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Accounting Practices and Financial Performance of Public Secondary Schools in Makueni County, Kenya

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Abstract: *In Kenya, most public secondary schools fund management systems have been coupled by a lot of challenges among them corruption, mismanagement, problems of denied secondary certificates due to arrears that are non-existent, and some parents accusing the schools of making fictitious fees balance claims. Therefore, this brings out the case of serious financial performance challenges in Kenyan public schools. As a result, the study sought to determine the effect of accounting practices on the financial performance of public high schools in Makueni County. The accounting practices investigated were: record keeping, internal control and budgeting. The study was guided by three theories: Residue Equity theory, Institutional theory and Contingency theory. The study adopted a census design and the target population was 44 public secondary schools in Makueni County. The study used purposive sampling in picking respondents. Both primary and secondary data was used and the analysis procedure entailed the use of descriptive analysis (means and standard deviation) and Multiple Regression Analysis with the aid of SPSS Software (Version 21). The study found that record keeping had a positive and significant effect on financial performance of public secondary schools in Makueni (Beta = 0.819; P Value =0.000,< 0.05). The study further found that internal control had a positive and significant effect on financial performance of public secondary schools in Makueni (Beta = 0.853; P Value = 0.000,<.0.05). It was also established that budgeting had a positive and significant effect on financial performance of public secondary schools in Makueni (Beta = 0.811; P Value = 0.000, <0.05). Based on the findings, the study concludes that the relationship between record keeping, internal control as well as budgeting and financial performance of public secondary schools in Makueni County was positive and significant. The study recommendations the management and administration of the public secondary schools to involve all stakeholders in managing and accounting for the school finances and resources; empower, build capacity and remunerate bursars accordingly to enable them diligently deliver on their mandate as well as sensitize the school principals on basic accounting, bookkeeping and financial management to enable them oversee, supervisor and guide financial management among their institutions.*

Key Words: *Accounting Controls, Record Keeping, Internal Control, Budgeting, Financial Performance, Public High Schools.*

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I. Introduction and Background

Inefficient financial performance issues in government funded secondary schools have been a great challenge in achieving government education plans (Mito & Simatwa, 2012). An audit process done on the Free Day Secondary schools in Nairobi, Kiambu, Kajiado and Machakos counties revealed unsatisfactory information which included; rent income arrears, institutional creditors, irregular re-allocation of funds, irregular procurement of goods and services, misallocation charged expenditure, overstated enrollment, unsupported expenditure, unutilized economic stimulus project funds, unutilized infrastructure funds, overpayment of works and irregular allowances (Auditor General Report, 2014).

Proper accounting practices in schools are significant since all the operations of the school and its ultimate performance rely on good financial strategies (Paisey, 2014). Therefore it becomes paramount for public schools and business entities to consider proper money management to ensure they improve their financial performance and more so control exposure to managing risks and sustainability (Munge, Kimani & Ngugi, 2016). Proper accounting practices help schools to oversee their sections such as financial reporting, capital budgeting, revenues; taxation expenses (Nupakorn&Phapruke, 2014). Therefore, accounting practices significantly serve as a tool for proper financial performance (Horvat, 2017).

Monies for public institutions are used for operations and activities of concerned institutions. In the case for secondary schools, school principals and administrators are accountable for schools planning and budgeting so that they can be in a position to achieve the intended school goals (Sharma, 2011). Good planning provides minimal or no budget variances and accurate balances between the amounts on debtors and creditors (Owino, 2016)

Despite the fact that the school heads are viewed as money related managers as well as head of bookkeeping in schools, a large portion schools heads have minimal expert abilities to allow them to play out these obligations viably (Osioru, 2017). Along these lines, they require visiting in-benefit course in money related administration to enable them to enhance their bookkeeping and accounting strategies and accordingly be capable of regulating and controlling crafted by the treasurer and the records agent

In Makueni County, the public secondary Schools are estimated to be 250 including both boys and girls secondary schools in the region categorized as Church sponsored schools, National Schools and county schools. While efforts are made to ensure that the high-quality education offered in the County is integrated with the development plan 2014 (County Government of Makueni, 2017), the public secondary schools in Makueni county, just like their counterparts in other counties, have faced financial management challenges.

II. Statement of the Problem

Investment in education remains one of the effective mechanisms of mitigating poverty, enhancing economic development and advancing human rights (Omondi et al. 2016). This can only be possible if institutions of learning have financial support and soundness to do so. However, this dream is being threatened by poor financial management practices among public secondary schools as shown by the KIPPRA (2017) report. The report revealed increasing school creditors citing an example of the year 2008 where public secondary school creditors had already increased up to Kshs.5.5 billion compared to schools' arrears from fees and other debtors amounting to Kshs.15.5 billion (Nanyuki et al., 2017).

There is hence a need for serious evaluation of the importance of accounting practices in Kenya's public secondary schools since it is not well outlined whether the current accounting practices are working. On top of that, the study sought to fill the existing conceptual and contextual knowledge gaps on the topic. There is substantial empirical evidence in this area. Muthanga (2017) assessed the relationship between accounting practices in public schools and financial management in Nairobi County and revealed that those schools which had accounting practices performed better; Otieno and Nyangechi (2013) studied efficiency of internal control processes and administration effectiveness of free primary learning finance and established that internal control practices improved efficiency of operations and reduced losses and Obegi, Ondigi, and Simatwa (2014) investigated the factors leading to monetary misappropriation and mismanagement in secondary schools and established lack of appropriate accounting practices was a significant determinant. Even though these studies have documented a significant contribution to the investigation, they present contextual and conceptual knowledge gaps which this study sought to fill.

Objectives of the Study

i. To determine the impact of record keeping on the financial performance of public secondary schools in Makueni County, Kenya.
ii. To establish the effect of internal control on the financial performance of public secondary schools in Makueni County, Kenya.
iii. To assess the effect of budgeting on the financial performance of public secondary schools in Makueni County, Kenya.

***The study formulated and tested three null hypotheses (in view of each specific objective) at a significance level of 0.05.**

III. Significance of the Study

The finding of this study might be beneficial to the Ministry of Education who are the policymakers as they may assess the existing accounting practices and formulate a strategy that would address the existing accounting practices inadequacies. Principals, bursars, and county government officials may also find this study as an important source of knowledge and inspiration in understanding the issues of accounting and proper financial management. Academicians and scholars may find this study as an important source of empirical literature that may enrich their future studies and act as not only a source of further studies' recommendation for new areas in research but also as a commencement in critique, comparison, and disagreement which is vital for research specialists.

V. Review of Literature

The paper reviews relevant theories as well as empirical evidence as captured hereunder.

a. Theoretical Review

The study was anchored on the Residual Equity Theory, Institutional Theory and Contingency Theory. Residual equity theory proposed by George Staubus (1954) focusing on building access to data for normal investors so they can settle on educated speculation choices, as they don't get installment inclination if an organization comes up short. To figure residual equity, the cases of bondholders and favored investors are subtracted from an organization's benefits. The objective of the residual equity approach is to give better budgetary itemizing because of good cash related organization practices. This theory forms the basis of the accounting practices as necessitated by the accounting equation itself of capital equals assets minus liabilities. The theory is therefore related to this study as it helps explain record keeping as one of the objectives of this study.

In regard to Institutional theory, its most featured component is the propensity of associations to constantly endeavor to reinforce their 'authenticity' inside their fitting inward controls conditions (Mizruchi & Fein, 1999). Bookkeeping can wind up embroiled in the achievement of hierarchical control authenticity. As characterized by Scott and Meyer (1983), the institutional inner control condition inside which the association works is "described by the elaboration of tenets and necessities to which singular associations must adjust on the off chance that they are to get support and authenticity." Investments in sound hierarchical structures, and specialized administration and bookkeeping systems can be utilized to show the association's acknowledgment of the authenticity of monetary and specialized bases for activity (Otieno & Nyangechi, 2013).

Contingency Theory by Pike (1986) argued that asset assignment effectiveness isn't simply a matter of embracing complex, speculatively dominating theory methodologies and techniques yet thought ought to similarly be given to the fit between the corporate setting and the arrangement and errand of the capital arranging system. Pike (1986) revolves around three sections of the corporate setting which are believed to be connected with the arrangement and assignment of an organization's capital arranging system. The primary point is an organization's progressive characteristics. The theory supports adoption of decentralization to gain control and ensure internal controls (Axelsson et al, 2002). This theory is linked to this study on the basis that proper budgeting helps to alienate the gap between planned expenditure and actual expenditure which over time has been termed as the major cause of uncertainties in public secondary schools. The theory, therefore, informs the study's third objective of budgeting within the school context.

b. Empirical Literature

The study reviewed extensive empirical work as captured hereunder. Chelimo and Sepia (2014) explored the impacts of accounting on the development of little and regular trading endeavors in Kabarnet with a focus on SMEs in Kabarnet Town ans established that accounting decidedly improved SMEs development as estimated by benefit and expanded business extension in Kabarnet town. Abdul-Rahamon and Adejare (2014) examined the effect of ARK on the money related execution of the SMEs. It was established that appropriate record keeping was essential for basic leadership which influences the execution of little-scale ventures. Another study was conducted by Miriti and Wangui (2014) to focus on the monetary administration with regards to preparing the needs of open auxiliary the school principals in Machakos County. Focusing on 16 schools in Masinga, the study revealed that monetary administration remained a test for a large portion of the overviewed schools.

In another study Maseko and Manyani (2013) examined the practices of accounting record keeping for performance measurement used by medium enterprises in Zimbabwe. The investigation revealed that the greater part of medium endeavors doesn't keep exhaustive bookkeeping records because of the absence of bookkeeping learning, for this situation, there is the insufficient utilization of bookkeeping data in money related execution estimate.

Miriti and Moses (2014) studied the effect of Monetary Management: Training Needs of Public Secondary School Principals in Machakos County, Kenya and established that numerous optional school principals still confronted difficulties in overseeing budgetary assets of auxiliary schools and preparing of principals in money related administration was insufficient. Odieki (2013) focused on the influence of internal controls practices on Kenyan commercial banks' financial standing and concluded that the freedom of internal audit and professional abilities had a positively related with the financial accomplishment of the banks. Otieno and Nyangechi (2013) on the other hand looked at the effect of budgeting systems on internal control in public enterprises within Kisumu County, Kenya and revealed that there exists a significant relationship between budgeting systems and audit risk management in public enterprises.

Onduso (2013) focused on establishing the impacts of spending plans on the budgetary execution of assembling organizations in Nairobi County and indicated that there was a solid beneficial outcome of spending plans on money-related execution on assembling organizations as estimated by ROA. Munge, Kimani, and

Ngugi (2016) on the other hand evaluated the factors influencing financial management in public Secondary Schools in Nakuru County and established that budget management and financial controls positively and significantly influenced financial management. In a similar interrogation, Kiriza, Walela, and Kukubo (2015) explored monetary administration in public secondary schools in Kenya in Lurambi County of Kakamega County and established that budget endorsement was largely conducted by the board of management while the regime was not accessed. Njeri (2014) on the other hand interrogated internal controls among the firms involved in assembling in Kenya and determined that there was presence of internal control to monitor money related activities among the firms.

VI. Research Methodology

This study adopted a census research design. This research design was appropriate for this study as it involved an in-depth study of the population in totality and the size of the population is also small enough (Farooq, 2013). The study population was the 44 registered public secondary schools in Makueni Sub-County as given by the County Education office as of August 2018. The study targeted the school bursar in each of the 44 schools. The study used purposive sampling in identifying the right respondents based on their knowledge of accounting practices and financial performance. This is informed by the need to gain specific insights across an array of professionals attached to the finance department of different public secondary schools. It is more applicable in this study since the study requires unique respondents with the right knowledge to respond to the study questions. Since 4 school Bursars were used in pretesting, they were effectively sidelined in data collection; hence, the sample size was 40 public secondary schools and 40 school bursars.

Primary data was gathered utilizing a semi-structured questionnaire. Secondary data was gathered from existing credible and recognized source such as from library textbooks, journals, magazines and personnel file in the organization. Before using the questionnaire, validity and reliability were tested. To set up the validity of the data collection instrument, the research instruments was given to 4 treasurers in various secondary schools. From the data, a Content Validity Index was utilized to decide the validity at a threshold of 0.5. To gauge the reliability of the data collection instruments an interior consistency method utilizing Cronbach's alpha was connected (Mugenda, 2008) at a threshold of 0.7. The collected data was then analysed through descriptive statistics and inferential statistics (Multiple Regression Analysis) through the statistical package for social science (SPSS) version 21. Descriptive statistics involved computation of mean scores, standard deviation, percentages, cross tabulation and frequency distribution which described the demographic characteristics of the organization and the respondents. Multiple Regression analysis was used to determine the relationships and significance between the independent and dependent variable.

The model used the following equation:

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e}$$

Where: Y = Financial Performance, β_0 = Coefficients, X_1 = Record Keeping, X_2 = Internal Controls, X_3 = Budgeting and e = error term.

VII. Results and Findings

Out of the 40 respondents sampled for the study, 38 of them completed the questionnaires and presented them for analysis. This represents a response rate of 95%. This rate is statistically significant and representative according to Mugenda and Mugenda (2003). The Cronbach Alpha test results presented in Table 1 indicated that the data was reliable for the survey when tested against a threshold of 0.7.

Table 1: Reliability Test

Variable	Number of Coefficient	Cronbach Alpha
Record Keeping	5	0.782
Internal Controls	5	0.813
Budgeting	5	0.799
Average		0.798

a. Descriptive Findings

The section represents output and interpretation on descriptive analysis in the form of mean and standard deviation. The descriptive findings for bookkeeping practices are presented in Table 2.

Table 2: Record Keeping Practices among Public Schools

Record Keeping Practices	Mean	Std. Dev
Income Records	2.51	0.773
Expenditure Records	2.86	0.901
Stores Records	3.01	0.822

The study respondents indicated that to a moderate extent the schools updated their income records, expenditure records and stores records as seen in the mean of 2.51, 2.86 and 3.01 respectively. Similar findings were made by Chelimo and Sepia (2016) in their study on bookkeeping and performance of SMEs in Kenya.

The second objective of the study was to establish the effect of internal control on financial performance of public secondary schools in Makueni County. The descriptive findings for internal control systems are presented in Table 3.

Table 3: Internal Control Systems among public schools

Internal Control Practices	Mean	Std. Dev
Detective Controls	2.14	0.903
Corrective Controls	2.56	0.755
Preventive Controls	2.67	0.811

The study respondents indicated that to a small extent the schools had detective controls to tame financial impropriety as indicated by a mean of 2.14 and standard deviation of 0.903. The respondents further indicated that to a moderate extent, the school had corrective controls and preventive controls as indicated by a mean of 2.56 and 2.67 respectively. This indicates that that to a moderate extent the schools did have sound internal control systems to detect correct and prevent financial misuse and fraud. Similarly, Miriti and Moses (2014) made such conclusions on their study on financial management among public secondary schools in Machakos County.

The third objective sought to establish the effect of budgeting practices on financial competence of public high schools in the County of Makueni. The descriptive findings are indicated in Table 4.

Table 4: Budgeting Practices among public secondary schools

Budgeting Practices	Mean	Std Dev
Recurrent Budgeting	3.59	0.697
Development Budgeting	3.77	0.719
Strategic Plan	2.71	1.488

As presented in Table 4, the respondents indicated that their schools to a large extent employed recurrent budgeting and development budgeting as indicated by a mean of 3.59 and 3.77 respectively. The respondents however indicated that to a moderate extent the public secondary schools pegged their budgeting on their strategic plan as indicated by a mean of 2.71 and standard deviation of 1.488. This indicates that the institutions to a large extent embraced budgeting practices. Onduso (2013) on his study on budgets and financial management of firms in Kenya also indicated that firms or institutions were cautious on budgeting since it helped them balance between income and expenditure and control debt.
The respondents were also asked to fill a table on the measures of financial performance of schools between 2013 and 2017. The findings are presented in Table 5.

Table 5: Financial Performance of Schools between 2013 and 2017

Financial Performance Measures	2013	2014	2015	2016	2017
Surplus Income	None	Negative	Zero	Negative	negative
Budget Variance	Positive	Negative	Negative	None	Negative
Debtors (Kshs)	Positive	Positive	Positive	Positive	Positive
Creditors (Kshs)	Negative	Positive	Negative	Negative	Negative

The findings generally indicate that the schools that did not have surplus income mostly had a negative budget variance, had few debtors and more creditors hence mostly relied on debts. The schools used their status to borrow and accumulate debt this put the schools in bad books with creditors, suppliers and staff. Kiriza, Walela and Kukubo (2015) made similar findings on their study on monetary administration of secondary schools in Kenya where they indicated that most schools didn't live within their means with most of them accumulating massive debts.

b. Correlation Analysis

The study adopted Karl Pearson Moment correlation to test the relationship between the explanatory variables. The findings are indicated in Table 6.

Table 6: Correlation Matrix

Variables	Correlations	Financial Performance (Y)	Internal Control Activities (X_1)	Budgeting (X_2)	Record keeping (X_3)
Financial Performance (Y)	Pearson Correlation	1			
	Sig. (2-tailed)	.			
Internal control activities (X_1)	Pearson Correlation	.321	1		
	Sig. (2-tailed)	.020	.		
Budgeting (X_2)	Pearson Correlation	.526	.426	1	
	Sig. (2-tailed)	.032	.002	.	
Record Keeping (X_3)	Pearson Correlation	.166	.235	.103	1
	Sig. (2-tailed)	.024	.047	.043	

These results show that there is significant relationship among variables (financial performance, record keeping, internal control activities and budgeting). The results indicate that the correlation coefficients for all variables were less than 0.05 implying that the study data did not exhibit severe multi-collinearity. From the findings, there was a weak positive correlation between financial performance and record keeping with a correlation figure of 0.166; it was clear that there was a moderate positive correlation between financial performance and internal control activities with a correlation figure of 0.321. In addition, there was a strong positive correlation between financial performance and budgeting with a correlation value of 0.526.

The results implied that budgeting recorded a higher correlation value of 0.675 indicating that it is imperative to include budgeting in accounting practices to ensure financial performance in public secondary schools in Makueni County. These results show that there were positive correlations between financial performance and record keeping, internal control activities as well as budgeting. This implies that for every unit change in the variables, there is a positive change on financial performance of public secondary schools in Makueni County.

c. Regression Analysis

The study used regression analysis to establish the relationship between accounting practices and financial performance of the public secondary schools. The findings of Model Summary, ANOVA and Regression Coefficients are presented.

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.885[a]	.876	.865	1.67719

The findings indicate that coefficient of correlation R was 0.885 an indication of strong positive correlation between accounting practices and financial performance of public secondary schools in Makueni County, Kenya. Coefficient of adjusted determination R^2 was 0.865 which changes to 86.5% an indication of changes of financial performance are explained by (record keeping, internal controls and budgeting). The residual of 14.5% can be explained by other factors beyond the scope of the current study. The model fitness findings are given in the ANOVA table 8.

Table 8: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	861.235	5	172.247	21.1191	.000[b]
Residual	269.156	33	8.156		
Total	1130.391	38			

The results indicate that F=2.9621, and is significant since p=0.00 which is less than p-value (p =0.05). The critical alpha value for F-test (at 3, 33) is 2.88 which is less than the computed F-value (2.9621). This is an indication that the model is fit. These findings are an indication that accounting practices significantly affect financial performance of public secondary schools in Makueni County, Kenya. The findings for model coefficients are presented in Table 9.

Table 9: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	5.194	0.695		4.2331	.000
Record keeping	0.819	.160	.011	7.416	.000
Internal Control	0.853	.127	.026	9.323	.000
Budgeting	0.811	.136	.031	8.179	.000

The regression function is extracted from table 9 as follows:
$$\mathbf{Y = 5.194 + 0.819\ X_1 + 0.853\ X_2 + 0.811\ X_3}$$

Where: Y **=** Financial Performance, X_1 = Record Keeping,,X_2 = Internal Control and X_3 = Budgeting

The study found out that by holding all the variables constant, financial performance of the schools will be at 5.194. This implies that the public secondary schools would still have a positive financial performance before introduction of accounting practices. The regression co-efficient of record keeping was 0.819 hence a positive effect on financial performance of public secondary schools in Makueni. This is an indication that a unit increase in record keeping practices would lead to a significant increase in financial performance of public secondary schools in Makueni by 0.819 units. The effect was also significant (P Value = 0.000, <0.05).

It was further established that the regression co-efficient of internal control was 0.853 hence indicating a positive effect on financial performance of public secondary schools in Makueni. This indicates that a unit increase in internal control practices would lead to a significant increase in financial performance of public secondary schools in Makueni by 0.853 units. The effect of internal control systems on financial performance was equally significant (P Value = .000, <. 05).

Lastly, the study found that the regression co-efficient of budgeting was 0.811 showing a positive effect on financial performance of public secondary schools in Makueni. This indicates that a unit increase in budgeting practices would lead to a significant increase in financial performance of public secondary schools in Makueni by 0.811 units. Budgeting was found to have a significant effect on financial performance of the Public Secondary Schools studied (P Value = 0.000, <0.05).

VIII. Conclusions and Recommendations

a. Conclusions

The study concluded that the financial performance of public schools in Makueni County relies greatly on the quality of record keeping systems available. Schools should therefore ensure that they adopt record keeping systems that are reliable and effective to ensure financial performance. . The correlation and regression results confirmed that record keeping plays a crucial role on the financial performance of public secondary schools. The study also concluded that internal controls were found as an essential component of financial performance. From the inferential analyses, it can be deduced that internal controls is a critical driver for financial performance of public secondary schools. Another conclusion by the study is that budgeting is imperative in establishing a balance between expenditure and income and controlling debt as such it has a direct impact on financial performance. It is therefore important that public schools in Makueni County utilize a diligent and effective budgeting system.

b. Recommendations

The study recommends that the management and administration of the public secondary schools need to involve all stakeholders in managing and accounting for the school finances and resources. Schools need to empower, build capacity and remunerate bursars accordingly to enable them diligently deliver on their mandate. The relevant authorities should also encourage the school and education managers to acquaint themselves with the emerging trends in accounting practices as an attempt to understand the issues concerned with this concept hence enhancing financial performance. This will improve the recording of transactions, budgeting and internal control aspects in public institutions.

School principals also need to be sensitized on basic accounting, bookkeeping and financial management to enable them oversee, supervisor and guide financial management among their institutions. It is imperative that principals understand how accounting works so that they can apply the principles in their respective schools and improve financial performance. A lack of knowledge in accounting and financial management limits the responsibilities of principals as the chief accounting officers in schools. Therefore, they should be trained on accounting, book keeping, budgeting and internal controls to make them more efficient in their responsibilities. Another recommendation is that the school boards of management need to be independent in oversight, guidance and management of school resources to promote accountability and fair utilization of funds. The independence will prevent misappropriation of funds, embezzlement or loss of school funds. It will also create a pattern of accountability between different stakeholders and prompt utilization of public school funds.

IX. Contribution to Knowledge

The study provides an important platform for academicians and scholars to critique disagree with and enrich the findings of the study. They can also increase the scope of the study and use the information provided by the study as a basis for their research. The case study in this research is public schools in Makueni but the findings of the study can be applied to other schools, institutions and countries with similar systems. Financial performance is a universal concept and as such the study is applicable in a variety of environments that seek to utilize accounting practices to achieve it. The study is also essential in boosting the confidence of Donors and sponsors since it provides a clear guideline on how funds are utilized and managed. Accountability ensures that the funds are used for their designated purposes. . The findings of this research would indicate the practicability and effectiveness of accounting practices and financial management theories. In general, the findings would form the theoretical basis of strengthening operational, tactical, accounting and financial performance of the public sector in Kenya.

X. Areas for Further Research

This study focused on accounting practices on the financial performance of public secondary schools in Makueni County. Other studies can apply the methods applied in this study in other contexts such primary schools or institutions of higher education as well as other counties other than Makueni. Future studies can also opt to test the effect of other accounting practices other than the ones applied in this study.

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