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Financial Accounting Controls and Compliance to International Public Sector Accounting Standards: Case of Nakuru County Government, Kenya

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Abstract: **The entrenchment of a new constitution of 2010 which brought about county governments in Kenya and the acceptance of IPSAS for public sector accounting reporting created weight for responsibility in the running of the public's finances. The study wished to examine Influence of Financial Accounting Controls on Compliance to IPSAS by the county Governments. The study adopted a descriptive research design with a target population of 38 comprising of senior County Government of Nakuru staff involved with Financial and accounting preparation and reporting. Census technique was used where the whole target population was interviewed given the fact that it comprised of only 38 respondents. Both primary and secondary data were collected. Inferential statistics regression and correlations were done to establish the extent to which the factors are influencing compliance to IPSAS by the County Government of Nakuru. The results of the study showed that the respondents are in agreement on the influence of PSASB's framework controls and audit controls by office of Auditor General on compliance to IPSAS, IFMIS controls, and controls on competency of professionals showed that the respondents were not in agreement on the influence on compliance to IPSAS by the county government of Nakuru. The research recommends that the PSASB's framework controls should be strongly engrained in the county government accounting, and proper IFMIS induction should be made.**

Keywords: Integrated Financial Management Information System, Audit office, County Government and Public sector accounting.

1. INTRODUCTION

Public sector comprise of the following, depending on constitutional and legal dispensation of various jurisdictions; National Government, county and sub county governments, local government, municipals, town councils, states and other state controlled institutions. This study relates to government accounting and it is the recording of public sector financial transactions, analyses, grouping, preparation and presentation. Internationally, government sector reporting is based on Generally Accepted Accounting Standards known as IPSAS. It is formed by IPSASB.

The IPSAS aims at enhancing transparency and accountability. Accountability relates to responsibility especially on the accounting professionals of the public sector while transparency relates to openness such that the public can access financial reports and information, improve on comparison such that financial information of different periods and institutions or countries can be compared, increase understanding of the financial information and reports, and enhance reliability and relevance of the information to aid in decision making by various users of the reports such as parliaments and members of public.

Anongo (2014) was for the view that the embracing IPSAS in reporting system would enhance accountability and transparency and improve understand ability and reliability of government monetary reporting.

An overview of the last few decades show that the government sector has pass lots of reforms, usually towards the implementation of means to better administer resources. These changes in public sector financial management have come up with changes in accounting and reporting reinforced by the ideas that current governmental controlling needs useful monetary data is able to attain this requirements (Christiaens *et al.*, 2010). Universal organizations like World Bank and IMF have been advocating for the IPSAS so as to influence governments to transform their reporting (Kahn and Mayes, 2009). They are to realize similar and steady monetary data; to increase the development of governmental to improve administration; to show the way in gearing to enrich administration

According to IMF (2014), the recent financial disaster has underscored the importance of an all-inclusive, dependable, and well-timed pecuniary reporting by governments to worldwide pecuniary and reporting practices in the public sector. Creating and propagating great excellent accounting principles for the municipal segment are energetic to bringing up this change in fiscal transparency. It went ahead to comment that despite considerable and a commendable job that had been done by IAASB over the past few decades to develop and disseminate a comprehensive set of standards and guidance materials, the adoption of IPSAS by national governments remains low.

According to Irina (2013), market circumstances want the use of innovative management ideology, means and ways of running in municipal sector therefore an upsurge in the requirements for objective economic information, which is the main source of accounting. It went ahead to mention that key challenge in monetary reporting in municipal is financial policy formulation.

Over the years, countries throughout the world, have set and defined accounting standards used within their jurisdictions. Kenya is among countries that have been using their own standards. Kenya Accounting Standards (KAS) have generally been used in financial reporting commercial and non-commercial spheres. Municipal Accounting was majorly done using inherent financial reporting ways issued by the relevant institution in charge of finance. Due to the influence of globalization, Kenya has adopted IFRS applied in private sector financial reporting and IPSAS reporting. With so much globalization and change in technology coupled with harmonization of world economic development, accounts prepared in accordance with local principles are no longer relevant. Kenya is one of the countries that are shifting their Public Sector Accounting in National level together with County level.

Nakuru County is one of the 47 county governments in Kenya. It is as result of a new Kenyan Constitution which brought in devolution. This is a form of decentralization granting statutory powers from the national to county level government. The country has had a gradual transfer of power and resources from the National to Sub-County government. According to Korir (2013), in a study entitled ‘Challenges affecting devolution of the public sector services in Kericho County’ one of the strategic goals of National Government is to enhance devolution in all sectors in Kenya. The devolved governments still have many challenges concerning accountability, transparency and effective use of economic resources and financial reporting. These challenges are a result of low uptake of IPSAS among others.

2. PROBLEM STATEMENT

It has become vital for all sectors; be it public or private sectors, to embrace international standards in accounting. The IPSAS were issued to merge monetary systems in the world on definite standards on a statistical way to keep with the fiscal growth and to add to the financial reform, (Irina and Victoria, 2013).

Kenya government has made advancement in encouraging public sector financial reporting through enactment of various legislations, institutional reforms and capacity building. These legislations include: Kenya’s Constitution 2010, Public Financial Management (PFM) Act 2012, and Accountant’s Act 2015. According to the National Treasury (2011), Kenya continues to undertake Public Financial Management Reforms such as adoption of IPSAS, use of Integrated Financial Management Information (IFMIS), as well as strengthening of the Public Sector Accounting Standards Board. With the increasing demand for responsibility from the public sector, presentation as we as disclosure of financial information relating to the government is very important. The need to obtain high quality financial reports is equally important. Decision makers need quality financial reports so as to make reliable and relevant decisions. The answer to this lies in the adoption and compliance to IPSAS. According to Hamisi (2010), there are elementary challenges causing slow implementation and approval of IPSAS by the government of Kenya unlike in other countries. The aim of this study therefore, was to scrutinise Influence of Financial Accounting Controls on Compliance to International Public Sector Accounting Standards by Nakuru County Government.

3. OBJECTIVE

The aim of research was to examine the influence of financial accounting controls on compliance to International Public Sector Accounting Standards by Nakuru County Government.

4. LITERATURE REVIEW

Theoretical anchoring on public sector accounting has been found on new public management theory.

The New Public Management Theory

This theory was championed by Steve Van De Wallem (2013). It deals with the running of government sectors at both national and otherwise level. NPM champions that few countries worked to remove collective agreements. In NPM, populaces are observed as consumers and public servants are viewed as public managers. The need for consistent, reasonable and appropriate public sector accounting reporting is emphasized by the theory. This study was based on influence of financial controls on compliance to IPSAS in order for an organization to prepare and present public sector financial reports so that users can have informed decisions.

Empirical Review

Empirical evidence linking financial accounting controls to IPSAS compliance remain inconclusive.

According to the National Council for Law Reporting (2012), County governments in Kenya were recognized as stipulated in the County Governments Act No. 17 of 2012. The Act states that, a county government shall be in charge for any task given to it under the charter or by an Act of legislative body. The Act further states that, a county government shall be responsible for among others, exercising executive functions, functions provided for in Article 186 of the Constitution, and concern and conscription of county public service. Unwanted to say there are many operations under county governments which demand for very big financing.

Stainbank (2013) conducted a study which indicated that given that African countries have been experiencing cost-effective growth that was intensifying; they are likely to adopt the IFRS. It further went ahead to advise additional research on use of both embracing and accomplishment variable to analyze why some countries were likely to take on than others.

Gyasi (2010) conducted a study in the developing country of Ghana that related to adoption of IFRS in developing country and which was directed to Ghana, the main objectives of the study was to look into the factors that influence adoption of IFRS in Ghana, the benefits as well as demerits of the standards. It found that complexity of IFRS caused some problems to practitioners and users. It also found variations in local regulations as a major challenge. The study suggested further studies on the area.

A sensitization and training workshop on IPSAS (2010) was conducted Nigeria. The following recommendations were given: the government should make a definite statement on the commencement date for implementing the provisions of IPSAS in the State. This would show commitment and political will of the government to embark on fundamental reforms of the State’s PFM systems, a Working Team should be constituted and a Consultant engaged to coordinate the review process of the present accounting policies and procedures, to comply with provisions of IPSAS; subsequently in-depth trainings on IPSAS will be provided to the Accounts and Audit staff of the state, the Budget Codes and Chart of Accounts recently developed for the State Government should be implemented forthwith, the government should acquire suitable Computer Application Software to start automating its accounting system, desktop and Laptop Computers should be supplied to Account Officers in to enable them use basic tools to automate their daily operations and communications. This would result to efficiency and improved productivity, subsidiary accounting records, such as Fixed Assets Register, Accrual Schedules, Prepayment Schedules, Debtors, Creditors, etc. should be introduced immediately in the government Public Finance System, Workshops and training programmes should be planned ahead to give adequate time for preparation.

5. METHODOLOGY

A census method was adopted due to the relatively small size of the target population 38 respondents. A structured questionnaire with close-ended questions was employed to collect primary data from the respondents. For consistency purposes, the questions were captured in the questionnaire will be on a 5-point Likert scale. The reliability of the instrument was ensured through conducting a pilot study of the questionnaires. Reliability was tested using the Cronbach alpha (α) coefficient which is the most widely employed test of reliability. The Statistical Package for Social Sciences (SPSS) software V24 was employed to conduct data analysis. Both descriptive and inferential analyses ware conducted on the collected data. Descriptive analyses aims to establish the opinions of the respondents regarding the various constructs being studied. On the other hand, Pearson's correlation analysis was employed to explain the relationship between independent variables and dependent variable of County governments. The findings of the study were presented in form of statistical tables.

6. FINDINGS

Table 1 Inferential Statistics analysis

Model	Unstandadized Coefficients		Standadized Coefficients	t	Sig.	Collinerity Statistics
	B	Std. Error	Beta			VIF
(Constant)	3.455	3.637		-.950	.350	
PSASB Framework	-.177	.134	-.183	-1.316	.199	1.290
Professional competence	.570	.172	.479	3.323	.003	1.383
IFMIS data management	.223	.127	.269	1.752	.091	1.573
Audits by Auditor General	.383	.120	.413	3.188	.004	1.117

R = 0.771, R square = 0.594, F = 9.886, P = 0.000

From the results, the four independent variables namely; PSASB framework, professional competence, IFMIS data management and Audits by auditor general office significantly explained 59.4% (F=9.886, p = 0.000) of the variation in levels of compliance to IPSAS by Nakuru county government. Further, the regression model results indicates that professional competence (β = 0.57, p = .003) and Audits by Auditor general (β = 0.383, p = 0.004) were significant in predicting the levels of compliance achieved by Nakuru county government. Despite PSASB framework (p =.003) and IFMIS data management (p =.004) indicating a predictive power, they were found to be insignificant.

Given that the p values of both professional competency and audits by the office of auditor General variables were less than 0.05, the null hypotheses were rejected and the alternate hypothesis accepted. Therefore, the two variables influence compliance to IPSAS.

To test the requirements for regression, the researcher sought to assess the correlation among the four variables in the study. The finding were as summarized in table 2.

Table 2: Correlation Analysis

		PSASBF	PROFF COMPETENCE	IFMIS	AUDIT OFFICE	COMPLIANCE
PROF COMP	Pearson Correlation	.091	1			
	Sig. (2-tailed)	.619				
	N	32				
IFMIS	Pearson Correlation	.363*	.506**	1		
	Sig. (2-tailed)	.041	.003			
	N	32	32			
AUDITOFFICE	Pearson Correlation	.300	.101	.065	1	
	Sig. (2-tailed)	.096	.582	.723		
	N	32	32	32		
COMPLIANCE	Pearson Correlation	.082	.641**	.472**	.424*	1
	Sig. (2-tailed)	.656	.000	.006	.016	
	N	32	32	32	32	

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Public sector accounting standards board's framework and IFMIS were significantly correlated, r = .363, p = 0.041< 0.005. Professional competence and IFMIS data management were significantly correlated, r = .506, p = 0.003< 0.005. Compliance and professional competency were also significantly correlated, r = .641, p = 0.000< 0.005. IFMIS data management and compliance were found to be significantly correlated, r = .472, p = 0.006< 0.005 and finally, Compliance and audits by the office of Auditor General Office were significantly correlated, r = .424, p = 0.016< 0.005. The correlation between Professional competence (r =.091, p = 0.6190, audit office (r =.3, p = 0.096) and compliance (r =.082, p = 0.656) were found not to be significantly correlated with PSASB's framework. The correlation between professional competence and audits by office of auditor general (r =.10, p = 0.582) were found not to be significantly correlated.

IFMIS data management and audits by office of auditor general (r =.065, p = 0.723) were found not to be significantly correlated.

7. CONCLUSION

It was established from the study that PSASB's framework controls indeed influence compliance to IPSAS. This is emphasized by the templates simplicity which has made accounting professionals to comply with IPSAS. The accounting professionals have witnessed improvement in compliance to IPSAS as a result of the PSASB's framework and that professional competence controls influences compliance to IPSAS. Routine basis of applying the IPSAS by the county government professionals strongly influences compliance as well as the entry levels of qualifications of the professionals. It was also found from the study that IFMIS influences compliance to IPSAS. A well designed IFMIS that fits to the IPSAS has influence on the compliance. The accounting professionals also appreciated the adoption and usage of the IFMIS and it was ascertained that audit controls by the office of Auditor General Influence compliance to IPSAS. Frequency of audits as well was found to have major influence on compliance to the IPSAS.

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