Influence of Financial Instruments Disclosures on Financial Reporting Quality in the National Treasury, Kenya

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Abstract: *Financial reporting in the public sector should be of high quality. However, oftentimes, this is not the case with quality of financial reporting falling short of the laid down expectations. This study was conducted with the objective of establishing the effect of financial information disclosures on financial reporting quality. The study adopted a descriptive survey research design. The accessible population involved 42 auditors attached to the head offices of the National Treasury based in Nairobi. A census design was adopted. A structured questionnaire was used to collect data. The collected data were analyzed using both descriptive and inferential statistics with the assistance of the Statistical Package for Social Sciences. Descriptive statistics included measures of distribution, measures of central tendencies, and measures of dispersion. Inferential statistics that were used were correlation, and multiple regression analyses. The results of the analyses established that financial instruments disclosures had statistically significant relationship with the quality of financial reporting ($r_s = 0.799$; $p = 0.001$). Financial instruments disclosures were concluded to be crucial to the quality of financial reporting at the National Treasury. It is recommended that the National Treasury should make full disclosure in respect of liquidity risk, market risk, exchange risk, collateral, concessionary loans as well as excess returns. The National Treasury should always strive to have unqualified audit report of its financial reports.*

Key Word:*Financial instruments, financial instruments disclosures, financial reporting quality, IPSAS, National Treasury*

I. Introduction

Background of the Study

The International Public Sector Accounting Standard (IPSAS) 30 on financial instrument disclosures is concerned with all risks that emanate from all financial instruments. The standard applies to all entities that have financial instruments even for government departments that have only accounts receivables and payables as financial instruments.[1] In reference to accounting literature, there is reportedly increased interest and discussion concerning presentation particularly with regard to disclosures.[2] Queries arise on disclosure of excess returns. This is due to the fact that most of the times investors fail to get excess returns.[3]

The International Public Sector Accounting Standards which outline both cash basis and accrual basis methods of accounting, are embraced practically by all countries across the globe. However, the extent of IPSAS application in financial reporting varies from country to country. In Jordan, for example, it is reported that the application of the aforesaid standards is executed in weakly form.[4] Africa, just like other parts of the world, has embraced international accounting standards. It is stated that Africa is at the cutting edge with regard to adoption of IPSAS as manifested by the large number of countries which have adopted are proposing to embrace the standards as part of their financial management reforms. Hitherto, the countries which have already adopted IPSAS include South Africa, Nigeria, Morocco, Liberia, Algeria, Mauritania, Ghana, Zambia, Rwanda, Tanzania and Uganda.[5]

In Kenya, the National Treasury gives guidelines on how reporting of annual financial statements should be done as approved by the Public Sectors Accounting Standards Board (PSASB). The Board was set up by the Cabinet Secretary for the National Treasury on February 28, 2014. It draws membership from the National Treasury, the Controller of Budget, the Auditor General, the Institute of Certified Public Accountants of Kenya (ICPAK), the Capital Markets Authority (CMA), the Institute of Internal Auditors, the Institute of Certified Public Secretaries of Kenya, the Association of Professional Societies of East Africa, and the Intergovernmental Budget and Economic Council. The PSASB, Kenya's guidelines are enshrined in the Public

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Finance Management (PFM) Act 2012. The aforesaid guidelines enable public entities to comply with the laid down statutory requirements.[6] The practitioners under the ICPAK have been on the frontline in championing the adoption of public sector accounting standards in the country.[7] Given that the National Treasury gives the dictates which determines how financial reporting ought to be carried out in conformity to the IPSAS, the interest of this study was on the effect of IPSAS on quality of financial reporting with a special focus on the National Treasury of Kenya.

Statement of the Problem

Every entity in the public sector is required by law to file and report its financial statements every quarter and most importantly at the end of the fiscal year. Ideally, financial reporting should be of high quality as demonstrated by the audit report of external auditors or the Auditor General. The audit report with regard to the aforesaid financial reports is required to be unqualified. Unqualified opinion thus represents the best financial reporting quality.[8] However, the quality of financial reporting has not always been in tandem with the laid down expectations. In year 2019, a total of Ksh 381 billion was reported by the Auditor General to have been lost by the public sector. The loss was reported to have emanated from material misstatements and unexplained discrepancies.[9] Out of the entities which were audited, 46% returned qualified audit opinion while 10% had an adverse opinion.

Poor financial reporting quality as depicted by qualified audit report is a manifestation of financial accounting problems in the organization which could have stemmed from concealment of material evidence with regard to various financial transactions carried out in the financial year. This could have been due to lack of compliance with the requisite IPSAS. Subsequently, such reports are likely to be indicative of financial misappropriation like funds embezzlement in the organization. This becomes a problem when the activities, projects and programmes which were supposed to be addressed by the funds allocated to the entity get compromised. The beneficiaries are likely to lose out due to inadequacy of requisite funds. Whereas majority of studies have focused on financial reporting quality in state corporations, the present study sought to address issues of IPSAS 30 on financial instruments disclosures and quality of financial reporting in the Kenya's National Treasury.

Objective of the study

To evaluate the effect of disclosures on financial reporting quality at the Kenya's National Treasury

Research Hypothesis

H_{01}: There is no significant effect of disclosures on financial reporting quality at the Kenya's National Treasury

Financial Accounting Theory

Financial accounting theory was proposed Eldon S. Hendriksen in April 1965. It states that there exists a set of assumptions, frameworks and methodologies that are employed in the study and application of financial reporting principles.[10] Accounting theory is further stated to be the logical reasoning in form of broad principles that provide a general framework of reference to every accountant to evaluate and guide the development of new practices and procedures.[11] It is also defined as the rationalization of the accounting rules which expounds on the manner in which accountants gather, record, classify, report and interpret financial data particularly when monetary amount is determined in the financial statements of an organization.[12]

Financial accounting theory is broadly categorized into two; that is, descriptive or positive theory and normative theory. The descriptive theory strives to put into perspective, through description and justification, existing accounting practice whereby it explains how financial information is collected, classified, and communicated (reported). The tenets of this theory are underlined by attempt to establish a rationale for the frequently conflicting concepts and conventions presently employed by accountants.[13]

On the other hand, normative accounting theory strives to state what accounting practice should be, that is, what financial information should be collected, classified and reported. The weakness of the normative theories is founded on their subjective nature which implies that they are contingent or dependent on the judgment of theories on what is good or bad. Consequently, in order to have a normative theory being generally accepted by the accounting profession, the theory would necessitate comprehensive validation. The primary benefits of the normative theory for accounting would be that, an evaluation of present accounting practice would be feasible and that it would pinpoint areas where further research is required.[13]

In constructing a financial accounting theory, both descriptive and normative approaches of reasoning can be employed. The first approach would be the induction method which describes the process of drawing generalized inferences from a specific case and which is epitomized in the descriptive accounting theories which are characterized by general conclusions drawn from the practice of accountants. The second is the deductive approach which involves reasoning from the general to the specific (Lee, 1972). The aforesaid logic is majorly

required in the derivation of a normative theory premised on the perceived objectives of accounting, after drawing assumptions regarding the social, economic and political environment.[13]

Conclusively, there is no clear dichotomy since a normative theory will almost certainly incorporate some elements of observation (descriptive), and a descriptive theory will virtually include some deductive reasoning.[13]The two forms of financial accounting theory can be employed to explain financial reporting in the National Treasury. It is postulated that, in testing a normative theory of financial reporting, it is important to ascertain the types of financial information deemed to be the most relevant to the needs of the users of the said information. In this regard, therefore, a normative theory of financial reporting would comprise identification of groups of people who use externally reported financial information; identifying the decisions that users wish to make; and hypothesizing the type of financial information that they would establish to be the most crucial in their decision making. The principles and practices characterizing the financial accounting theory can be employed to guide financial reporting in the National Treasury. This is due to the fact that, such principles and practices are aligned to the internationally-accepted standards as espoused by the International Accounting Standards Board (IASB).[12]

Review of Empirical Literature on Financial Instruments Disclosures and Financial Reporting Quality

A study carried out in Europeaddressed disclosure quality of financial instruments and the cost of debt in Portugal, Ireland, Greece and Spain.[14] The objective of the study was to unearth the relationship between disclosure quality of financial instruments and cost of debt in the aforementioned countries. The choice of these countries was grounded on the fact that were considerably affected by sovereign debt crisis between years 2011 and 2012. The study relied on secondary data that comprised of 146 observations distributed across industries in these countries. The findings showed that the financial information disclosed by firms had a substantial effect on both the cost of debt and the cost of capital. It was also revealed that enhancing the quality of disclosures of financial instruments reduced the cost of debt.

An empirical study on financial reporting quality was undertaken in Indonesia.[15]The study particularly sought to unearth the determinants of financial reporting quality in listed manufacturing firms in the country. Companies listed at Indonesia Stock Exchange during the years 2015 to 2018 were considered. Secondary data from 287 public companies were collected and analyzed. The study findings revealed that risk of investor distrust affected quality of financial reporting. The foregoing was occasioned by high risk of investor distrust in companies. The study recommended that companies ought to maintain trust and protection of investors in order to enhance high-quality financial reporting.

A study undertaken in Western Africa delved into financial instrument disclosure in Nigeria.[16] The objective of the study was to ascertain whether or not audit committee and audit quality influenced financial instrument disclosure in listed firms in Nigeria Stock Exchange. Data covering a three-year period, that is, from 2016 to 2018 were obtained from 20 commercial banks and 30 insurance firms. The study found out that financial instrument disclosure was influenced by frequency of audit committee meetings and quality of audit. Furthermore, the size of the firm was positively associated with financial instruments disclosure.

Another study conducted in the same region addressed financial reporting quality in Ghana.[17] The objective of the study was to assess the degree to which the financial reports of listed firms in the country met the financial reporting quality as stipulated by IFRS. Descriptive research design was adopted. The financial reports of 20 purposively selected companies were considered by the study. Secondary data were obtained from the financial reports of these firms. The study findings indicated that the financial reporting quality of the selected listed companies met the standards provided by IFRS by 56.48%. Indeed, it was determined that the financial reports were relevant, faithfully represented, understandable, comparable and timely audited. It was concluded that the financial reporting quality in the listed companies was moderate and thus needed improvement.

The effect of profitability on financial instruments disclosure quality was examined by a local study.[18]The objective of the study was to determine the influence of profitability on financial instrument disclosure quality in listed firms on Nairobi Securities Exchange. A descriptive research design was used. A sample of 9 listed firms was considered for the study. Secondary data gathered from annual reports of the firms were analyzed. The study noted that the financial disclosure quality was indeed significantly affected by profitability. It was concluded that firms ought to provide high-quality financial instrument disclosures to stakeholders with the aim of restoring investor confidence by minimizing information asymmetry.

The concept of financial reporting quality of listed companies at Nairobi Securities Exchange was assessed.[19]The study sought to establish the influence of reporting quality on financial reporting. A descriptive research design was adopted. The study targeted all the 68 companies listed at NSE. Secondary data were collected using document check index. The study findings illustrated that financial reporting quality positively and substantially influenced financial performance of the listed companies. The findings further showed that financial reports of companies exhibited relevance, comparability, faithful representation and understandability.

Conceptual Framework

A conceptual framework is described as a diagrammatic representation of study variables and their relationships. The framework refers to a structure which is believed to best explain the natural progression of concepts or phenomena to be studied.[20]As shown in Figure No. 1, the conceptual framework is organized in a logical structure that is presumed to provide a visual illustration of how concepts, ideas, or variables relate to each other.[21]
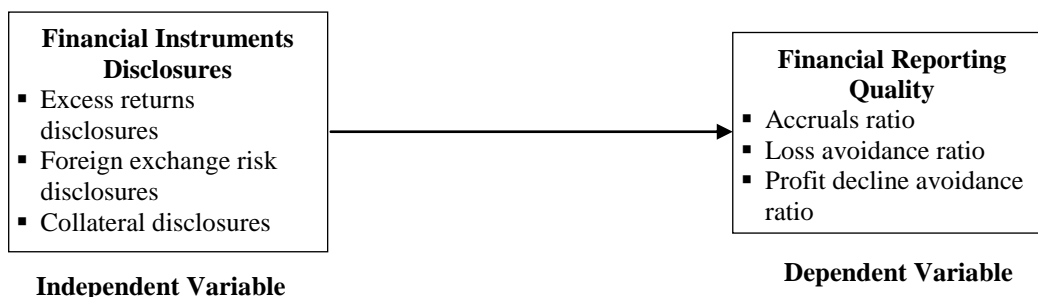

Figure no 1: Conceptual Framework

As shown in Figure no. 1, there are two categories of variables. These are independent and dependent variables. Independent variable represent IPSAS 30 and is financial instruments disclosures. Quality of financial reporting is the dependent variable. Each of these variables has been operationalized using measurable indicators. In line with IPSAS 30, disclosures of financial instruments are operationalized by disclosures of excess returns, foreign exchange risk, collateral as well as fair value. The metrics of financial reporting quality are adopted from a previous study on measurement of financial reporting quality internationally.[22] The metrics include accruals ratio, loss avoidance ratio, profit decline avoidance ratio, qualified audit opinion ratio, and non-Big 4 auditor ratio. According to the illustration of the conceptual framework, there exists a relationship between each financial instruments disclosures and financial reporting quality. This study sought to examine the significance of the aforesaid relationship in the Kenya's National Treasury.

II. Material And Methods

Research Design

A descriptive survey research design was adopted. It is important to note that a research design is the roadmap that guides how a research ought to be conducted. It is the general plan of how the study answers the research question or questions.[23] The choice of the aforesaid design was informed by the fact that the object of descriptive research is to illustrate a precise profile of persons (respondents), situations or events.[24] This study sought to accurately present the audit staff as well as IPSAS and financial reporting quality at the National Treasury.

Target Population

Whereas the target population refers to an aggregate of individuals, entities or subjects that share similar or related characteristics in respect of a given phenomenon, study population is part of the target population that a researcher can access.[25] The auditors working at the National Treasury in Kenya were the target population whereas those that are attached to the National Treasury head offices in Nairobi constituted the accessible or study population. As at 2022, there were 42 auditors attached to the head offices of the National Treasury. Therefore, the accessible population (unit of analysis) was 42.

Census Design

A census design was adopted where all members of the study population were enumerated. Notably, the unit of analysis was also the unit of observation. Statistically, the unit of observation is also known as the unit of measurement and is the one to which information or data is measured or collected. Unit of analysis is the one to which information is analyzed and conclusions made.[26]The choice of census design was supported by the fact that it enhances the generalizability of the study results.[27]This implies that the technique eliminates sampling bias hence enhancing the reliability and generalizability of the study findings.**[28]**

Research Instruments

The study employed a self-designed structured questionnaire for collecting primary data. The questionnaire was structured in such a way that the data items in respect of each of the study constructs were on a 5-point Likert scale ranging from 'Strongly Disagree' to 'Strongly Agree'. The nature of the questionnaire was

in tandem with the quantitative method that the study adopted. Therefore, the instrument enabled collection of numerical data. It is posited that quantitative research is concerned with the use and analysis of numerical data while employing particular statistical techniques to answer questions of how much, what, how many, and how, etcetera.[29]

Pilot Testing

The research questionnaire was pilot tested before its issuance to the respondents. Pilot testing involved conducting a pilot study on randomly selected auditing staff attached to the National Treasury's Nakuru East Sub-County's offices. Five respondents (approximately 10% of the unit) took part in the pilot study. It is asserted that a pilot study is conducted as a precursor of the main study with the object of assessing the feasibility of a survey questionnaire and data collection processes as well.[30]Similarly, the pilot test in respect of this study was conducted with the view of determining the suitability of the research questionnaire in collecting data for the main study. This was achieved through validity and reliability testing.

Validity Testing

Validity is a test that is conducted with the aim of assessing the extent to which a test measures what it purports to measure. It is employed to assess the extent to which the research instrument (say, a questionnaire) measures which is modelled to measure.[31] It is considered as the most important criterion for assessing the quality of a test.[32] Although there are various types of validity, this study measured the content validity of the research questionnaire. This validity describes the extent to which the questions or data items on the instrument (questionnaire) and the scores obtained from the questions or data items represent all possible questions or data items that could be asked regarding the content.[33]The more or higher the scale items represent the domain of the concept (study variables) being measured, the greater the content validity.[34] Given that there is no statistical test to assess whether or not a measure adequately covers a content area, content validity oftentimes relies on judgement of experts in the field.[35] Explicably, the expert opinion of the assigned University supervisors was sought to determine the validity of the questionnaire.

Reliability Testing

Reliability is an element of a test quality which is associated with the reproducibility or consistency of a test measure. It is concerned with the faith in the data obtained from the use of a given instrument, which in other words, refers to the extent to which a measuring tool controls for random error.[32] This study used the Cronbach's alpha coefficient to measure the reliability of the research questionnaire. It is stated that the Cronbach's alpha (α) is the most common measure of internal consistency.[32] Alpha values equal to or greater than 0.7 were considered to have met the reliability (internal consistency) threshold. In social sciences (where this study falls under), alpha value estimates ranging from 0.7 to 0.8 are considered acceptable.[36]

Data Collection Procedure

The questionnaire was used to facilitate collection of data from the auditors working at the National Treasury head offices in Nairobi. Prior to data collection, the researcher obtained an official letter of introduction from the University. This was followed by an application for a research permit from the National Commission of Science, Technology and Innovation (NACOSTI). The consent of the senior management at the National Treasury was also sought. The questionnaire was self-administered. It was personally issued to the respondents by the researcher. The period of data collection lasted approximately one week.

Data Analysis and Presentation

The collected data were subjected to scrutiny in order to assess their completeness. This procedure was aimed at cleaning the collected data hence reducing or eliminating outliers. The analysis of the data was conducted electronically using the Statistical Package for Social Sciences (SPSS) Version 25. Quantitative methods were, therefore, employed in the analysis of data given that they were numerical in conformity to the quantitative research approach adopted by the study. Descriptive and inferential statistics were used in the analysis. Descriptive statistics encompassed frequencies, percentages, mean, and standard deviation. Prior to conducting inferential analysis, pertinent diagnostic tests were carried out. Inferential statistics took the form of correlation and regression analyses. The latter analysis assisted in addressing the null hypotheses and drawing conclusions in respect of IPSAS and financial reporting quality. The regression assumptions that were considered were tested using pertinent diagnostic tests, that is, tests for linearity, and multicollinearity. The regression analysis was guided by the following regression model.

$Y = \beta_0 + \beta_1 X_1 + \varepsilon$

Key:

Y: Financial reporting quality

X_1: Financial instruments disclosures
β_0: Constant
β_1: Regression coefficients for financial instruments disclosures
ϵ: Precision level

III. Results

Descriptive Analysis

The collected descriptive statistics followed a Likert scale of 5 points which guided data collection. The scale ranged from 'Strongly Disagree' to 'Strongly Agree'. The descriptive statistics were concerned with IPSAS 30 (disclosures of financial instruments) and quality of financial reporting.

Descriptive Analysis of Financial Instruments Disclosure

The results shown in Table no. 1 indicate that 66.7% of the surveyed staff absolutely agreed that the National Treasury made disclosures on accounting policies while 33.3% admitted to the same statement. On average, the surveyed staff were in agreement of the proposition that the National Treasury made disclosures on accounting policies (mean = 4.67) with their responses regarding the statement been closely linked (std dev = 0.479). Furthermore, it was noted that 86.7% of the staff were in concurrence with the opinion that the National Treasury made fair value disclosure; howbeit, a mere 13.3% were not certain of the assertion. As a result a mean of 4.07 was achieved which meant that on average, the surveyed staff agreed with the assertion.

The findings further illustrated that most (86.6%) of the staff responded admittedly that the National Treasury made disclosures on concessionary loans while 6.7% were in disagreement with the view. It was further determined that majority (73.3%) of the staff admitted that the National Treasury made disclosures on liquidity risk while 13.3% and 13.3% disagreed and were not sure respectively of the view that the National Treasury made disclosures on liquidity risk. In addition, the study noted that most (60.0%) of the surveyed staff concurred with the opinion that the National Treasury made disclosures on foreign exchange risk. A substantial number (13.3%) strongly admitted that the National Treasury made disclosures on foreign exchange risk while 6.7% disagreed and 20.0% were indifferent of the matter.

Additionally, the study made certain that 6.7% of the surveyed staff disagreed with the assertion that the National Treasury made disclosures on hedge accounting while 66.7% were at least in agreement with the view. Generally, the surveyed staff agreed that the National Treasury made disclosures on hedge accounting (mean = 3.73) whereby their responses in respect of the view were closely related (std dev = 0.785). It was revealed that 73.3% were in agreement with the notion that the National Treasury made disclosures on market risk. While 20.0% of the staff were neutral on the view that the National Treasury made disclosures on market risk, 6.7% completely disagreed with the assertion.

Averagely, these statistics translated to a mean of 3.73 and a std dev of 0.691 regarding the opinion that the National Treasury made disclosures on market risk, which meant that surveyed staff generally believed on the said statement. The findings indicated that the surveyed staff were in agreement of the proposition that the National Treasury made disclosures on credit risk (mean = 3.67); particularly, 60.0% were in agreement with the statement, 6.7% absolutely admitted with the opinion, 26.7% were unsure of the view while 6.7% disagreed with the view. The study found that just over half (53.3%) of the surveyed staff at least admittedly responded to the view that the National Treasury made disclosure on collateral while 40.0% were not sure whether the National Treasury makes disclosure on collateral or not. A mean of 3.67 was achieved regarding the statement that the National Treasury made disclosure on collateral that alluded that the surveyed staff generally agreed with the statement. A standard deviation of 0.884 in respect of the same statement showed that the responses of the staff were closely linked.

Table no. 1: Disclosure of Financial Instruments

	SD %	D %	N %	A %	SA %	Mean	Std. Dev
The National Treasury makes disclosures on accounting policies	0.00	0.00	0.00	33.3	66.7	4.67	.479
The National Treasury makes fair value disclosure	0.00	0.00	13.3	66.7	20.0	4.07	.583
The National Treasury makes disclosures of excess returns.	0.00	6.7	20.0	46.7	26.7	3.93	.868
The National Treasury makes disclosures on concessionary loans	0.00	6.7	6.7	73.3	13.3	3.93	.691
The National Treasury makes disclosures on liquidity risk	0.00	13.3	13.3	53.3	20.0	3.80	.925
The National Treasury makes disclosures on foreign exchange risk.	0.00	6.7	20.0	60.0	13.3	3.80	.761
The National Treasury makes disclosures on hedge accounting	0.00	6.7	26.7	53.3	13.3	3.73	.785
The National Treasury makes disclosures on market risk	0.00	6.7	20.0	66.7	6.7	3.73	.691
The National Treasury makes disclosures on credit risk	0.00	6.7	26.7	60.0	6.7	3.67	.711
The National Treasury makes disclosure on collateral	0.00	6.7	40.0	33.3	20.0	3.67	.884

Descriptive Analysis of Financial Reporting Quality

The Table no. 2 depicts the summarized responses of the surveyed staff with regard to quality of financial reporting. It is indicated that 93.3% of the surveyed staff admitted that the National Treasury strictly followed the laid down standards and frameworks in its financial reporting. Only 6.7% of the staff were unsure of the assertion. In general, the staff concurred with the view that the National Treasury strictly followed the laid down standards and frameworks in its financial reporting (mean = 4.333). The findings further demonstrated that 53.3% of the surveyed staff concurred with the assertion that the National Treasury has been reporting reducing qualified audit opinion ratio for the past 5 years.

Additionally, 13.3% absolutely agreed that the National Treasury has been reporting reducing qualified audit opinion ratio for the past 5 years while 26.7% were not sure whether or not the National Treasury has been reporting reducing qualified audit opinion ratio for the past 5 years. A mean of 3.733 in respect of this assertion was achieved indicating a general agreement on the stated opinion. The findings further illustrated that 60.0% of the surveyed staff were at least in concurrence with the idea that the loss avoidance ratio had been on upward trend for the past 5 years. Nevertheless, 33.3% were unsure if the loss avoidance ratio has been on upward trend for the past 5 years or not while 6.7% disagreed on the view.

It was determined that 6.7% disagreed with the statement that the reported loss avoidance ratio indicated that the benefits of the projects/activities under the National Treasury exceeded the costs incurred while the majority(60.0%) at least admitted to statement. Indeed, a mean of 3.6667 and a corresponding standard deviation of 0.80230 were obtained which meant that the surveyed staff admitted to the statement and that their responses were closely related while reacting to the statement. Furthermore, the findings portrayed that 26.7% of the surveyed staff at least disagreed with the opinion that the National Treasury had reported a rise in accrual ratio while 26.7% were not certain whether or not the National Treasury had reported a rise in accrual ratio. On the same vein, 46.7% at least admitted that the National Treasury had reported a rise in accrual ratio. This resulted to a mean of 3.200 which indicated that the surveyed staff were averagely indifferent of this view.

Furthermore, their responses regarding the statement were diverse (std dev = 1.0635). It was discovered that most (46.7%) of the surveyed staff were not sure whether the National Treasury had been reporting increased profit decline avoidance ratio for the past 5 years or not. A section (20.0%) of the staff disagreed with the view while 33.3% were in concurrence with the said assertion. Similarly, a mean of 3.133 was obtained that illustrated that surveyed staff on average were uncertain if the National Treasury had been reporting increased profit decline avoidance ratio for the past 5 years or not. The view that the National Treasury always obtained unqualified audit opinion attracted divergent responses.

Forty per cent of the staff disagreed with the view while 40.0% concurred with the assertion. As a result the surveyed staff were averagely not sure if the National Treasury always got unqualified audit opinion or not (mean = 3.0667). A standard deviation of 1.2015 was obtained which meant their staff responses were not closely related but varied. The study lastly sought the views of the surveyed staff on whether the non-big 4 auditor ratio in the National Treasury had increased over the past 5 years. It was noted that the staff were not sure of the assertion (mean = 3.000). Specifically, majority (60.0%) of the staff were indifferent of the notion while only 26.7% agreed with the opinion. The remaining (13.3%) absolutely disagreed with the assertion.

Table no. 2: Quality of Financial Reporting

	SD %	D %	N %	A %	SA %	Mean	Std. Dev
The National Treasury strictly follows the laid down standards and frameworks in its financial reporting.	0.00	0.00	6.7	53.3	40.0	4.3333	.60648
The National Treasury has been reporting reducing qualified audit opinion ratio for the past 5 years.	0.00	6.7	26.7	53.3	13.3	3.7333	.78492
The loss avoidance ratio has been on upward trend for the past 5 years.	0.00	6.7	33.3	46.7	13.3	3.6667	.80230
The reported loss avoidance ratio indicates that the benefits of the projects/activities under the National Treasury exceed the costs incurred.	0.00	6.7	33.3	46.7	13.3	3.6667	.80230
The National Treasury has reported a rise in accrual ratio.	6.7	20.0	26.7	40.0	6.7	3.2000	1.06350
The National Treasury has been reporting increased profit decline avoidance ratio for the past 5 years.	0.00	20.0	46.7	33.3	0.00	3.1333	.73030
The National Treasury always get unqualified audit opinion.	6.7	33.3	20.0	26.7	13.3	3.0667	1.20153
The non-big 4 auditor ratio in the National Treasury has increased over the past 5 years.	13.3	0.00	60.0	26.7	0.00	3.0000	.90972

Correlation Analysis

The study employed the Spearman's rank correlation to analyze the relationship between the individual standards constituting IPSAS and the quality of financial reporting. The pertinent results are presented in Table no. 3.

Table no. 3: Results of Spearman's rank correlation analysis

Spearman's rho	Financial Instruments Disclosures	Correlation Coefficient	--	
		Sig. (2-tailed)	.	
		N	30	
	Financial Reporting Quality	Correlation Coefficient	.835**	--
		Sig. (2-tailed)	<.001	.
		N	30	30

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

The results of correlation analysis shown in Table no. 3 indicate that financial instrument disclosures ($r_s = 0.835$; $p < 0.001$) had positive, strong, and statistically significant relationship with the quality of financial reporting. The results were interpreted to mean that ensuring disclosures of financial instruments was likely to result in improvement of the quality of financial reporting at the National Treasury to a great and substantial extent. These results emphasize the need to ensure that the Exchequer discloses financial instruments as per the laid down IPSAS.

Simple Linear Regression Analysis

Simple linear regression analysis was used to determine the effect of financial instruments disclosures on the quality of financial reporting at the National Treasury. The pertinent results are presented in Table no.4, Table no. 5, and Table no. 6.

Table no. 4: Model Summary of Financial Instruments Disclosures against Financial Reporting Quality

Model	r	r Square	Adjusted r Square	Std. Error of the Estimate
1	.944a	.890	.886	.13897

a. Predictors: (Constant), FID

The results shown in Table no. 4 indicate that the coefficient of determination was 0.890. Therefore, financial instruments disclosures could explain 89.0% of variability in the quality of financial reporting at the National Treasury. The results underlined the huge importance of the aforesaid disclosure in respect of financial reporting quality at the Exchequer.

Table no. 5: ANOVA of Financial Instruments Disclosures against Financial Reporting Quality

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.387	1	4.387	227.157	<.001b
	Residual	.541	28	.019		
	Total	**4.928**	**29**			

a. Dependent Variable: Financial reporting quality
b. Predictors: (Constant), Financial instruments disclosures

The results of F-statistic shown in Table no. 5 ($F_{1,28} = 227.157$; $p < 0.001$) were found to be statistically at p-value = 0.05. This meant that there was a linear relationship between financial instruments disclosures and financial reporting quality. As such the data collected fitted the adopted simple linear regression model ($Y = \beta_0 + \beta_1 X_1 + \varepsilon$) which was used to demonstrate the effect of financial instruments disclosures on the quality of financial reporting at the National Treasury.

Table no.6: Regression Coefficients of Financial Instruments Disclosures against Financial Reporting Quality

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.326	.236		1.382	.178
	FID	.909	.060	.944	15.072	<.001

a. Dependent Variable: Financial reporting quality

In tandem with the results shown in Table no. 6, the simple linear regression model ($Y = \beta_0 + \beta_1 X_1 + \varepsilon$) was substituted thus: $Y = 0.326 + 0.909 X_1$, which meant that for every unit change in financial reporting quality, 0.090 unit in financial instruments disclosures was required while other factors (not part of this study) were held constant. It was further established that the effect of financial instruments disclosures on financial reporting quality was statistically significant ($t = 15.072$; $p < 0.001$) at p-value = 0.05. These results led to the rejection of the null hypothesis which stated that: There is no significant effect of disclosures on financial reporting quality at the Kenya's National Treasury.

Conclusions and Recommendations

The study concluded that the National Treasury made all disclosures on accounting policies based on fair value. The disclosures made were in respect of excess returns, concessionary loans, liquidity risk, exchange

risk, hedge accounting, market risk, credit risk, and collateral. Conclusively, the said disclosures were crucial to the quality of financial reporting at the National Treasury. The disclosures made by the National Treasury should be in tandem with IPSAS. In line with the study findings, it is recommended that the National Treasury make full disclosure in respect of liquidity risk, market risk, exchange risk, collateral, concessionary loans as well as excess returns.

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