

## **Standardization of Accounting Information Through Ipsas and Public Finance Accountability: a Perspective from Taita-Taveta County, Kenya**

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**Abstract:** *The need for the development of unified accounting standards has been the primary driver of international public sector accounting standards for public sector financial reporting. A common set of international accounting standards can reduce the information processing and auditing costs to market participants. A dispassionate view of the facts presented in the Auditor General for the Financial Year ended on June 30, 2014 show that Kenya's public finance management and accounting processes are still highly manual and inaccurate, calling to question the efficacy of the adoption of International Public Sector Accounting Standards (IPSASs) in the public sector accounting. Specifically, in counties like Taita Taveta County, the level of qualified reports has remained high despite the adoption of IPSASs in the last two years. Though the quality of financial reporting has been cited as a factor to the low level of accountability in the County, standardization of financial reports has not been mentioned. Therefore, the main objective of the study was to determine the effects of standardization of accounting information through IPSAS in enhancing public finance accountability in Kenya focusing on Taita-Taveta County. Descriptive survey research design was used targeting accounts management and staff drawn from 4 sub county treasury offices, the County Treasury Head Quarters and the County Assembly in the entire county. A sample size of 79 respondents obtained through simple random sampling was used. Structured questionnaire were used for data collection. Data was analyzed using both descriptive and inferential statistical methods with the aid of Statistical Package for Social Scientists (SPSS). The results revealed that standardization of accounting information through IPSAS considerably affected public finance accountability in the County and, moreover, compared to other standards, IPSAS was more effective and informative. Therefore, it was recommended that, the performance of the IPSAS systems needs to be consistently monitored so as to ensure high standards of financial accounting information reporting are maintained so as to enhance public finance accountability in the County.*

**Keywords:** *Standardization, Accounting Information, Public Finance Accounting*

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### **I. Introduction**

Public organizations are responsible for profitably managing public assets while at the same time ensuring high and equitable standards of service delivery. One of the areas where there have been significant challenges in the management of public finance has been in accounting. A government's financial accountability arises from the budget setting process during which it gains agreement to the levels of taxation which will be levied and to the funding which will be allocated to the various services which it intends to provide (Wyne, 2012). The government should fulfill the stewardship function by providing an audited comparison of the actual use of resources with the agreed budget. Money appropriated and spent can easily get lost or misappropriated where there are no standard reporting and accounting. Moreover, the increasing loss of accountability and complexity of government structure courtesy of decentralization and devolution have necessitated that the public sector move to a new paradigm of New Public Management (NPM) which implies managing based on use of economic regularities and market efficiency principles (Achua, 2009). The NPM reform underpin six core elements in public sector governance namely privatization, marketization, decentralization, output orientation, quality systems and intensity of implementation (Connolly & Hyndman, 2006). However, for reforms in the accounting sector to have full effects, there needs to be standardization of the accounting systems so as to increase the ease of financial information sharing.

For quite some time now, countries of the world have defined and set the standards of financial reporting in their individual territories. However, globalization has brought about ever increasing collaboration, international trade and commerce among the countries of the world; hence, there is grave need for increased uniformity in the standards guiding financial statements so that such statement would remain comprehensible and convene the same information to users across the world (Ijeoma & Oghohomeh, 2014). The need for the development of unified accounting standards has been the primary driver of international public sector accounting standards for public sector financial reporting. A common set of international accounting standards can reduce the information processing and auditing costs to market participants (Ijeoma, 2014). However, there

are contentions that accounting standards evolve in the context of domestic, cultural, legal, and other institutional features - including auditing (Ball, 2006, Lapsley, Mussari & Paulsson, 2009). Theodore Limperg in the Theory of Inspired Confidence observed that the obligation of the accountant is to carry out his work in such way that he does not betray the expectations which he evokes in the community at large (Limperg Institute, 1985). The theory expects the accountant in each special case to ascertain the expectations he arouses and to realize the tenor of the confidence that he inspires with the fulfillment of each specific function (Adeyemi & Olowookere, 2011). However, the success of the accounting system cannot be premised on the accountant's attributes and, thus, recourse to standardization of the process is necessary. Standardization as a recommended accounting tool is instrumental in dissemination of information across board and ensures the continuity of the accounting process. Moreover, may help manage the expectations of the community in a more reliable way than simply relying on the accountant's expertise. According to Benito, Brusca and Montesinos (2007), the adoption of International Public Sector Accounting Standards (IPSASs) is part of strategies for modernization by public sector to improve the level of confidence in the quality and reliability of financial reporting and encourage the provision of information for accountability and transparency.

The International Public Sector Accounting Standards Board (IPSASB) develops International IPSASs both cash based and accrual based standards used for the preparation of general purpose financial statements by governments and other public sector entities around the world. Through these standards, the IPSASB aims to enhance the quality, consistency, and transparency of public sector financial reporting worldwide. The IPSASB also issues guidance and facilitates the exchange of information among accountants and others who work in the public sector and promotes the acceptance of and international convergence to IPSASs (IPSASB, 2007). International Public Sector Accounting Standards (IPSASs) are financial measurements reporting rules recommended for adoption by governments around the world in the preparation of financial statements by public entities applicable at all levels of governments to harmonize their national standards in response to greater government financial accountability and transparency (Chan, 2008). While the commercial entities across the world are moving toward International Financial Reporting Standards (IFRS), governments are harmonizing with IPSAS. IPSAS govern the accounting by public sector entities, with the exception of Government Business Enterprises.

According to Christiaens, Reyniers and Rollé (2010) the main reasons to use the IPSAS standards is the conviction that the adoption of IPSAS will improve the (inter)national comparability of financial information and to facilitate the consolidation of financial statements. Some jurisdictions, on the other hand, choose not to apply the IPSAS. The reasons to do this are double. Firstly, important weaknesses are the fear of losing their standard setting authority and the fact that the IPSAS are still relatively unknown. The second reason why some jurisdictions choose to not apply the IPSAS is because they have chosen for implementing their own business accrual accounting regulations, which fits in the "Law of the handicap of a head start". This slows down the IPSAS compliance process. In order to overcome this, a cultural change as well the necessary enforceability of the IPSAS is necessary. Heald (2003) noted that IPSAS is at present the focal point of global revolution in government accounting in response to calls for greater government financial accountability and transparency. Many countries in the world have, notably, been slow at adopting IPSAS in their public sector accounting. However, for countries that have done so, there have been noticeable improvement in the results. What remains to be seen in these studies is whether the changes meet the community's public accountability expectations especially through the end result as opposed to the process. A critical examination of the effects of standardization of accounting information through IPSAS of public sector accountability is, thus, warranted.

In Kenya, the Public Sector Accounting Standards Board (PSASB) permitted the National and County government and their respective entities to apply cash based IPSASs whereas the Semi-Autonomous National and County Government Agencies shall apply Accrual based IPSASs. The standards were scheduled to be adopted and applied with effect from the 1st July 2014 and were intended to enhance quality of financial reports and improve compliance with internal controls in all state organs and public sector entities (Kenya Gazette No. 18, 2014). A review of the audit report presented by the Auditor General for the Financial Year ended on June 30, 2014 provided an opportunity to reflect on the state of public finances in Kenya (Institute of Economic Affairs-Kenya, 2015). First and foremost, it suggests that while the total spending and allocations to state departments are increasing, it is clear that these increments are based on a very weak foundation for financial management. A dispassionate view of the facts presented show that Kenya's public finance management and accounting processes are still highly manual and inaccurate, calling to question the efficacy of the adoption of International Public Sector Accounting Standards (IPSASs) in the public sector accounting. This was in contrast to the expectation of the system by the public makers and beneficiaries alike. In particular, the unchanging nature of the qualified statements and the worsening of the adverse statements in the report cast doubt on the influence of IPSASs in improving financial accountability in the country's public sector especially now that it has been devolved.

Taita Taveta County has despite the adoption of IPSASs has persistently received comparably high percentages of qualified report for the past two years. This has raised great public concern as to accountability of their government in use of the county public resources to discharging quality services to its people. While the problem of accounting in Taita Taveta County and other counties in the county has been attributed in part to poor reporting procedures, aspects such as Standardization of accounting information have not received considerable research attention. Therefore, the main objective of the study was to determine the effects of Standardization of accounting information through IPSAS in enhancing public finance accountability in Kenya focusing on Taita-Taveta County. Accordingly, two hypotheses were formulated, thus:

**H01:** Standardization of accounting information through IPSAS does not significantly affect Public finance accountability in Taita-Taveta County

**H1:** Standardization of accounting information through IPSAS significantly affects public finance accountability in Taita-Taveta County

## II. Research Methodology

Descriptive survey research design was used targeting accounts management and staff drawn from 4 sub county treasury offices, the County Treasury Head Quarters and the County Assembly in the entire county. A sample size of 79 respondents obtained through simple random sampling was used. Structured questionnaire were used for data collection. Data was analyzed using both descriptive and inferential statistical methods with the aid of Statistical Package for Social Scientists (SPSS) version 21.0.

## III. Results and Discussions

This section presents results arising from the analysis of data collected using questionnaires. The study first sought to examine the status of Standardization of accounting information through IPSAS in Taita Taveta County. The results are summarized in Table 1 and discussed.

**Table 1:** Standardization of accounting information through IPSAS

Statements	Mean	Std. Deviation	Totals
We prefer working with IPSAS standards than any other standards	4.05	0.749	79
Our efficiencies have improved as a result of our adopting the IPSAS standards	3.94	0.837	79
We have been able to make our statements and other reporting documents more informative as a result of IPSAS adoption	3.89	0.768	79
IPSAS enables us to share financial information easily and in the form in which it is required	3.91	0.737	79
Compared to other standards, we find IPSAS more effective and informative	4.00	0.784	79

The results in Table 1 suggest that most of the respondents preferred working with IPSAS standards than other accounting standards (mean = 4.05). This could be explained by the finding suggesting that majority were of the opinion that their efficiencies had improved considerably as a result of adopting the IPSAS standards (mean = 3.94). The findings also indicate that the organization had been able to make its statements and other reporting documents more informative as a result of IPSAS adoption ( mean = 3.89). IPSAS was also instrumental in facilitating the sharing of financial information easily and in the form which was required (mean = 3.91) implying that data integrity was maintained while sharing information. Thus, the findings also indicate that compared to other standards, IPSAS was found to be more effective and informative (mean = 4.00). The mean score on each item in this objective was also significantly higher than the mid-point 2.5. This implies that IPSAS as an accounting standard was comparatively better than other standards known to the respondents. .

### Public Finance Accountability in Taita-Taveta County

The study also sought to examine the status of Public Finance Accountability in Taita-Taveta County. The results are summarized in Table 2 and discussed.

**Table 2:** Public Finance Accountability in Taita-Taveta County

Statements	Mean	Std. Deviation	Totals
We are experiencing higher levels of unqualified and qualified reports as a result of IPSAS	3.52	1.108	79
We are experiencing less revenue shortfalls due to improved accounting through IPSAS	3.57	1.046	79
We are able to act on audit recommendations in a much better way due to use of IPSAS	3.84	0.854	79
Through IPSAS we are now able to verify the history of transactions	3.89	0.987	79
The variances between the revenues and expenditures have significantly reduced in our county	3.82	0.958	79
We have reduced the levels of funds misappropriation in our county	3.94	0.822	79

From the findings in Table 2, it is evident that since the introduction of IPSAS, the County governments was experiencing a growth of unqualified and qualified reports (mean = 3.52). The County was also experiencing less revenue shortfalls due to improved accounting through IPSAS (mean = 3.57), this can be attributed to the findings that the County finance department was able to act on audit recommendations in a much better way as a result of IPSAS adoption (mean = 3.84). It is also evident that through IPSAS the County finance department was now able to verify the history of transaction (mean = 3.89) and the variances between the revenues and, as such, expenditures had significantly reduced in the County (mean = 3.82). Hence, through IPSAS, the levels of funds misappropriation in the County had been reduced considerably (mean = 3.94). Looking at the mean scores on each item in this objective, it is evident that majority were significantly higher than the midpoint 2.5. This implies that the public finance accountability in the County had considerably improved as a result of IPSAS.

**Correlation Analysis**

The results of the correlational analysis are summarized in Table 3.

**Table 3: Summary of Correlations**

		Standardization of accounting information through IPSAS	Public Finance Accountability in Taita-Taveta County
Standardization of accounting information through IPSAS	Pearson Correlation	1	0.659
	Sig. (2-tailed)		0.000
	N	79	79
Public Finance Accountability in Taita-Taveta County	Pearson Correlation	0.659	1
	Sig. (2-tailed)	0.000	
	N	79	79

The correlation analysis to establish whether standardization of accounting information through IPSAS in enhancing public finance accountability in Taita-Taveta County in Table 3 revealed that a significant relationship ( $r = 0.659, p \leq 0.05$ ) existed between the variables. The very strong relationship between the variables suggests that there was much emphasis on standardization of the accounting by IPSAS to facilitate information sharing that was readily comprehensible and free of conceptual distortions.

**Table 4: Regression Analysis**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.659	0.4343	0.4269	3.46132
Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	2.084	2.695	
	Standardization of accounting information through IPSAS	1.035	.135	.659

**a. Dependent Variable: Public Finance Accountability in Taita-Taveta County**

According to the results in Table 4, the value obtained for R, which is the Pearson’s model correlation coefficient is  $r = 0.659$  was sufficiently high indicating that the model improved when more variables were incorporated when trying to determine the effects of Standardization of accounting information through IPSAS on public finance accountability in Taita-Taveta County. The adjusted r-square value of,  $r = 0.4269$ , also suggests that the Standardization of accounting information through IPSAS alone could explain for approximately 43% of the changes in the public finance accountability in the County as per the model. However, other factors not in the model could explain upto 57% of the public finance accountability in the County. Moreover, the findings also suggest that a linear relationship exists between the two variables.

**Hypothesis Testing**

Based on these findings the hypotheses of the study can be tested, thus;

**H04:** Standardization of accounting information through IPSAS does not significantly affect public finance accountability in Taita-Taveta County

**H4:** Standardization of accounting information through IPSAS significantly affects public finance accountability in Taita-Taveta County

The findings in the regression model in Table 11 indicate that Standardization of accounting information through IPSAS significantly affected public finance accountability in Taita-Taveta County ( $\beta = .451, p \leq 0.05$ ). This led to the rejection of the null hypothesis **H04** and the acceptance of the alternative **H4**.

#### IV. Discussions

According to the findings, IPSAS standards were more preferred than other accounting standards. This was explained by the finding IPSAS considerably improved accounting efficiencies. The findings also revealed that the organization had been able to make its statements and other reporting documents more informative as a result of IPSAS adoption. IPSAS was also instrumental in facilitating the sharing of financial information easily and in the form in which it was required implying that data integrity was maintained while sharing information. Thus, compared to other standards, IPSAS was found to be more effective and informative. These findings reflect the widely expected results by Tanjeh (2016) and Kathleen (2009) who postulated that the introduction of widely acceptable, recognizable and adaptable standards such as IPSAS would strengthen accountability in the public sector in the long run. However, the findings contrasted those obtained by Al-Zubi (2015) concerning the application of IPSAS in the Jordanian public sector accounting that indicated there was a problem in applying the new standards in the country's system due to poor monitoring of the system's functionality. Ijeoma and Oghoghomeh (2014) also examined the expectations, benefits and challenges of adoption of International Public Sector Accounting Standards (IPSAS) in Nigeria and found that IPSAS was instrumental in promoting public sector accountability in the country. Results from the regression analysis also revealed that statistical reporting systems through IPSAS was a strong predictor of public finance accountability in the County.

#### V. Conclusions and Recommendations

Based on the results of the study, it can be concluded that standardization of accounting information through IPSAS considerably affected public finance accountability in the County and, moreover, compared to other standards, IPSAS was more effective and informative. IPSAS had also improved sharing of financial information while retaining high data integrity. Therefore, it is recommended that, the performance of the IPSAS systems needs to be consistently monitored so as to ensure high standards of financial accounting information reporting are maintained so as to enhance public finance accountability in the County.

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