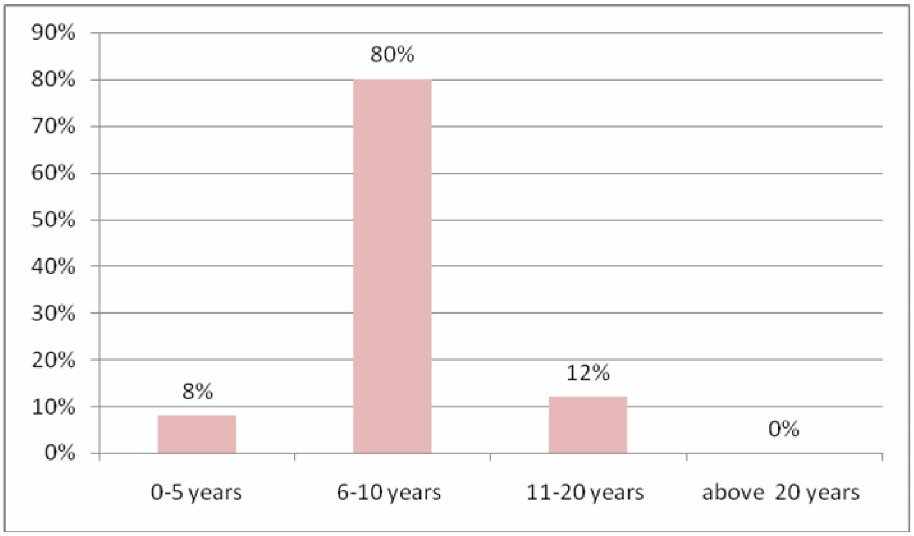
4.2 Back ground Information

This part of the study attempted to capture respondent's background information in the work place. Results were as presented in the following subsections.

4.2.1 Respondents Years of Service

Respondents year of services is the number of practical on job experience in years a respondents have had within an organization . it is important as respondents with more years in an organization will have more information on that particular organization . In this case results on distribution of respondents by length of service is presented in figure 4.1 .

Figure 4.1: Respondents Length of Service

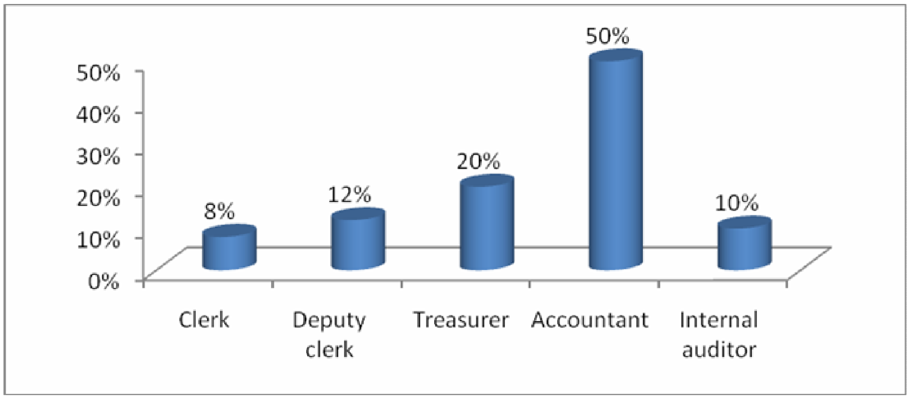


Study result revealed that majority (80%) of the respondents in the study had worked in the study organization for period between 6-10 years while 12 % of the respondents had length of service of between 11-20 years . It can be concluded that respondents in the study had good experience within the organization. Considering the introduction of international public sector accounting standard the respondents must have had good experience with its implementation.

4.2.2 Position within the Organization

Respondents were asked to indicate their position within the organization. Various positions in an organization have different degrees of influence on the organizational management. Results of this study are as presented in figure 4.2.

Figure 4.2: Respondents Position within the Local Authority



Results show that accountants respondents constituted half of the study respondents, 20% of the respondents were treasurer, deputy clerk internal auditors and clerk constituted 12%,10% and 8% respectively . This shows that quality of responses offered by these respondents was highly informed.

4.3 Nature of Financial System

Under this section the researcher sought to establish the awareness of financial system in use within the organization. Respondents were asked to name the financial system in use in their organization. Table 4.1 presents the results.

Table 4.1 Name of Financial System in Use

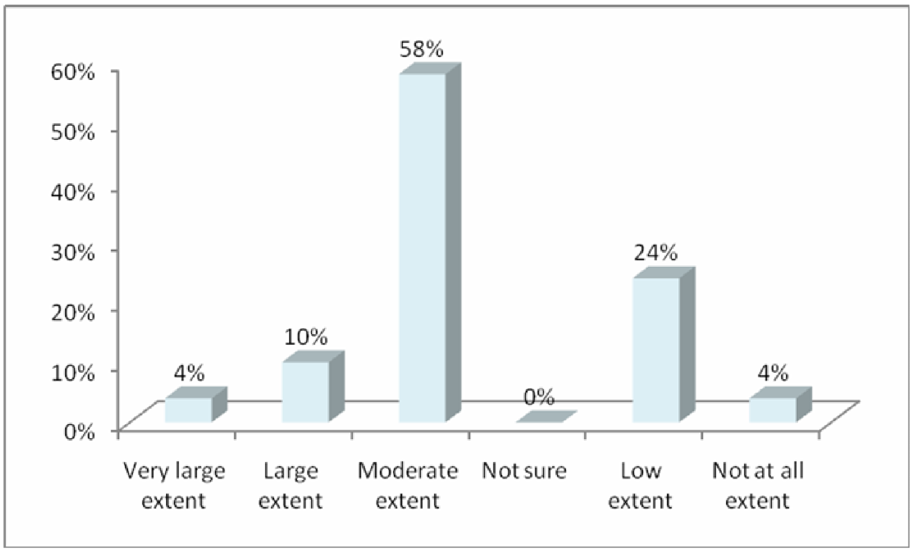
	Frequency	**Percentage**
International public sector accounting standards	42	84
Not sure	8	16
Total	**50**	**100**

Results in table 4.1 indicate that majority (84%) of the respondents were aware of the financial system currently in use in their organization , however only 16% of the respondents were not sure of financial system used in the organization . respondents were further asked to indicate how long the financial system been in use in their organization . Majority of the respondents confirmed that the system had been in operation for the last two years. It can therefore be observed that international public sector accounting standard was introduced in the study organization 2 years ago .

4.4 Extent to which Organization Publish Annul Reports to the Stakeholders

Respondents indicated the extent to which their organization published annual report to the stakeholders. Figure 4.3 presents the results

Figure 4.3 Extent of Publication of Annual reports to Stakeholders



The study established that more than half of the respondents in the study agreed that their organization publish annual reports to stakeholders on a moderate extent, 24% noted low extent, 10 % large extent while 4% of the respondents equally indicate very great extent and not at all extent . It can therefore be observed that organization had embraced publication of annual reports to the stakeholders on a moderated extent.

4.5 Choosing Between The Old And The New Financial Reporting System

Respondents were asked to compare the older financial reporting systems with the new system (IPSAS). Results were as presented in table 4.2 .

Table 4.2 : Respondents Choice Between The Older And New Financial Reporting System

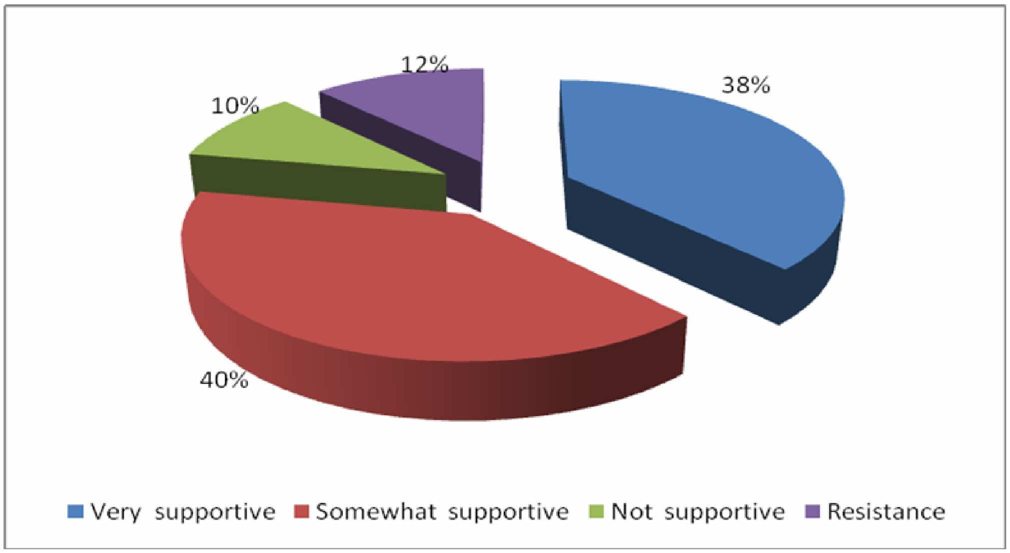
	Frequency	**Percentage**
New system	40	80%
Old system	6	12%
Not sure	4	8%
Total	**50**	**100**

Results indicated that majority (80%)of respondents preferred the IPSAS system over the old system. Respondents were further asked to explain their choice. Results observed that respondents indicated that the new system was highly simplified compared to the old system, its conformity to international standards, clarity on various items in the accounting process and easier to understand.

4.6 Reaction to IPSAS by Organization Management.

The conformity to international public sector accounting standard has been a government commitment to eradicate vicious malpractice in public sector there embracing high international accountability and transparency standards . This section sought to describe the reaction of management to this development. See figure 4.4.

Figure 4.4: Management Reaction to IPSAS



Results revealed that majority(40%) of the management was somewhat supportive of the implementation of IPSAS while 38% were very supportive. On the other hand respondents 12% and 10% of the respondents acknowledged that the management was resistant and not supportive to IPSAS respectively.

4.7 Opinion On Improvement in Investor Confidence as Result of Adoption of International Public Sector Accounting Standards.

Respondents were asked whether the adoption of IPSAS in their organisation had improved their organisation capacity in raising capital . Table 4.3 presents the results.

Table 4.3 : Opinion On the Effect of Adoption of IPSAS On Capacity to Raise Capital for the Organization.

Response Rate	**Frequency**	**Percentage**
Yes	41	82
No	9	18
Total	**50**	**100**

Results in table 4.3 indicate that most (82%) of the respondents in the study were of the opinion that the adoption of IPSAS in their organization had boosted investors confidence with organization accountability . The respondents were further asked to explain how. Respondents noted that through adoption of IPSAS foreign donors were able to monitor funds, clarity of items in financial statements have been used to obtain loans from the financial institutions. However, some respondents noted that the new accounting systems has not been fully understood by the financiers therefore much has not been realized.

4.8 Perception on the Financial Disclosures in the Financial Reporting as a Result of IPSAS.

This section of the study sought to establish the perception of the respondents on the financial disclosures in financial reporting as dictated by IPSAS. Majority 80% of the respondents agreed that there were too much disclosures in their financial statement a results of IPSAS. The following results indicates areas that respondents felt that there too much disclosure .

Table 4.4: Areas of Too Much Disclosure

	Frequency	**Percentage**
Cash flow Statements	32	64%
Financial position and performance	29	58%
Statement of changes in net assets/ capital and reserve	25	50%
Cash and Bank balances	19	38%

Respondents acknowledged that unlike before financial disclosures were too much as a result of adoption of IPSAS. Areas noted to contain much disclosures include; cash flow statements (64%), financial position and performance of the authority (58%), liquidity of the authority (50%) and cash and bank balances (38%).

4.9 Financial Reporting as Per International Public Sector Accounting Standards

Respondents were presented with statements on financial reporting in international public sector accounting standard and were asked to indicate the extent to which they agreed with the statements . Results were as presented in table 4.5:

Table 4.5: Respondents perception on financial reporting in the IPSAS

	Strongly agree		**Agree**		**Not sure**		**Disagree**		**Strongly disagree**	
	freq	%	freq	%	freq	%	freq	%	freq	%
Financial reporting now emphasis on actual performance of the authority against budgeted and local performance indicators	12	24	29	58	7	14	2	4		
Reporting disclose financial position and liquidity of the authority	36	72	10	20			4	8		
Changes in the net assets/ capital and reserves	41		5	10			4	8		
system provide reliability and relevance of the financial information	38	76								
IPSAS has reduced transaction costs leading to overall institutional efficiency and financial resource maximization	4	8	13	26			24	48	9	18
IPSAS has lead to easier access to information by customers and other stakeholder	7	14	33	66			10	20		
IPSAS has lead to introduction of timeliness of financial information			28	56	5	10	15	30	2	4
IPSAS has lead to facilitated predictive value	10	20	26	52	8	16	6	12		
IPSAS has lead to enhance feedback value	4	8	5	10	27	54	13	26	1	2
IPSAS has lead to openness and clarity of processes and procedures	4	8	46	92						
Facilitate verifiability of financial information	11	22	29	58			8	16	2	4
Adoption of IPSAS has lead to attraction of capital through	8	16	32	64	10	20				

improved investors confidence as result of transparency										
The accounting items are clearly outlined in the new systems	4	8	41	82			5	10		
All the financial information items reported are useful to financial statement users	3	6	14	28	10	20	23	46		

Results revealed that majority of the respondents agreed with most of statements on the financial reporting in relation to IPSAS as illustrated in table 4.5. However, the study observed that respondents disagreed that IPSAS has reduced transaction costs leading to overall institutional efficiency and financial resource maximization (33%) on the other hand more than half of the respondents were not sure on whether IPSAS had lead to enhance feedback value. It was also noted that respondents were much divided on whether all the financial information items reported are useful to financial statement users. It can therefore be considered that IPSAS had lead to best accounting practice in the LAs.

4.10 Challenges Facing Adoption of International Public Sector Accounting Standard Financial Reporting.

This part of the study sought to establish challenges faced by the management in adoption of IPSAS. An overwhelming majority (94%) of the respondents acknowledged existences of challenges in implementation of IPSAS. Table 4.6 presents some of challenges as mentioned in the respondents.

Table 4.6: Challenges in adoption of IPSAS financial reporting within an organization.

Challenges	Frequency	Percentage (%)
Lack of Enough Skilled Personnel	38	76
Lack of Regular Training	36	72
poor account records keeping among employees	32	64
lack of strict measures from the ministry	29	58
Resistance to Change	28	56

The study results indicated that adoption of IPSAS financial reporting was faced with numerous challenges. Among the most mentioned challenges include; lack of enough skilled personnel (76%), lack of regular training (72%), poor account record keeping among employees (64%), lack of strict measures on financial misconduct in the ministry and finally respondents identified resistance to change by financial management employees within the local authorities.

CHAPTER FIVE

5.0 SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of the findings, and also gives the conclusions and the recommendations of the study based on the objectives of the study.

5.2 Summary of the Findings

Study result revealed that majority (80%) of the respondents in the study had worked in the study organization for period between 6-10 years while 12 % of the respondents had length of service of between 11-20 years. Accountant's respondents constituted half of the study respondents, 20% of the respondents were treasurer. The study also revealed that majority (84%) of the respondents were aware of the financial system currently in use. The respondents confirmed that the system had been in operation for the last two years.

The study also found out that more than half of the respondents in the study agreed that their organization publish annual reports to stakeholders on a moderate extent, 24% noted low extent,10 % large extent while 4% of the respondents equally indicate very great extent and not at all extent. On the other hand majority of respondents preferred the new system over the old system. Respondents were further asked to explain their choice. Results observed that respondents indicated that the new system was highly simplified compared to the old system, its conformity to international standards, clarity on various items in the accounting process and easier to understand.

Results revealed that majority(40%) of the management was somewhat supportive of the implementation of IPSAS while 38% were very supportive. On the other hand respondents 12% and 10% of the respondents acknowledged that the management was resistant and not supportive to IPSAS respectively. The study results also indicated that most (82%) of the respondents in the study were of the opinion that the adoption of IPSAS in their organization had boosted investors confidence with organization accountability . It was noted that foreign donors were able to monitor funds, clarity of items in financial statements have been used to obtain loans from the financial institutions. However, some respondents noted that the new accounting systems has not been fully understood by the financiers therefore much has not been realized.

Study also observed that majority (80%) of the respondents agreed that there were too much disclosures in their financial statement a results of IPSAS. Respondents acknowledged that unlike before financial disclosures were too much as a result of adoption of IPSAS. Areas noted to contain much disclosures include; cash flow statements, statement financial position and performance, statement of changes in net assets/ capital and reserves and cash and bank balances. Study observed that respondents disagreed that IPSAS has reduced transaction costs leading to overall institutional efficiency and financial resource maximization on the other hand more than half of the respondents were not sure on whether IPSAS had lead to enhance feedback value. It was also noted that respondents were much divided on whether all the financial information items reported are useful to financial statement users.

5.3 Conclusion

The following conclusions can be made based on the study findings. They include;

That the adoption of IPSAS by the local authorities had been embraced for at least two years, this has not only transformed the financial management by the local authorities but has also boosted transparency accountability in their transactions. This has not only won the confidence of private sector but also create foreign awareness.

It can also be concluded that IPSAS had not been fully understood by financer and the stakeholders. It can also be concluded that IPSAS has led to too much disclosure of financial information.

The implementation of IPSAS is faced with key challenges that if not looked into may lead to it inefficiency such challenges include; low skilled personnel on IPSAS and need for regular training due to changing international standards, in other word it may be extra costly to maintain the system.

5.4 Recommendation

The following recommendation can be made based on the conclusion of the study.

The study recommends that local authorities managements should consider creating awareness on IPSAS among its financial professionals. This will facilitate understanding its importance in financial management and financial reporting of the organization .

Accounting institutions charged with regulation and certification of IPSAS should carry out regular monitoring so as to ensure expected standards are met in application of IPSAS for its efficiency .

Local authorities should consider regular training on IPSAS so as to bridge gaps that could have been created by future development of IPSAS.

5.5 Recommendation for Further Studies

The current study focused on perception on the adoption of international public sector accounting standards, further research studies should focus on effects of IPSAS on financial performance of local authorities in the public sectors. The study also recommends more similar studies on local authorities across the country so as to make a generalized opinion on the perception on the adoption of IPSAS in public sector in Kenya.

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APPENDICES

Appendix I: Questionnaire

Please answer all questions in this questionnaire

Name of the local authority ______________________________

Name of the respondents ______________________________

Age of the respondent:

20-30 yrs [ ] 30-40 yrs [ ] 40-50 yrs [ ] 50 + yrs [ ]

Years of service in present post:

0-5 yrs [ ] 6-10 yrs [ ] 11-20 yrs [ ] 20 +yrs [ ]

What is your position within the organization?

Clerk [ ] Deputy Clerk [ ] Treasurer [ ] Accountant [ ] Internal auditor [ ]

PERCEPTION ON THE ADOPTION OF FINANCIAL REPORTING FRAMEWORK

Which form of financial system is used in your organization? Name please?

____

____

How long has your organization utilized the new financial reporting? Indicate in years ?

____

To what extent do you publish annual report to the stakeholders ?

Very large extent [ ] Large extent [ ] Moderate extent [ ] Not sure [ ] Low extent [ ] Not at all extent [ ]

Choosing between the older reporting systems and the new reporting system which one is more preferable ?

New system [ ] Old system[ ]

Explain you answer above

____

____

How have been the overall reaction to the new international public accounting standard by the financial managers

Very Supportive [ ] Somewhat supportive [ ] Not supportive [ ]
Resistance [ ]

Do you think the new international public sector accounting standard has improved your organization capacity in raising capital from the investors ?

Yes [ ] No [ ]

Explain your answer above

____

____

Looking at your organization accounting practice would you say that account standards are followed as to international public sector accounting standards?

Strictly followed [ ] Somewhat followed [ ] Sometimes followed
Not at all followed [ ]

What do think there are too much of financial disclosures in the new financial reporting as dictated by international public sector accounting standards?
Which are some of these disclosures ? Name them

____

____

To what extent do you agree with following statements about financial reporting in your organization as dictated by international public sector accounting standards? Use 1. Strongly agree, 2. Agree 3. Not sure 4.Disagree 5.Strongly disagree

	1	2	3	4	5
Financial reporting in the organization now emphasis on actual performance of the authority against budgeted and local performance indicators					
Reporting disclose financial position and liquidity of the authority					
Changes in the net assets/ capital and reserves					
new accounting system provide reliability and relevance of the financial information					

new international accounting standards has reduced transaction costs leading to overall institutional efficiency and financial resource maximization					
New accounting standard through reporting system has lead to easier access to information by customers and other stakeholder					
new accounting standard has lead to introduction of timeliness of financial information					
Accounting standard has lead to facilitated predictive value					
new accounting standards has lead to enhance feedback value					
new reporting system has lead to openness and clarity of processes and procedures					
Facilitate verifiability of financial information					
Adoption of new accounting standards has lead to attraction of capital through improved investors confidence as result of transparency					
The accounting items are clearly outlined in the new systems					
All the financial information items reported are useful to financial statement users					

Are there challenges with new adopted international public sector account standards that need to be addressed

Yes [ ] No [ ]

What are some of the challenges posed by the financial reporting by your organization ? Explain

____

____

In your opinion what do you feel should be done to improve the application of international public sector accounting standards for more transparency and accountability of public finance?

____

____

Appendix II: Statement of Financial Position

Name of Local Authority	**2008-2009**	**2007-2008**
ASSETS	**Kshs**	**Kshs**
Current Assets		
Cash and cash equivalents	X	X
Receivables	X	X
Prepayments	X	X
Inventory	X	X
Total Current Assets	**XX**	**XX**
Non Current Assets		
Land	X	X
Buildings	X	X
Capital Work in Progress	X	X
Infrastructure	X	X
Motor Vehicles	X	X
Furniture, Fittings	X	X
Tools & Equipments	X	X
Community Assets	X	X
Motor Cycles	X	X
Computers	X	X
Capital outlay	X	X
Other long term outlay	X	X
Total Non Current Assets	**XX**	**XX**
Total Assets	**XX**	**XX**
LIABILITIES		
Current Liabilities		
Payables/creditors/accruals& provisions	X	X
Bank Overdraft	x	X
Total Current Liabilities	**XX**	**XX**
Non Current Liabilities		
Long term Borrowings	X	X
Total Non Current Liabilities	**XX**	**XX**
Total Liabilities	**XX**	**XX**
Net Assets	**XX**	**XX**
Net Assets/ Capital and Reserves		
Capital Contributed by Govt Entities	X	X
Renewals Funds	X	X
Other Reserves	X	X
General Rate Reserves Fund	X	X

Housing Fund	X	X
Total Net Assets/ Capital and Reserves	**XX**	**XX**

Appendix III: Statement of Financial Performance Model

Name of Local Authority	**2008-2009**	**2007-2008**
Operating Revenue	**Kshs**	**Kshs**
Own Source Revenues	X	X
LAVLARK	X	X
LATF	X	X
EU	X	X
Total Operating Revenue	**XX**	**XX**
Operating Expenses		
Employee Costs	X	X
Operating Costs	X	X
Repair& Maintenance	X	X
Depreciation& Amortization	X	X
Total Operating Expenses	**XX**	**XX**
Net Surplus/(Deficit) from operating Activities	**X**	**X**
Bad debts provision	X	X
Interest earned	X	X
Interest paid	X	X
Gain/ Loss on disposal of fixed assets	X	X
Total non-operating revenue (expenses)	X	X
Net Surplus/(Deficit) before extra ordinary Activities	**XX**	**XX**
Extra ordinary items	X	X
Net Surplus/(Deficit) for the year	X	X
Provision for renewals fund	X	X
Net Surplus/(Deficit) carried to GRF	**XX**	**XX**
General Rate Reserve Fund		
Net surplus/deficit for the year	X	X
Balance b/f	X	X
Prior year/other adjustments	X	X
Surplus/ deficit c/f	**XX**	**XX**

Appendix IV: Lists of Local Authorities in Kenya

1	City Council of Nairobi				
No.	**Municipal Coucils**	**No.**	**Town Councils**	**No.**	**County Councils**
1	Municipal Coucil of Mombasa	1	Town Council of Ahero	1	County Council of Baringo
2	Municipal Coucil of Kisumu	2	Town Council of Awendo	2	County Council of Bomet
3	Municipal Coucil of Bomet	3	Town Council of Bondo	3	County Council of Bondo
4	Municipal Coucil of Bungoma	4	Town Council of Burntforest	4	County Council of Bungoma
5	Municipal Coucil of Busia	5	Town Council of Chepareria	5	County Council of Buret
6	Municipal Coucil of Chuka	6	Town Council of Chogoria	6	County Council of Busia
7	Municipal Coucil of Eldoret	7	Town Council of Eldama Ravine	7	County Council of Butere Mumias
8	Municipal Coucil of Embu	8	Town Council of Funyula	8	County Council of Embu
9	Municipal Coucil of Garissa	9	Town Council of Iten	9	County Council of Garissa
10	Municipal Council of Homa-Bay	10	Town Council of Kajiado	10	County Council of Gucha
11	Municipal Coucil of Kabarnet	11	Town Council of Kandara	11	County Council of Gusii
12	Municipal Coucil of Kakamega	12	Town Council of Kangema	12	County Council of Homa-Bay
13	Municipal Coucil of Kapenguria	13	Town Council of Kangundo	13	County Council of Ijara
14	Municipal Coucil of Kapsabet	14	Town Council of Karuri	14	County Council of Isiolo
15	Municipal Coucil of Karatina	15	Town Council of Kendu-bay	15	County Council of Kakamega
16	Municipal Coucil of Kehancha	16	Town Council of Keroka	16	County Council of Keiyo
17	Municipal Coucil of Kericho	17	Town Council of Kikuyu	17	County Council of Kiambu
18	Municipal Coucil of Kerugoya	18	Town Council of Kilifi	18	County Council of Kilifi
19	Municipal Coucil of Kiambu	19	Town Council of Kipkelion	19	County Council of Kipsigis
20	Municipal Coucil of Kimilili	20	Town Council of Kwale	20	County Council of Kirinyaga
21	Municipal Coucil of Kisii	21	Town Council of Liten	21	County Council of Kisumu
22	Municipal Coucil of Kitale	22	Town Council of Londiani	22	County Council of Kitui
23	Municipal Coucil of Kitui	23	Town Council of Luanda	23	County Council of Koibatek
24	Municipal Coucil of Limuru	24	Town Council of Makuyu	24	County Council of Kwale
25	Municipal Coucil of Lodwar	25	Town Council of Malaba	25	County Council of Laikipia
26	Municipal Coucil of Machakos	26	Town Council of Mallakisi	26	County Council of Lamu
27	Municipal Coucil of Malindi	27	Town Council of Malava	27	County Council of Lugari
28	Municipal Coucil of Maua	28	Town Council of Mandera	28	County Council of Makueni
29	Municipal Coucil of Mavoko	29	Town Council of Maragua	29	County Council of Malindi
30	Municipal Coucil of Meru	30	Town Council of Maralal	30	County Council of Mandera
31	Municipal Coucil of Migori	31	Town Council of Mariakani	31	County Council of Maragua
32	Municipal Coucil of Mumias	32	Town Council of Masimba	32	County Council of Marakwet
33	Municipal Coucil of Muranga	33	Town Council of Matuu	33	County Council of Marsabit
34	Municipal Coucil of Naivasha	34	Town Council of Mbita-Point	34	County Council of Masaku

35	Municipal Coucil of Nakuru	35	Town Council of Molo	35	County Council of Mbeere
36	Municipal Coucil of Nanyuki	36	Town Council of Mtito Andei	36	County Council of Meru
37	Municipal Coucil of Nyahururu	37	Town Council of Muhoroni	37	County Council of Meru South
38	Municipal Coucil of Nyeri	38	Town Council of Mwingi	38	County Council of Migori
39	Municipal Coucil of Ruiru	39	Town Council of Nambale	39	County Council of Mount Elgon
40	Municipal Coucil of Runyenjes	40	Town Council of Nandi Hills	40	County Council of Moyale
41	Municipal Coucil of Siaya	41	Town Council of Narok	41	County Council of Muranga
42	Municipal Coucil of Thika	42	Town Council of Nyamache	42	County Council of Mwingi
43	Municipal Coucil of Vihiga	43	Town Council of Nyamarambe	43	County Council of Nakuru
44	Municipal Coucil of Voi	44	Town Council of Nyamira	44	County Council of Nandi
45	Municipal Coucil of Webuye	45	Town Council of Nyansiongo	45	County Council of Narok
		46	Town Council of Ogembo	46	County Council of Nyambene
		47	Town Council of Olkalou	47	County Council of Nyamira
		48	Town Council of Othaya	48	County Council of Nyandarua
		49	Town Council of Oyugis	49	County Council of Nyando
		50	Town Council of Port Victoria	50	County Council of Nyeri
		51	Town Council of Rongo	51	County Council of Nzoia
		52	Town Council of Rumuruti	52	County Council of Olkejuado
		53	Town Council of Sagana	53	County Council of Pokot
		54	Town Council of Sirisia	54	County Council of Rachunyo
		55	Town Council of Sotik	55	County Council of Samburu
		56	Town Council of Suneka	56	County Council of Suba
		57	Town Council of Tabaka	57	County Council of Siaya
		58	Town Council of Taveta	58	County Council of Taita Taveta
		59	Town Council of Ugunja	59	County Council of Tana River
		60	Town Council of Ukwala	60	County Council of Teso
		61	Town Council of Wote	61	County Council of Tharaka
		62	Town Council of Yala	62	County Council of Thika
				63	County Council of Transmara
				64	County Council of Turkana
				65	County Council of Vihiga
				66	County Council of Wajir
				67	County Council of Wareng
	Source Ministry of Local government letter REF No MLG 983/TY/85 of 7 May 2008				