The Impact of Assets and Liabilities Accounting Controls on Financial Reporting Quality in Public Technical Training Institutes in Western Kenya

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Abstract- This study examines the impact of assets and liabilities accounting controls on financial reporting quality in Public Technical Training Institutes (PTTIs) in Western Kenya. Despite the importance of robust accounting controls, limited research has explored this relationship in the specific context of PTTIs. Using a cross-sectional survey design, data was collected from 79 respondents across 11 institutions. Descriptive statistics revealed high perceived importance of these controls among respondents, with mean scores ranging from 4.16 to 4.64 on a 5-point scale. However, regression analysis showed a weak relationship between assets and liabilities accounting controls and financial reporting quality, explaining only 4.1% of the variance (R2 = 0.041, p = 0.084). This contrasts with previous studies in other contexts that found stronger relationships. The findings suggest that while these controls are perceived as important, their actual impact on financial reporting quality in PTTIs may be limited. This study contributes to understanding the unique dynamics of accounting controls in PTTIs and highlights the need for context-specific strategies to enhance financial reporting quality in these institutions.

Indexed Terms- Assets and Liabilities Accounting Controls, Financial Reporting Quality, Public Technical Training Institutes

I. INTRODUCTION

- Background on the importance of accounting controls:

Effective internal accounting control practices are critical for ensuring accurate and reliable financial information, promoting transparency, and enhancing governance in both public and private sector organizations (Coskun, 2020; Iqbal & Ahmad, 2018). In recent years, there has been an increasing emphasis on the importance of strong internal accounting control practices and high-quality financial reporting worldwide. The International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA) provide guidelines and requirements for financial reporting and internal control practices globally (IFAC, 2018; IASB, 2021). Assets and liabilities accounting controls, in particular, play a crucial role in safeguarding an organization's resources and ensuring the accuracy of financial statements.

- Problem statement:

Public Technical Training Institutes in the Western Region of Kenya face unique challenges and opportunities in terms of financial management and reporting. Limited research has been conducted specifically on the internal accounting control practices and financial reporting quality within these institutes (Munene, 2013). The existing literature on internal accounting control practices and financial reporting quality in the context of Public Technical Training Institutes (PTTIs) which examines the relationship between internal accounting control practices and financial reporting quality within these institutes in Kenya is limited (Iqbal, & Ahmad, 2018). This gap in knowledge leaves uncertainty about the effectiveness of current accounting control practices and their impact on financial reporting quality in these institutions.

- Research objective:

The main objective of this study is to examine the relationship between various Assets and Liabilities accounting controls on financial reporting quality of

Public Technical Training Institutes in the Western Region of Kenya.

- Hypothesis:

Based on the research objective, the following hypothesis is formulated:
HO1: Assets and Liabilities have no statistical significance influence on financial reporting quality of Public Technical Training Institutes in Western region, Kenya.

This study aims to contribute to the understanding of how assets and liabilities accounting controls influence financial reporting quality in the specific context of Public Technical Training Institutes in Western Kenya, addressing the identified research gap and providing valuable insights for improving financial management practices in these institutions.

II. LITERATURE REVIEW

Theoretical framework:

- Control Theory:

Control Theory provides a framework for understanding how organizations design and implement control mechanisms to ensure compliance with established rules, regulations, and standards. In the context of this study, Control Theory can be applied to analyze the influence of assets and liabilities accounting controls on financial reporting quality. As noted in the document, "Control Theory posits that organizations establish control systems to monitor and regulate activities, ensure accountability, and mitigate risks." Assets and liabilities accounting controls can be viewed as control mechanisms employed by Public Technical Training Institutes to ensure the accuracy, completeness, and reliability of financial reporting.

- Resource Dependency Theory:

Resource Dependency Theory suggests that organizations strive to reduce their dependence on external entities by acquiring and controlling critical resources (Emerson, 1962). In the case of Public Technical Training Institutes, these resources include financial assets and liabilities. The theory posits that effective accounting control practices can help manage and optimize these resources, contributing to improved financial reporting quality. As stated in the document, "By implementing robust internal control mechanisms, Public Technical Training Institutes can mitigate risks associated with resource mismanagement, such as financial misstatements, fraud, and inefficiencies."

- Empirical studies on assets and liabilities accounting controls:

Several studies have explored the impact of assets and liabilities accounting controls on financial reporting quality in various contexts. For instance, Ezeagba (2017) found that insufficient accounting books and records, manpower, and accounting systems are challenges that businesses face when preparing and presenting financial reports in Nigeria, resulting in less reliable financial information when managing assets and liabilities.

In Ethiopia, Mulualem (2022) conducted a study to determine how asset and liability management affected the financial performance of microfinance organizations. The findings demonstrated that the ratio of assets to liabilities affects the returns of the MFIs in the sample in both favorable and unfavorable ways.

- Relationship between accounting controls and financial reporting quality:

The literature suggests a strong relationship between accounting controls and financial reporting quality. As noted in the study, "Effective internal controls establish checks and balances that prohibit fraudulent activity and reduce financial reporting errors. This is especially crucial in government institutions where accountability and transparency are essential." The document also states that "Controls that are well-designed streamline procedures, making financial operations more efficient."

- Research gap:

Despite the growing body of research on accounting controls and financial reporting quality, there is a notable gap in the literature specifically addressing Public Technical Training Institutes in the Western Region of Kenya. As stated in the document, "Limited research has been conducted specifically on the internal accounting control practices and financial reporting quality within these institutes (Munene, 2013)." Furthermore, "The existing literature on internal accounting control practices and financial reporting quality in the context of PTTI which examines the relationship between internal accounting control practices and financial reporting quality within these institutes in Kenya is limited (Iqbal, & Ahmad, 2018)."

This gap in knowledge presents an opportunity to explore how assets and liabilities accounting controls specifically impact financial reporting quality in these unique educational institutions, considering their particular challenges and regulatory environment.

III. METHODOLOGY

- Research design (Cross-sectional survey):

This study adopted a cross-sectional survey design to collect data at a specific point in time. This approach was suitable due to its appropriateness in selecting part of the population to collect data that can be generalized on the entire research population (Campbell, et al., 2007). The goal was to enable comparisons between different subgroups within the population of Public Technical Training Institutes in the Western Region of Kenya.

- Target population and sampling:

The target population included all Public Technical Training Institutes located in the Western Region of Kenya, specifically those in Kakamega, Bungoma, Busia, Vihiga, and parts of Trans-Nzoia counties. As per the document, the total target population consisted of 11 institutions with a combined staff of 1,469.

The study employed both stratified and purposive sampling techniques. Stratified sampling was used to divide the population into smaller groups (strata) based on the counties where the institutions were located. Purposive sampling was then applied to select specific respondents, including Accountants, Finance Officers, Auditors, and CEOs from each selected institute. The final sample size was 79 respondents, arrived at using these sampling techniques.

- Data collection instruments:

The study utilized multiple data collection tools:

1. Survey questionnaires: As the primary instrument, questionnaires were used to collect data on internal accounting control practices, including assets and liabilities accounting controls.
2. Document analysis: This involved a systematic analysis of existing documents, including financial reports, financial statements, policies, and archival records to extract relevant information and data (Bowen, 2009).
3. Observation: Although not explicitly mentioned for this specific variable, the study design included observation as a data collection method.

- Data analysis techniques:

The study employed both descriptive and inferential statistics for data analysis. Specifically:

1. Descriptive statistics: These included measures of central tendency (mean and frequency) and measures of dispersion (standard deviation and range). Results were presented using tables, charts, and graphs.
2. Inferential statistics: The study used various techniques including:
   - Correlation analysis: To examine the relationship between assets and liabilities accounting controls and financial reporting quality.
   - Regression analysis: To determine the influence of assets and liabilities accounting controls on financial reporting quality.
   - ANOVA: To assess differences between groups.
3. Statistical Package for Social Sciences (SPSS) version 26 was used for data analysis.
4. The study also conducted diagnostic tests, including normality tests and multicollinearity tests, to ensure the validity of the statistical analyses.

The methodology was designed to provide a comprehensive examination of the relationship between assets and liabilities accounting controls and financial reporting quality in the context of Public Technical Training Institutes in Western Kenya.

IV. RESULTS AND DISCUSSION

Descriptive statistics on assets and liabilities accounting controls:

Table 1: Descriptive Statistics on Assets and Liabilities Accounting Controls

Statement	Mean	Std. Deviation
Asset accounting controls contribute to financial reporting quality	4.64	0.485
Liabilities accounting controls are implemented in my institute to ensure financial reporting quality	4.57	0.499
I am satisfied with the clarity and effectiveness of asset and liability accounting controls	4.57	0.551
Asset and liability accounting controls are frequently reviewed and updated in my institute	4.35	0.584
I am confident in the accuracy of financial reports generated due to effective asset and liability accounting controls	4.16	0.497

The descriptive statistics indicate high levels of agreement among respondents regarding the contribution and implementation of assets and liabilities accounting controls to financial reporting quality. The mean scores range from 4.16 to 4.64, suggesting strong positive perceptions of these controls.

- Regression analysis results:

Table 2: Regression Analysis Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
Assets and Liabilities Accounting Controls	0.202	0.041	0.027	0.279

Table 3: ANOVA Results

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.238	1	0.238	3.062	0.084
Residual	5.596	72	0.078		
Total	5.834	73			

Table 4: Coefficients

Model	Unstandardized B	Std. Error	Standardized Beta	t	Sig.
(Constant)	3.497	0.482		7.258	0.000
Assets and Liabilities Accounting Controls	0.189	0.108	0.202	1.750	0.084

- Discussion of findings in relation to hypothesis and previous studies:

The regression analysis results indicate that assets and liabilities accounting controls explain 4.1% of the variance in the moderating effect of regulatory environment (R Square = 0.041). While this relationship is positive, it is not statistically significant at the conventional level of alpha 0.05 ($p = 0.084$).

The coefficient for assets and liabilities accounting controls ($B = 0.189$, $p = 0.084$) suggests a positive but not statistically significant relationship with financial reporting quality. This finding partially supports the research hypothesis HO1, which stated that "Assets and Liabilities have no statistical significance influence on financial reporting quality of Public Technical Training Institutes in Western region, Kenya."

These results contrast with some previous studies. For instance, Ezeagba (2017) found that insufficient accounting controls led to less reliable financial information, implying a stronger relationship between controls and reporting quality. Similarly, Mulualem (2022) demonstrated that the ratio of assets to liabilities significantly affected financial performance in microfinance organizations.

However, the weak relationship observed in this study might be attributed to the unique context of Public Technical Training Institutes in Western Kenya. As noted by Munene (2013), limited research has been conducted in this specific context, suggesting that other factors unique to these institutions might be influencing the relationship between accounting controls and financial reporting quality.

The high mean scores in the descriptive statistics (ranging from 4.16 to 4.64) indicate that respondents perceive assets and liabilities accounting controls as important for financial reporting quality. This perception aligns with the theoretical framework of Control Theory, which posits that such controls are crucial for ensuring compliance and mitigating risks.

In conclusion, while the statistical relationship between assets and liabilities accounting controls and financial reporting quality is weak in this study, the perceived importance of these controls among respondents suggests their potential value. Further research may be needed to explore other factors that might be moderating this relationship in the context of Public Technical Training Institutes in Western Kenya.

CONCLUSION

Summary of key findings:

1. Perception of importance: The study found high levels of agreement among respondents regarding the importance of assets and liabilities accounting controls for financial reporting quality. Mean scores ranged from 4.16 to 4.64 on a 5-point scale, indicating strong positive perceptions.
2. Weak statistical relationship: Despite the perceived importance, the regression analysis revealed a weak relationship between assets and liabilities accounting controls and financial reporting quality. These controls explained only 4.1% of the variance in the moderating effect of the regulatory environment.
3. Non-significant influence: The influence of assets and liabilities accounting controls on financial reporting quality was positive but not statistically significant ($B = 0.189$, $p = 0.084$). This finding partially supports the null hypothesis that these controls have no significant influence on financial reporting quality in the studied context.

Implications for practice:

1. Review of control mechanisms: Public Technical Training Institutes in Western Kenya should review their assets and liabilities accounting control mechanisms to identify potential areas for improvement, given the weak relationship found with financial reporting quality.
2. Training and awareness: Given the high perceived importance of these controls, institutions should invest in training programs to enhance staff understanding and implementation of assets and liabilities accounting controls.
3. Holistic approach: Institutions should consider a more comprehensive approach to improving financial reporting quality, recognizing that assets and liabilities controls alone may not be sufficient.
4. Context-specific strategies: The unique context of these institutions may require tailored strategies for implementing and leveraging accounting controls effectively.

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