Scholars Bulletin
(A Multidisciplinary Bi-weekly Journal)
An Official Publication of "Scholars Middle East Publishers",
Dubai, United Arab Emirates
Website: http://scholarsbulletin.com/

ISSN 2412-9771 (Print)
ISSN 2412-897X (Online)

Influence of Management Training on Compliance With International Financial Reporting Standards By Saccos in Nyeri County, Kenya.

[1]Maina Leonard Ngatia, [2]Kyalo Teresia N, [3]Kiragu David N
[1,2]Karatina University, Kenya
[3]Dedan Kimathi University of Technology, Kenya

***Corresponding Author:**
Maina Leonard Ngatia
Email: ngatiamaina15@gmail.com

Abstract: Despite IFRS compliance being mandatory requirement in Kenya and high compliance levels in other sectors, the level of compliance in Kenyan SACCOs has been found to be so wanting that they cannot be benchmarked with most of IFRS. This study aimed at establishing the influence of management training on compliance with international financial reporting standards by SACCOs in Nyeri County. The study was anchored on theory of isomorphism. Empirical review of related literature was done. The target population for this study was all SACCOs which have been operating in Nyeri County for at least five years as at end of year 2013 which were 53 SACCOs according to data from the Ministry of Industrialization and Enterprise Development. A sample size of 47 SACCOs was drawn. Stratified random sampling technique was used after categorizing SACCOs based on activities and membership. After stratifying the population, a simple random sample was drawn from each strata. Proportional allocation method was used to allocate a sample size for each stratum. Primary data collection instrument was a semi-structured questionnaire. The questionnaire was tested for reliability through computing Cronbach's Coefficient Alpha. Validity test of the instrument was done using two groups of experts. Secondary data, for corroborative purposes, was obtained from the financial statements of the SACCOs by use of secondary data collection sheet. Statistical Package for Social Sciences (SPSS) software was used for data analysis .Both descriptive statistics and inferential statistics were conducted. Specifically, model fitness R^2 , ANOVA and regression coefficients were generated from a bivariate linear regression model. Presentation of findings was done through tables and graphs. The study found that management training had a significant relationship with compliance with IFRS at 95% confidence level. Training affected compliance with IFRS to a great extent with 69.3% of change in compliance with IFRS being explained by management training. The study concluded that lack of management training had a negative effect on compliance with IFRS among SACCOs in Nyeri County. It was recommended that SASRA should make it mandatory for SACCO managers to attend trainings organized by professional bodies. SASRA should also organize its own trainings to improve SACCOs managers level of training on IFRS.
Keywords: International financial reporting standards, Compliance, Influence, Management training and SACCOs

INTRODUCTION

Many countries have been changing their financial reporting from domestic Generally Accepted Accounting Principles (GAAPS) to International Financial Reporting Standards (IFRS). IFRS are reporting standards issued by International Accounting Standards Board (IASB) to harmonize financial reporting worldwide [1]. For the purpose of this study, IFRS include both financial standards designated as International Accounting Standards (IAS) and those designated as IFRS.

The change to IFRS may have been driven by mandatory requirements by regulators and the desire to enjoy anticipated benefits under IFRS reporting. In Europe, adoption of IFRS was made mandatory from January 2005 [2]. Australia adopted IFRS in 2005 and New Zealand adopted IFRS in 2007 [3]. In United States of America (USA), foreign entities were permitted to use IFRS without reconciliation to U.S GAAP from January 2008 but for local entities, IFRS future in U.S.A is uncertain [4]. In Africa, 34 out of 53 countries have adopted IFRS with Kenya adopting in the year 2002 and making IFRS use mandatory for both public and private firms [5].

The primary qualitative attributes of good financial information include reliability (representational faithfulness), relevance and materiality with comparability, verifiability, timeliness and understandability being enhancing qualities [1]. Several studies done on the effects of IFRS adoption on quality of financial information have reported improvements in terms of the quality of accounting [6-8]. Other studies have reported a reduction in earnings management as a consequence of IFRS reporting [9-11]. On the other hand, the effect of IFRS adoption could be improvement of market liquidity and reduction in cost of capital [12-14].

Studies have been done on the extent of compliance with IFRS. Mugucia [15] reported compliance level among quoted companies at the Nairobi Stock Exchange at 71.95%. UNCTAD [16] found an overall compliance rate of about 60% with insurance companies' compliance rate of 63%, banking industry at 43% and the other companies at 67%. Sacco Societies Regulatory Authority (SASRA) report indicates that there are only 130 SACCOs which have fully complied with SASRA rules which include preparing statements in compliance with IFRS [18]. According to the same report, the total number of SACCOs in Kenya approximates 7500 with 215 being deposit –taking SACCOs. Additionally, World Bank Report on the Observance of Standards and Codes (ROSC) found non-compliance of SACCOs with IFRS in Kenya at nearly 100% [17]. It reported that financial statements of SACCOs were so wanting that they could not be benchmarked with most of IFRS [17].

Non-compliance with IFRS by SACCOs could be due to management training. SASRA reported that current challenges facing the SACCOs and other cooperatives include low level of professional skill development for both junior and senior management staff and weak governance [19]. Lack of adequate supervision, weak governances and insufficient continuous professional education for the management could be the major driver of non compliance [17]. This study aimed at establishing the influence of management training on compliance with international financial reporting standards by SACCOs in Nyeri County**.**

Objective of the study

The objective of the study was to determine the influence of management training on compliance with international financial reporting standards by SACCOs in Nyeri County.

Research hypothesis

Ho_1: There is no significant influence of management training on compliance with international financial reporting standards by SACCOs in Nyeri County.

Theoretical Framework

Isomorphism Theory

Isomorphism theory was proposed by DiMaggio and Powell [20]. The theory explains the process through which a unit in some population is forced to resemble other units subjected to the same environment. In Practice, the theory implies that organizational characteristics can be adjusted to comply with its proximate environment. There are three forms of isomorphism namely, Normative, Coercive and Mimetic Isomorphism.

Normative Isomorphism is primarily driven by professionalism[20]. Training institutions for professionals, such as universities, aid in development of professional norms for the trainees. Professionalization can also influence isomorphism through inter-organizational linkages and approving educational achievement [20]. This implies that professional bodies such as Institute of Certified Public Accountants of Kenya (ICPAK) can pressurize adoption of IFRS by SACCOs through networking of members such as in seminars and also through approving educational achievement for accountants. The theory of isomorphism thus explains that SACCOs may fail to comply with IFRS due to inadequate management training (normative isomorphism) leading to lack of professionalism.

Coercive isomorphism is the political or legal pressure, formal or informal, that superior organizations exert on organizations that are dependent or answerable to them, in order to adopt a certain policy such as IFRS reporting [20]. In Kenya, the institutions that can enforce adoption of IFRS include Institute of Certified Public Accountants of Kenya (ICPAK), which is the legally mandated accounting institute in Kenya, Sacco Societies Regulatory Authority (SASRA), which regulates SACCOs operations in Kenya and Central Bank of Kenya (CBK) which regulates SACCOs operating Front Office Service Activity (FOSA). Outside the country, institutions that can exert pressure to SACCOs to adopt IFRS include World Bank, which conducts Report on Observance of Standards and Codes (ROSC) and World Council of Credit Unions (WOCCU) which is an umbrella body for credit unions worldwide.

Mimetic isomorphism is when a unit imitates other units in its proximate environment due to uncertainty regarding the future. When faced with uncertainty regarding the future, firms tend to emulate the operations and characteristics of the successful firms. SACCOs can thus adopt IFRS if they find the successful firms adopting the IFRS. This form of isomorphism is commonly spread through migration of employees.

Empirical Review

Zehri and Chouaibi [21] carried out a study on determinants of adoption of International Accounting Standards in the developing countries. Their focus was on voluntary IFRS adoption by the developing countries. They found out that educational level was a major determinant in decision to adopt IFRS by developing countries. They attributed this to the fact that IFRS are quite complicated and detailed knowledge of various disciplines such as accounting, taxation, finance and actuarial calculations is required in its understanding, its interpretation and application.

Siaga [22] investigated the challenges in adoption of IFRS in Africa. Siaga, identified inadequate professional accountants as a major challenge to compliance and attributed this challenge to lack of alignment in training offered by accounting with the practical requirements of African economy.

Bova and Pereira [5] examined the determinants and also the consequences of heterogeneous IFRS compliance levels in Kenya and found out that IFRS compliance was greater in public than in private firms. They attributed private firms' inability to comply with IFRS to the short supply of accountants who have the required training to apply IFRS. Additionally, they reported that the costs of training or updating skills through seminars are significantly high.

United Nations Conference on Trade and Development [16] reviewing issues in IFRS practical implementation in Kenya, identified one of the big challenges for IFRS compliance in Kenya as guaranteeing trained persons who could use IFRS. This challenge was attributed to the complexity of IFRS which requires technical experts in understanding and implementation. To increase compliance levels, the report recommended training of persons so as to understand how to apply IFRS.

Chand [23] examined the impetus to successful harmonization in nations South of Pacific Island and found out that improvement in educational level was necessary before adoption of IFRS. Floropoulos and Muschidis [24] observed that accountants employed in small enterprises in Greek and who had limited educational attainment, were unable to meet the demands of IFRS.

All these studies seem to concentrate on identifying factors or determinants of IFRS adoption and are in agreement that training could be one of those factors. However, no study has shown the influence of training on compliance with IFRS which is what the current study sought to find out. Based on these studies, it was therefore hypothesized that there is no significant relationship between training and compliance with international financial reporting standards by SACCOs in Nyeri County.

RESEARCH METHODOLOGY

The study adopted descriptive research design and a survey research strategy as the study involved data collection from a significant population of SACCOs and aimed to determine status of those SACCOs regarding IFRS compliance. The researcher applied this strategy by using a questionnaire and administering to a sample of 47 Finance Managers and 47 Internal Audit Managers from 47 SACCOs which represented 53 SACCOs in Nyeri County. The study was conducted in Nyeri County. The County was chosen due to its diversity in terms of SACCOs as the County boasts over presence of staff, rural, urban (traders) and also transports SACCOs [25]. The target population for this study was all SACCOs which have been operating in Nyeri County for at least five years as at end of year 2013.

For the purpose of this study, the sample size was 47 out of the 53 active SACCOs in the County as at December 2009. Stratified random sampling technique was used in this study. The researcher divided the 53 SACCOs into categories or strata based on whether the SACCOs are staff, transport, traders or rural. After grouping the SACCOs into strata, proportional allocation method was used to determine a sample size for each stratum. This method resulted into a sample size distribution of SACCOs into 27 for staff category, 9 for transport, 6 for traders and 5 for rural category. Simple random sampling was then used to select units which were included in the sample for each stratum.

Primary data for this study was collected by use of questionnaires. The study used both open and close-ended questionnaires. The study applied self-administered questionnaires since questionnaires completed by the respondents themselves are free from respondent's bias and subjectivity in answering questions [26]. The self-administered questionnaires were hand delivered to the respondents and one week response time allowed before collecting the questionnaires from the respondents. Hand delivery is known to enhance respondents' participation [27].

Secondary data collection sheet was used to collect secondary data. This involved evaluation of the financial statements of the SACCOs for a period of five years. Pilot study was done aimed at refining the research instrument to minimize the chances of respondents experiencing difficulties in answering the questions and also to minimize the problems in data recording. The pilot test was done on SACCOs that did not participate in the main study. The research instruments were administered to 6 Finance Managers and 6 Internal Audit Managers from the 6 SACCOs in Nyeri County which were not to be involved in the main study. Self-administered questionnaires were hand delivered to the respondents and one week response time allowed before collecting the questionnaires from the respondents.

The reliability test established the degree to which research instruments yield consistent findings with an aim of refining them. Where ineffective, the researcher refined the research instrument by either deleting or reviewing items therein. The study applied the internal consistency technique to assess reliability of the instrument. Internal consistency technique involves administering a single test to a sample of subject and correlating a score from one item with scores from other items [26]. To determine the correlation among items, Cronbach's Coefficient Alpha was computed. A correlation coefficient of 0.83 was obtained from analysis. A correlation coefficient of at least 0.8 indicates a high degree of reliability [26].

This study assessed content validity using two groups of professional experts. The first group of experts comprised of members of ICPAK, the legally mandated accounting institute in Kenya. This group was asked to establish if the sets of items correctly represented the management constraints on IFRS compliance by SACCOs which was the concept under study. The second group of experts was professional and practicing Accountants. They assessed the concept that the instrument was measuring. After developing research instruments and ensuring their validity and reliability, an introduction letter from the University was sought. Additionally, a letter requesting permission to conduct study was written to the selected SACCOs' administrators. The researcher also sought a research permit from the National Commission for Science, Technology and Innovation.

Respondents for this study were the Finance Manager and Internal Audit Manager of each participating SACCO making a total of 94 respondents. Finance Managers were selected as they are responsible for preparation of financial statements and Internal Audit Managers because they verify the reliability of the financial statements. They were requested to fill the questionnaires within a week to ensure speedy data collection.

Statistical Package for Social Sciences (SPSS version 20.0) software was used for data analysis. Univariate analysis for each variable was done so as to yield descriptive statistics that were used to describe the variables. Inferential statistics technique for testing hypothesis was p-value. Additionally, correlation coefficients at significance level of 0.05 were generated to indicate the strength and direction of relationship between the variables. Presentation of the findings was done through tables and graphs.

RESEARCH FINDINGS

The study sought to establish the effect of management's training on compliance with international financial reporting standards by SACCOs in Nyeri County. The study established that the managers were highly qualified with all of them having acquired higher education. The study also revealed that a significant number of respondents had attained training in accounting courses. However, few of the managers attended training organized by accounting bodies. Further, the findings showed that only a negligible number of managers had attained international professional accounting credentials. Even among those with international accounting credentials, none attended trainings organized by the international accounting bodies. This shows that whereas managers were academically qualified in accountancy, they did not attend trainings organized by professional bodies like ICPAK. These trainings offer the latest information on a variety of accounting aspects such as international financial reporting standards which keep them updated from time to time. Managers of SACCOs in Nyeri County therefore have low training of international financial reporting standards. This explains the significant relationship between management training and compliance with IFRS. The findings are in agreement with Zehri and Chouaibi [21] who found out that educational level was a major determinant in decision to adopt IFRS by developing countries. The findings are also in agreement with Siaga [22] who identified inadequate professional accountants as a major challenge to compliance and attributed this challenge to lack of alignment in training offered by accounting with the practical requirements of African economy. The findings are consistent with those of Bova and Pereira [5] who attributed private firms' inability to comply with IFRS to the short supply of accountants who have the required training to apply IFRS.

CONCLUSION

The study concludes that management training has a great influence on compliance with IFRS among SACCOs in Nyeri County. The study tested the relationship between management training and compliance with IFRS among SACCOs in Nyeri County. The test was conducted using SPSS software at 95% confidence level. Compliance with IFRS was regressed on management training and p-value statistic of $0.000<0.05$ was generated. Further, the regression results generated a correlation coefficient, $R=0.835$ indicating a very strong positive relationship between management training and compliance with IFRS. Coefficient of determination, R^2 was found to be 0.693 showing that 69.3% of variation in compliance with IFRS is explained by management training.

Recommendations

Findings established that management training had a strong influence on IFRS compliance. Thus, the researcher recommends that:

- SASRA should make it mandatory for SACCO managers to attend trainings organized by professional bodies.
- SASRA should also organize its own trainings to improve SACCOs manager's level of training on IFRS.
- Management of SACCOs should incorporate persons trained in strategic management to enable them handle change management like moving from old reporting standards to IFRS.

REFERENCES

1. International Accounting Standards Board – IASB. (2010). the Conceptual Framework for

Financial Reporting. London. IFRS Foundation Publications Department.
2. Karampinis, N., & Hevas, D. (2009). The effect of the mandatory application of IFRS on the value relevance of accounting data: Some evidence from Greece. *European Research Studies*, 12 (1), 73-100.
3. Nethercott, L., & Smith, A. M. (2007). New Zealand's thin capitalization rules and the adoption of international financial reporting standards in New Zealand. Working paper. Monash University and Victoria University of Wellington.
4. Christensen, T. E., Cottrell, D. M., & Baker, R. E. (2014). Advanced financial reporting. New York: McGraw-Hill companies Inc.
5. Bova, F., & Pereira, R. (2012). The determinants and consequences of heterogeneous IFRS compliance levels following mandatory IFRS adoption: Evidence from a developing country. *Journal of International Accounting Research*, 11(1), 83–111.
6. Ball, R. (2006). International Financial Reporting Standards (IFRS): Pros and cons for investors. *Accounting & Business Research*, 36, 5-27.
7. Gebhardt, G., & Novotny-Farkas, Z. (2011). Mandatory IFRS adoption and accounting quality of European banks. Journal of Business Finance and Accounting, 38,289-333.
8. Gordon, E.A., Jorgensen, B.N., & Linthicum, C. L. (2009). Could IFRS replace U.S. GAAP? A comparison of earnings attributes and informativeness in the U.S. market. Working paper. Temple University, University of Colorado and University of Texas at San Antonio.
9. Barth, M., Landsman, W., & Lang, M. (2008). International accounting standards and accounting quality. *Journal of Accounting Research*, 46(3), 467-498.
10. Lang, M., Raedy, J., & Yetman, M. (2003). How representative are firms that are cross-listed in the United States? An analysis of accounting quality. *Journal of Accounting Research*, 41(2),363-386.
11. Samarasekera, N., Chang, M., & Tarca, A. (2012). IFRS and Accounting Quality: The Impact of Enforcement. Working paper. Department of Treasury, Government of Western Australia and University of Western Australia.
12. Daske, H., Hail, L., Leuz, C., & Verdi, R. (2008). Mandatory IFRS reporting around the world: Early Evidence on the economic consequences. *Journal of Accounting Research*, 46(5), 1085-1142.
13. Florou, A., & Kosi, U. (2009). The economic consequences of mandatory IFRS adoption for debt financing. Working paper. University of Macedonia.
14. Li, S. (2010). Does mandatory adoption of international financial reporting standards in the European Union reduce the cost of equity capital? *The Accounting Review*, 85, 607-636.
15. Mugucia, H. C. (2005). Survey of the extent of compliance to international accounting standards disclosure requirements for listed companies at the Nairobi stock exchange. Unpublished master's research project, University of Nairobi, Nairobi, Kenya.
16. United Nations Conference on Trade and Development (UNCTAD). (2006**)**.Conference proceedings held in Geneva, 10-12 October 2006.
17. World Bank, (2010). Report on The Observance of Standards and Codes (ROSC) Kenya. Accounting and Auditing.
18. Sacco Societies Regulatory Authority. (2013). Speech by the Honorable Cabinet Secretary, Ministry of Industrialization and Enterprise Development during the Sacco Leaders Forum, at KICC on 26th August, 2013. Retrieved June 25,2014, from http://www.sasra.go.ke./news-updates/speeches&sa
19. Sacco Societies Regulatory Authority.(2011). CEO Speech (4/3/2011) - Inaugural license ceremony. Retrieved June 25, 2014, from http://www.sasra.go.ke./news-updates/speeches/53-ceo-speech-4-3-2011-inaugural-licence-ceremony&sa
20. DiMaggio, P., & Powell, W. (1983). The iron cage revisited institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 48, 147-60.
21. Zehri, F., & Chouaibi J. (2013). Adoption determinants of the International Accounting Standards IAS/IFRS by the developing countries. *Journal of Economics, Finance and Administrative Science*, 18, 56-62.
22. Siaga, S. F. (2012). Challenges to adoption of international financial reporting standards in Africa. Unpublished minor dissertation, University of Johannesburg, Johannesburg, South Africa.
23. Chand, P. (2005).Impetus to the success of harmonization: The case of South Pacific Island nations. *Critical Perspectives on Accounting*, 16, 209-226.
24. Floropoulos, J. N., & Moschidis, O. E. (2004). Are small enterprises ready for the implementation of IFRS? The case of Greece. *Journal of Economics and Business*, 7(2) 81 – 116.
25. Kiura, F. K. (2010). Response strategies to environmental changes by savings and credit cooperative societies in Nyeri County, Kenya. Unpublished master's research project, University of Nairobi, Nairobi, Kenya.

26. Mugenda, O., & Mugenda, A. (2003). Research methods quantitative and qualitative approaches. Nairobi: Acts Press.
27. Saunders, M., Lewis, P., & Thornhill, A. (2009). Research methods for business students. Harlow: Pearson education limited.