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FACTORS AFFECTING IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS IN DEVOLVED GOVERNMENT UNITS; A SURVEY OF COUNTY GOVERNMENTS IN SOUTH NYANZA REGION, KENYA

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Abstract: *The Public Financial Management Act (2012) recognizes reforms in accounting for public finances as a critical focal point in the success of devolution in Kenya. The implementation of the International Public Sector Accounting Standards (IPSAS) is one such reform endeavor. The study was anchored on The Economic Network Theory, the Stakeholders Theory, the Management Information Systems Theory and the Resource Based View Theory. The correlational research design was employed in the study. The target population was the principal accountants in the ten ministries for the five counties within South Nyanza region.*

Scope: *The study was conducted in South Nyanza counties of Kisii, Nyamira, Homa Bay, Migori and Kisumu. The counties were chosen because of the poor rating they have consistently received from the office of the Auditor General in the last four years in terms of public financial management and because of the researcher's familiarity with the area which made data collection easier. The study was conducted between the months of January and July, 2018.*

Findings*: It was found that the political system negatively but significantly (β = -0.581, p = 0.00) affect implementation of IPSAS; legal and regulatory environment was found to positively but significantly affect IPSAS implementation (β = 0.338, p = 0.000); system and process factors have a positive significant relationship with implementation of IPSAS (β = 0.299, p = 0.42), and; staff capacity has a positive significant effect (β = 0.210, p = 0.000) on implementation of IPSAS in the devolved units. It is recommended that; the political class is sensitized on the need for standards' implementation so that they support the implementation process; legal and regulatory factors are strengthened more since they improve implementation of the IPSAS; system and process factors such as a physical office in the devolved units be established, and; staff dealing with public sector accounting is trained on the implementation of the IPSAS.*

Keywords: *accounting standard, devolved government unit, legal and regulatory environment*

I. INTRODUCTION

Significance of the Study

The findings of this study are envisaged to be of benefit to the devolved units in South Nyanza Region and the National Government especially when they are formulating policies in implementation of IPSAS that are meant to improve the public financial management practices in the institutions. The study findings are also likely to be of importance to government institution lenders. They would be more aware on the implication of various investment choices and therefore make necessary adjustments. There is likely to be increased level of confidence and improved decision-making and in government financial reporting by emphasizing on disclosures and presentations of information relevant to the key stakeholders in Government financial reporting. The study findings would also help develop a framework for reporting satisfaction of key stakeholders in Government accounting.

Background of the Study

The past few years have shown that the global financial system is in need of a variety of reforms (Ernst and Young, 2011) with one of the most important aspects being the tendency of reforms in the financial information systems in public institutions (Christiaens *et al.*, 2013). The public sector accounting reforms are regarded as part of improving information system in public financial management based on accruals as a tool to gain a wider accountability in a democratic system in a free market (Chan, 2006).

The Public Financial Management Act (2012) recognizes reforms in the management and administration of public finances as a critical focal point in the success of devolution in Kenya (GoK, 2012). This is because reforms in county governments' financial and accounting management systems and processes are becoming critical in response to increasing demands for greater transparency and accountability in the management of the public's finances. The need for the reforms has further arisen since the current accounting systems in most county governments in Kenya are not providing timely and accurate financial information for statutory reporting requirements and for decision making in such critical areas as budget planning and management, procurement and asset management (GoK, 2013). Moreover, fragmented and uncoordinated computerization has resulted in a plethora of systems that have increased the variations in how financial and accounting information is processed and presented, thereby increasing the already difficult task of meeting Government's statutory obligations for financial reporting (Hamisi, 2010).

The Public Financial Management (PMF) Act (2012) was enacted out of the need for financial prudence in the National and County governments arising from the promulgation of the new constitution in Kenya in 2010. Moreover, according to Hamisi (2010), the Government of Kenya assessment report on strengthening Government finance and accounting functions assessed the reasons for the shortfall in performance from a range of perspectives including, application of existing financial regulations; current procedures and systems and further computerization and the potential for increasing efficiency through further computerization; organization structure and management and supervision arrangements in respect of the accounting cadre; and skills, career development, performance and impact of the current scheme of service. The need for strictly inculcating the International Public Sector Accounting Standards (IPSAS) in government financial management therefore arose to stem these challenges.

The International Public Sector Accounting Standards (IPSAS) are developed by the International Public Sector Accounting Standards Board (IPSASB) and enacted by the International Federation of Accounts (IFAC). According to Tanjeh (2016), the International Federation of Accountants (IFAC) establishes and promotes the application of International Public Sector Accounting Standards (IPSAS) by public sector entities around the world when preparing their General Purpose Financial Reports (GPFR). International Public Sector Accounting Standards (IPSAS) are a full suite of standards, designed for the public sector set by an independent, international standard setter. IPSAS are held up as the best government accounting ideas that the global accounting profession has to offer.

The main aim of IPSAS is to improve the quality of GPFR by public sector entities so as to have a better informed assessment of the decisions governments take to allocate resources. Compliance with IPSAS guarantees that financial reporting by public entities conveys a true and fair view of the financial situation. The adoption of IPSAS therefore, enhances transparency and accountability by governments in the management of public resources. It raises the quality of accounting and financial management, facilitates transactions with financiers and simplifies communication with the general public. Additionally, IPSAS assure comparability of financial reporting with other counties within the country, in the region and worldwide (IASB, 2013). Consequently, public sector accounting carries out a basic purpose of safeguarding the public treasury by timely preventing and detecting corruption (Chan, 2003). This basic purpose of government accounting however meets enormous challenges since the implementation of the IPSAS has not been effective especially in the developing countries.

The Public Sector Accounting Standards Board (PSASB) of Kenya was established by the Public Finance Management Act (PFM) No. 18 of 24/7/2012. The Board was gazetted by the Cabinet Secretary, National Treasury on 28/2/2014 with a mandate to provide a framework and set generally accepted Standards of the development and Management of 6 Accounting and financial systems by all the State organs and Public entities. Public Finance Management (PFM) Act was enacted in 2012, where it provided under section 192 for the establishment of the Public Sector Accounting standards Board (PSASB), consequently, the cabinet secretary National treasury gazetted the members of Board through gazette notice no. 1199 of 28/2/2014. The Board in its fourth meeting approved the adoption of the International Financial Reporting Standards (IFRS), the International Public Sector Accounting Standards (IPSAS) International Professional Practice framework (IPPF) for internal auditing standards by all state organs and Public sector entities.

The new Kenyan constitution created 47 county governments. The county governments came into operation in March 2013 with distinct governors and autonomous decision making authorities including accounting and financial management. However, the county governments are supposed to be audited by the Auditor General (AG). The audit reports by the Auditor General of most counties have however issued qualified reports indicating that there are numerous issues of mismanagement of the public finances in the counties. Counties in South Nyanza Region have consistently ranked poorly in these reports. These are Kisii, Nyamira, Homa Bay, Migori and Kisumu. For instance, in 2014, devolved units in South Nyanza Region was ranked 44 put of the 47 counties in terms of transparency and accountability in Kenya. Additionally, Homa Bay and Migori were also ranked poorly in terms of financial prudence in the same period. This indicates that the counties have not effectively implemented the International Public Sector Accounting Standards (IPSAS).

Statement of the Problem

The implementation of IPSAS is a very important matter because it improves the capacity of governments to provide the legislative bodies, citizens, media , Taxpayers, donors, employees and other stakeholders with understandable, relevant, reliable, and comparable financial statements. However, the public sector devolved government accounting and financial management has been criticized in Kenya and all over the world (Okungu, 2015) as being wasteful. The Auditor General's annual reports have consistently raised queries concerning public accounting and financial management in the county governments and especially those in the South Nyanza Region which have been ranked poorly in public financial management by the Auditor General which indicates poor implementation of IPSAS (GoK, 2015). Many practitioners believe this can be achieved by full implementation of IPSAS in the county governments (Ouda, 2014). While several studies have been conducted in various governments, factors affecting implementation of the IPSAS that could reverse this trend have not been isolated specifically for the five counties in the Nyanza Region. The main purpose of the present study was therefore to investigate factors affecting implementation of IPSAS in devolved units in South Nyanza Region.

Objectives of the study

The general objective of the study was to investigate the factors affecting implementation of International Public Sector Accounting Standards (IPSAS) in devolved government units in South Nyanza Region, Kenya. The specific objectives were;

(i) To evaluate how political system affect implementation of IPSAS in devolved units in South Nyanza Region;
(ii) To establish how the legal and regulatory environment affects implementation of IPSAS in devolved units in South Nyanza Region;
(iii) To evaluate the role of systems and processes in implementation of IPSAS in devolved units in South Nyanza Region; and
(iv) To establish how staff capacity affects implementation of IPSAS in devolved units in South Nyanza Region.

II. RESEARCH METHODOLOGY

The correlational research design was employed in the study. The target population was the principal accountants in the ten ministries for the five counties. Census sampling design technique was used to select the 50 respondents for the study. Questionnaires with a five-point Likert scale were used to collect primary data while content analysis of published information was used to collect secondary data. The test-retest coefficient was used to establish reliability of the research instruments while Content Validity Index (CVI) was used to determine the validity of the questionnaires. The data was analysed using multiple regression analysis and the results were presented using tables and figures.

III. RESULTS AND DISCUSSION

Descriptive Statistics for Factors Affecting IPSAS Implementation

This study sought to establish factors affecting IPSAS implementation in devolved units in Kenya with special reference to the five devolved units of South Nyanza Region. Before establishing the specific roles of the factors, the level of availability of the factors in the devolved units was established using the weighted average method. The results are shown in Table 1.

Table 1: Factor Analysis

Factor	Mean	Median	Standard Deviation
Political System	3.593	3.440	0.320
Legal and Regulatory	2.540	2.038	1.935
Systems and Processes	2.309	2.187	2.194
Staff Capacity	3.461	2.997	0.309

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Table 1 shows that political system factors have the highest mean of 3.593 and a standard deviation of 0.320. This implies that the respondents agreed that political system were more prevalent in the operationalization of IPSAS in the devolved units. Staff capacity factors were ranked second in terms of prevalence as they had a mean of 3.461 and a standard deviation of 0.309. The small standard deviation implies that most respondents had responses that were almost similar. Systems and processes were ranked least in terms of availability in the devolved units. It implies that systems and process factors are least prevalent.

Correlation between Factors affecting implementation of IPSAS and implementation of IPSAS

Inferential statistics to determine the relationship between the variables was done using both correlation and regression analysis. To establish whether there was a relationship between the variables, a correlation analysis was conducted. As noted by Sekaran (2010), the correlation analysis is conducted to shows the direction, strength, and significance of the relationships among the variables under study. If a positive correlation is found, then it indicates that as one variable increases, the other variables will also increase. On the other hand, a negative correlation indicates that as one variable increases the other variable decreases (Sekaran, 2010). Both correlation and regression were conducted based on equation below.

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$$

Where: **Y** is implementation of the International Public Sector Accounting Standards (IPSAS) in devolved units in South Nyanza Region.

$\mathbf{X_1}$ is Political system,

$\mathbf{X_2}$ is Legal and Regulatory factors,

$\mathbf{X_3}$ is Systems and Process factors,

$\mathbf{X_4}$ is Capacity factors

$\boldsymbol{\beta_0}$ is the constant term

$\boldsymbol{\beta_1}$, $\boldsymbol{\beta_2}$, $\boldsymbol{\beta_3}$ and $\boldsymbol{\beta_4}$ are the coefficient for the dependent variables.

$\boldsymbol{\varepsilon}$ is the error term which is assumed to be normally distributed.

In the equation, a correlation was run to test the direction of relationships between the hypothetical factors affecting implementation of IPSAS and the implementation. Results of the correlation are shown in Table 2.

Table 2: Correlation between the Variables

	Y	**X_1**	**X_2**	**X_3**	**X_4**
Y	1				
X_1	-0.350^{***}	1			
X_2	$.498^{***}$	.098	1		
X_3	$.302^{***}$	.034	.091	1	
X_4	$.270^{***}$	.351	.420	.035	1

Note: *** $p < 0.01$

From Table 2 it can be shown that all the hypothetical factors affecting implementation of IPSAS are significantly and positively correlated with implementation of the IPSAS. Out of the four hypothetical factors, political system were found to be highly and significantly negatively correlated (-0.350) with implementation showing that an increase in political system leads to a decrease in implementation of the IPSAS. This implies that political system negatively affect implementation of IPSAS. However, legal and regulatory factors (0.498), systems and processes (0.302) and staff capacity (0.270) were all found to be positively and significantly correlated with implementation of IPSAS. The results in Table 4.3 indicate that there is no multicollinearity issues since all the correlation coefficients are less than 0.80 (Gujarati and Porter, 2009).

Table 3: **Model Suitability**

Model	R	R Square	Adjusted Square	R Sig
1	.772[a]	.596	.581	.039

Table 3 shows that the predicted model is a strong predictor of IPSAS implementation. It is shown that the hypothesized factors and IPSAS implementation have a strong correlation between them. This is shown by the correlation coefficient of 0.772. From the model regression relationship, it can therefore be inferred that the general relationship between the variables is strong. Since the present study was carried out on the hypothesis that the factors did not affect implementation of the IPSAS, the p-value of 0.039 ($p < 0.05$) makes rejection of the null hypothesis possible and therefore the alternative hypothesis is accepted. It therefore implies that there is a significant relationship between the hypothesized factors and implementation of IPSAS in the devolved units.

The ANOVA Table 4 was used to test the significance of the whole model. From the table, it can be confirmed that the model is significant. The p-value of 0.01 ($p<0.05$) indicates that the null hypothesis of the hypothesized factors not affecting implementation of the IPSAS is rejected. It therefore implies that there is a significant relationship the factors and implementation of IPSAS.

Table 4: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.117	3	0.4234	4.888	.001[a]
	Residual	1.213	201	0.866		
	Total	5.240	204			

a. Predictors: (Constant), X_1, X_2, X_3, X_4

b. Dependent Variable: Y

Table 4 show how each set of factors affects implementation of IPSAS in the devolved units. Results in the table show that of the four set of factors, only political system negatively but significantly (β = -0.581, p = 0.00) affect implementation of IPSAS. This implies that all factors held constant, a unit increase in political influence leads to a 58.1% decrease in the implementation of the IPSAS in the devolved units. These results agree with those of Hamisi (2013) who reported that political influence negatively affects implementation of IPSAS in public organizations.

The regression coefficient for legal and regulatory factors was shown to be positive and significant with a beta value of 0.338 (p = 0.000). This implies that for a unit increase in legal and regulatory factors, there is a significant increase of 33.8% in the implementation level of the IPSAS in the devolved units. Tanjeh (2016) reported similar findings in their report on factors influencing Public Sector Accounting Standards in Cameroon.

Table 4 further shows that system and process factors have a positive significant relationship with implementation of IPSAS (β = 0.299, p = 0.42) implying that for every unit increase in system and process factors, there is a 29.9% increase in the implementation level of IPSAS in the devolved units. These results are in tandem with those by Tanjeh (2016) and Hamisi (2010) who reported that system and process factors positively and significantly influence implementation of IPSAS in public organizations.

Lastly, staff capacity was found to have a positive significant effect on implementation of IPSAS in the devolved units. This was shown by the beta coefficient of 0.21 (p = 0.000) which implies that for every unit increase in staff capacity through development such as capacity building, and all other factors held constant, there is an increase of 21% in implementation level of IPSAS. Hamisi (2010) reported similar findings which confirm the Resource Based Theory that empowering human resources increases the organization's performance.

Table 5: Factors affecting Implementation of IPSAS (Coefficients)

Unstandardized Coefficients		**Standardized Coefficients**			
	β	**Std. Error**	**X**	**t-value**	**Sig.**
(Constant)	0.449	0.201		2.234	.000
X_1	-0.581	0.281	-0.572	2.068	.000
X_2	0.338	0.131	0.329	2.580	.003
X_3	0.299	0.153	0.192	1.954	.042
X_4	0.210	0.209	0.267	1.005	.000

IV. SUMMARY OF FINDINGS

This study sought to investigate the factors affecting implementation of IPSAS in devolved government units using devolved units in South Nyanza Region. The specific objectives of the study were to; evaluate how political system affect implementation of IPSAS in devolved units in South Nyanza Region; establish how legal and regulatory factors affect implementation of IPSAS in devolved units in South Nyanza Region; evaluate the effect of systems and process factors in implementation of IPSAS in devolved units in South Nyanza Region; and establish how staff capacity effects implementation of IPSAS in devolved units in South Nyanza Region. After the analysis of the data, the following is a summary of findings.

Effect of Political System on Implementation of IPSAS

Results from the study for the first objective which was to evaluate how political system affect implementation of IPSAS in devolved units in South Nyanza Region showed that political system negatively but significantly (X = -0.581, p = 0.00) affect implementation of IPSAS. This implies that all factors held constant, a unit increase in political influence leads to a 58.1% decrease in the implementation of the IPSAS in the devolved units.

Effect of Legal and Regulatory Environment on Implementation of IPSAS

The second objective was to establish how legal and regulatory factors affect implementation of IPSAS in devolved units in South Nyanza Region. The regression coefficient for legal and regulatory factors was shown to be positive and significant with a beta value of 0.338 (p = 0.000) implying that for a unit increase in legal and regulatory factors, there is a significant increase of 33.8% in the implementation level of the IPSAS in the devolved units.

Effect of System and Processes on Implementation of IPSAS

The third objective was to evaluate the effect of systems and process factors in implementation of IPSAS in devolved units in South Nyanza Region. Results showed that system and process factors have a positive significant relationship with implementation of IPSAS (X = 0.299, p = 0.42) implying that for every unit increase in system and process factors, there is a 29.9% increase in the implementation level of IPSAS in the devolved units.

Effect of Staff Capacity on Implementation of IPSAS

Results based on the fourth objective which was to establish how staff capacity effects implementation of IPSAS in devolved units in South Nyanza Region showed that staff capacity has a positive significant effect on implementation of IPSAS in the devolved units. This was shown by the coefficient of 0.21 (p = 0.000) which implies that for every unit increase in staff capacity through development such as capacity building, and all other factors held constant, there is an increase of 21% in implementation level of IPSAS.

Conclusion

In line with the objectives of the study, the data collected and analysed, the following conclusions can be drawn. For the first objective, whose finding was political system negatively but significantly affect implementation of IPSAS, it is concluded that the political system in the devolved units does not show good will towards implementation of the IPSAS due to factors such as corruption. The implication is that politicians would like to suppress IPSAS since implementation of IPSAS inhibits and reduces corruption.

The conclusion made based on the second objective's conclusion which was that legal and regulatory factors have a positive and significant effect on implementation level of the IPSAS in the devolved units, is that if legal and regulatory factors are strengthened in the devolved units, implementation of IPSAS will be more effective.

Based on the findings from the analysed data for the third objective which was to evaluate the effect of systems and process factors in implementation of IPSAS in devolved units in South Nyanza Region and whose results showed that system and process factors have a positive significant relationship with implementation of IPSAS, it is concluded that is that if system and process factors such as the presence of a coordinating office in the counties are strengthened in the devolved units, implementation of IPSAS will be more effective.

The study found out that for the fourth objective staff capacity factors positively and significantly affect implementation of IPSAS in the devolved units. It is therefore concluded that improving staff capacity of IPSAS implementers in the devolved units will improve implementation of the standards.

Recommendations

Based on the data collected for the first objective, analysed and the following conclusions can be made. Based on the conclusion from the first objective which was that political system negatively and significantly affect implementation of IPSAS, it is recommended that the political class is sensitized on the need for standards' implementation so that they support the implementation process.

Based on the conclusion from the second objective, it is recommended that legal and regulatory factors are strengthened more since they improve implementation of the IPSAS. The implementers should ensure that the standards are implemented fully by following the legal framework and anyone who does not follow the rules be subjected to the law.

It is also recommended that system and process factors such as a physical office in the devolved units be established since these factors were found to have a positive significant effect on implementation of the IPSAS.

It is concluded, based on results for the fourth objective, that staff capacity factors such as training of staff affect implementation of the IPSAS positively and significantly. It is therefore recommended that staff dealing with public sector accounting is trained on the implementation of the IPSAS.

Suggestions for Further Research

This study recommends a similar study to be done but concentrate on other factors affecting implementation of IPSAS for all counties in Kenya, non-governmental organizations and public universities. It is proposed that the following studies be conducted to supplement this one.

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