CREATIVE ACCOUNTING TECHNIQUES, UNIVERSITY SIZE AND QUALITY OF FINANCIAL REPORTING IN PUBLIC UNIVERSITIES IN KENYA

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A Research Thesis submitted to the School of Business and Economics in partial fulfillment of the requirements of the Degree of Doctor of Philosophy in Business Administration (Accounting), Masinde Muliro University of Science and Technology

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DECLARATION

This research thesis is my original work prepared with no other than the indicated sources and support and has not been presented elsewhere for a degree or any other award.

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APPROVAL

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DEDICATION

This research thesis is dedicated to my family and friends. To my beloved children; Churchill, Zilper and Usherin for their prayers and encouragement.

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ABSTRACT

Institutions need to report their financial status regularly over a prescribed period so as to enable the stakeholders be aware of their performance. According to IPSASB, a key component for quality financial reporting is the strict adherence to the objective and the specific qualitative characteristics of financial reporting information, which will lead to stakeholder confidence. This is because the quality of any financial report is of high concern to both the final users and the society since it has an effect on the economic decisions that could have a direct impact to the society. This has led some institutions to use creative accounting. However, the Office of Auditor General found that only 4 out of 36 (9%) public universities were having unqualified opinion during financial year 2021/2022 compared to 7(19.4%) in 2020/2021 showing a decreasing trend in regard to unqualified opinion. The general objective of this study was to establish the effect of creative accounting techniques on the quality of financial reporting in public universities in Kenya. The specific objectives for the study were: to determine effect of Revenues recognition, classification of expenses, valuation of assets and liabilities, debtor provision recognition and to determine the moderating effect of university size on the relationship between creative accounting techniques and the quality of financial reporting in public universities in Kenya. The study was guided by information asymmetry theory, legitimacy theory and the positive accounting theory. The study adopted the positivist research philosophy while the research design was causal research design. The study target population was 866 respondents where stratified random sampling technique was used resulting in a study sample of 274 respondents was drawn using Yamane formula. Data was collected using questionnaires and interview schedule. Secondary data was collected in regard to type of audit opinion and size of the university using approved budgets. Data was analyzed using descriptive statistics including mean, frequency, percentages and standard deviation. Inferential statistics consisting of correlation analysis and multiple linear regression analysis was used to determine the effect of creative accounting techniques on quality of financial reporting in public universities in Kenya. Data was presented using tables, charts and graphs. The multiple regression showed that creative accounting in revenue recognition, classification of expenses, valuation of assets and liabilities and debtor provision recognition had a significant negative effect on quality of financial reporting in public universities in Kenya. Hierarchical regression results showed university size had a significant moderating effect on the relationship between creative accounting techniques and the quality of financial reporting. The study concluded that creative accounting practices has a significant negative effect on the quality of financial reporting and university size plays significant moderating effect on this relationship. It is recommended that the management of the university should establish and enforce rigorous revenue recognition policies that adhere to international accounting standards, develop and implement comprehensive guidelines for the classification of expenses in financial reports, establish and enforce consistent depreciation policies that align with international accounting standards and to enforce strict adherence to the policy on provision for doubtful debts.

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ABBREVIATIONS AND ACRONYMS

DPR	Debtor Provision Recognition
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard
IFRSF	International Financial Reporting Standards Foundation
IPSAS	International Public Sector Accounting Standards
ISAC	International Accounting Standards Committee
ME	Classification of Expenses
PAT	Positive Accounting Theory
PSASB	Public Sector Accounting Standards Board
RR	Revenue Recognition
SF	Size of the Firm
VAL	Valuation of Assets and Liabilities
Y	Quality of Financial Reporting

OPERATIONAL DEFINITION OF TERMS

Classification of expenses: Refers to an expenditure classified under the wrong head of account in public universities. Mistakes in accounting include non-accounting of transactions, incorrect accounting of transactions, belated adjustments in the Accounts and operation of unauthorized heads of accounts.

Creative Accounting: Transformation of financial accounting figures from what they are to what the management desire by taking advantage of existing international accounting standards for instance changing depreciation method from straight line to reducing balance method at the tail end of a useful life of an asset.

Debtor Provision Recognition: This entails deliberately increasing or decreasing the estimations in order to portray a more appealing financial picture that may not accurately reflect the true condition of the organization.

Financial Reporting Quality: This is a systematic recording of financial information in accordance with applicable accounting standards.

Revenue Recognition: This is where a public university inflates profits and sometimes decreases earnings. In this study, revenue manipulation will be measured using debtors' level/status and billing time as measured by the period in which billing was done.

University Size: Refers to the scale on which an organization operates. In this study it will be used to measure the size of the University based on the Annual Approved Budget by the National Treasury. University size was treated as a moderating variable in this study, influencing the strength of the relationship between creative accounting techniques and the quality of financial reporting.

Valuation of Assets and liabilities: Means estimation of various assets and liabilities in public university. In the absence of proper valuation of assets and liabilities, they will exhibit either overvalued or under-valued.

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Creative accounting is commonly linked to the manipulation of financial information and reporting, as it is often employed to present financial data in a flattering way than it would be if presented truthfully. Precise, pertinent, and reliable disclosures are regarded as a means of enhancing a company's reputation and boosting the market appeal of the organization. Additionally, it streamlines the acquisition of funds with extended maturity, facilitates accurate resource management by the entrusted authorities, and serves as a driver for the growth and advancement of the capital market (Abed, Hussin, Ali, Haddad, & Shehadeh, 2022). Creative accounting involves identifying legal and accounting loopholes to improve financial statements and portray the organization in a favorable manner. Income smoothing can positively influence trade in business, but only when it is employed in a constructive manner and serves the organization's overarching goals. However, it is very uncommon for firms to exceed the limits of simplicity and exploit such behavior, which might result in severe consequences. Undoubtedly, creative accounting frequently undermines the accuracy and reliability of financial reporting (Malimu, Ondiek, & Musiega, 2023).

While creative accounting is often associated with private corporations, it is equally prevalent in the public sector, particularly in public universities (Abed et al., 2022). These institutions operate within a unique financial environment, relying on multiple revenue streams such as government funding, tuition fees, research grants, and donor contributions to sustain their operations (IPSASB, 2025; Nurmalitasari & Durya, 2022). Maintaining

financial stability is critical for securing funding and ensuring operational continuity, yet this pressure often incentivizes the use of creative accounting techniques to manipulate financial reports (Kimuyu, 2022).

High-quality financial information is crucial in public universities for ensuring accountability, credibility, and financial sustainability. As institutions relying on government funding, tuition fees, research grants, and donor contributions, they must maintain transparent financial reporting to ensure proper resource allocation and compliance with IPSAS (IPSASB, 2025). Accountability ensures that funds are efficiently managed, preventing misallocation and financial irregularities (Etoromat, 2022). Credibility and stakeholder trust depend on accurate financial reporting, as students, faculty, donors, and regulatory bodies rely on this information for decision-making (Kimuyu, 2022). Access to funding is directly linked to financial transparency, as donors and governments require audited financial statements before allocating resources (OAG, 2023). Poor financial reporting leads to reduced grants, budget cuts, and reputational damage (Nurmalitasari & Durya, 2022).

Creative accounting in public sector raises serious ethical and practical concerns, impacting financial transparency, governance, and resource allocation. These institutions rely on government funding making accurate financial reporting essential (IFRS, 2025; IPSASB, 2025). Ethically, creative accounting violates public trust by misrepresenting financial statements, misleading stakeholders, and undermining governance (Abed et al., 2022). Such practices expose institutions to legal and regulatory penalties. Practically, financial misrepresentation misallocates resources, distorts budgeting, and weakens

financial stability (Nurmalitasari & Durya, 2022). Concealing financial distress delays corrective measures, exacerbating fiscal crises (Etoromat, 2022). Moreover, funding agencies and donors rely on transparent financial reports, and manipulation reduces financial support (Kabir & Su, 2022).

According to Emma and Obioma, (2020) the practice of creative accounting is seen as the primary factor behind numerous accounting scandals, and various accounting reform initiatives are primarily aimed at eliminating such practices. When a company's financial data is collected, recorded, analysed, summarised, categorised, verified, reported, and understood, the result is a financial statement. It summarises the company's financial status, performance, and changes to that status (Kukutia, 2019).

Tavakol, and Wetzel, (2020) discussed the manipulative actions of management and the potential benefits and risks of creative accounting procedures. However, inventive accounting procedures are synonymous with deceit and undesirable behaviors. Additionally, they highlighted that creative accounting and fraud are employed by businesses during times of financial hardship, driven by the intention to deceive and maintain their financial records in an appealing and misleading manner. They also expressed the view that the adoption of creative accounting techniques has enabled numerous organizations to overcome financial problems rather than causing them to fall into disaster. The responsibility for the emergence of the defect resides solely with the user of the financial information, to an excessive degree. International and local studies confirm the presence of creative accounting practices in firms (Kwaghvihi, Zayol, & Soomiyol, 2023). IPSAS has been advocated as a versatile solution to more effectively

address the distinct information requirements of the public sector, enhance the transparency and dependability of public financial records, and simplify the consolidation of financial statements (IPSAS 2020).

Globally, misleading financial reporting has precipitated significant company failures, exemplified by the Enron incident (2001), WorldCom (2002), which prompted the enactment of the Sarbanes-Oxley Act in the USA, Satyam Computer Services Limited (2009) in India, and American International Group (2005). In Nigeria, Akintola Williams and Deloitte were charged with enabling the falsification of records for AFRI Bank Plc (Main Stream Bank PLC) and intentionally inflating the earnings of Cadbury Nigeria PLC. Between 1990 and 1994, Nigeria reportedly incurred losses exceeding N6 billion ($42.9 million) alone inside the banking industry. This resulted not only in the loss of investments and employment but also caused users of corporate financial statements to question the veracity and integrity of the accounting information and the accounting profession overall (Aboud & Robinson, 2022).

The predominant understanding of creativity in academic literature is that it is expressed via the creation of a work (such as an original piece of art or a scientific hypothesis) that is both "novel" and "useful". Colloquial definitions of creativity generally describe the process of generating or creating something entirely or partially novel; infusing an existing object with new attributes or qualities; envisioning previously unimagined possibilities; and perceiving or executing actions in a manner distinct from prior norms or expectations. Economists like Paul Romer see creativity as a crucial factor in the recombination of components to generate new technology and products, hence fostering economic progress.

Creativity enhances capital accumulation, and innovative goods are safeguarded by intellectual property legislation. The "creative class" is seen by some as a significant catalyst of contemporary economies. In his 2002 publication, The Rise of the Creative Class, economist Richard Florida popularised the concept that regions with significant concentrations of creative professionals, including high-tech workers, artists, musicians, and individuals he categorises as “high bohemians,” typically exhibit elevated levels of economic development (Akpanuko & Umoren, 2020).

Watts and Zimmerman (1990) were the first to document creative accounting in their writings during the 1970s. The primary objective of management is to maximise profit and earnings. However, under certain circumstances, management may manipulate accounting methods by deferring or accelerating expense or revenue transactions, or employing policies that distort financial statements to present earnings at a specific level in accordance with financial reporting standards. Kimmel, Weygandt and Kieso (2020) believe that creative accounting serves as a tool used during a firm's difficult circumstances. They also assert that creative accounting is not inherently detrimental if a business demonstrates some adaptability in its accounting practices. The ethical climate of a corporation influences the manner and rationale behind management's use of creative accounting approaches as a tool. Certain analysts reveal the detrimental aspects of inventive accounting procedures. They believe that the majority of failures arise from unethical practices in creative accounting. According to Gherai and Balaciu (2021), an enterprise's stake is jeopardised when it engages in innovative accounting procedures. These techniques provide only transient advantages, ultimately leading the organisation

to be engulfed in controversies. There is a significant need for stringent oversight of financial reporting. It also says that management should identify all potential factors that may incite practices of creative accounting.

Egejuru (2023) asserts that the alteration of board members at Cadbury Nigeria was prompted by the manipulation of finances intended to conceal certain deficiencies or unethical transactions conducted by management. Inaccurate financial reporting jeopardised the security of the financial system, leading to the demise of many Nigerian banks and the arrest of multiple chief executive officers by the Economic and Financial Crimes Commission (EFCC). With a growing number of Nigerian businesses under scrutiny, there seems to have been an uptick in the use of creative accounting practices. According to Egejuru (2023), all of the long-standing ethical standards of the accounting and auditing profession have been breached by the extent to which Nigerian banks have engaged in window dressing in their financial statements. Window dressing temporarily improves financial appearance at period-end to impress stakeholders without altering underlying performance. In short, creative accounting is strategic and ongoing, while window dressing is cosmetic and short-term.

Abed et al. (2022) observed that the motivation behind creative accounting practices among Ghanaian commercial banks was largely to enhance their market share value and investor perception. The extent to which various creative accounting techniques contribute to the overall effect differs depending on institutional context and regulatory frameworks. They emphasized that when regulations exist without adequate enforcement mechanisms, oversight structures, and appropriate penalties or incentives, they create loopholes that

allow creative accounting to thrive. Such weak regulatory environments provide opportunities for deceptive, superficial, and often inequitable financial reporting practices. As a result, organizations are able to manipulate financial information without facing immediate consequences, ultimately undermining the credibility and transparency of the financial reporting system in the banking sector.

In South Africa, it is evident that creative accounting methods arise due to management's discretion in selecting accounting principles while generating financial statements. The many company failures indicate deficiencies in the global corporate accounting information disclosure processes. This has adversely impacted the integrity of financial reporting and the auditing profession. Additional detrimental consequences of corporate scandals include substantial depletion of investor money, employment losses, disruption of capital markets, and a decline in South Africa's National Gross Domestic Product (GDP) (Ababneh & Aga, 2019).

Creative accounting practices influence the tax payable among the enterprises. Kenya Revenue Authority (KRA) should enforce the use of electronic tax registers to eliminate loop- holes that allow for manipulation of source documents, underestimation of sales figures and overstatement of purchase figures by SMEs. Linking management remuneration to the firm's profitability is a significant practice that fosters creative accounting among publicly traded corporations, since elevated earnings result in increased personal rewards for managers, hence higher motivation for aggressive accounting otherwise referred to as creative accounting. Attempt to make the company appear to be financially healthy lures a firm to engage in creative accounting (Saleh et al., 2023).

1.1.1 Creative Accounting Techniques

Creative accounting is a method used to improve the information given to stakeholders, with the goal of making the organization's image, financial condition, and economic performance appear more attractive. These accounting procedures ultimately achieve the intended accounting outcomes. There are multiple possible manifestations of this. For instance, the act of subjectively devaluing physical possessions. Occasionally, an error may occur when calculating the quantity of existing inventories, leading to the need to revise financial statements. This revision will impact not only the current year's financial statements but also those of the subsequent year. Occasionally, the accountant may fail to consider setting up provisions in the years when the profit outcome resulted in a decline, or reinstating provisions in the revenue year when the deficit increase in the registers leads to the outcome (Abed *et al*, 2022).

In order to minimize the occurrence of creative accounting practices, various steps can be taken. These include, but are not limited to, reducing the range of permissible accounting methods and, whenever feasible, clearly defining the circumstances in which each method is appropriate. Additionally, auditors should be vigilant in detecting any potential manipulation of information in the financial statements (Saleh et al., 2023). The utilization of creative accounting practices by managers and corporations is clearly aimed at obtaining advantageous outcomes in their favor. The scope of this study will be limited to four prevalent creative accounting techniques: The issues mentioned are revenue recognition, misclassification of expenses, estimation of the worth of assets and liabilities and debtors' provision manipulations.

Public universities may use revenue recognition, expense classification, asset valuation, and debtor provision recognition as creative accounting techniques to manipulate financial statements. Revenue recognition can be misused by recording tuition fees, grants, or donations before they are earned, inflating financial health (Kabir & Su, 2022). Expense classification is manipulated when operational expenses are reclassified as capital expenditures, falsely improving financial performance (Abed et al., 2022). Valuation of assets and liabilities is distorted by overstating property values, underreporting liabilities, or delaying depreciation to enhance financial ratios (Kimuyu, 2022). Debtor provision recognition can be altered by understating doubtful debts to avoid reflecting financial distress (Nurmalitasari & Durya, 2022). These practices violate International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS) by presenting misleading financial information (IPSASB, 2025).

Kabir and Su (2022) found that multinational corporations often recognize revenue prematurely, violating IFRS 15, by booking sales before fulfilling contractual obligations. Similarly, Garcia and Martinez (2023) showed that Latin American firms manipulated debtor provisions by underreporting doubtful debts, breaching IFRS 9 and IPSAS 41. Expense classification violations are also widespread. Abed et al. (2022) highlighted that firms in the manufacturing sector misclassified operational costs as capital expenditures, contradicting IAS 1, to inflate profitability. Additionally, Nurmalitasari and Durya (2022) reported that real estate companies overvalued properties and delayed depreciation, violating IAS 16 and IPSAS 17, misleading investors about asset worth. These violations distort financial transparency, mislead stakeholders, and undermine regulatory

compliance, emphasizing the urgent need for stronger enforcement and oversight of accounting standards.

Public universities face significant challenges in applying creative accounting techniques due to budgetary constraints, regulatory scrutiny, and financial sustainability pressures (Kimuyu, 2022). Government funding delays encourage premature revenue recognition, as universities report anticipated grants before receipt (Kabir & Su, 2022). Inconsistent tuition fee structures complicate revenue recognition, leading to misstatements (OAG, 2023). Universities also struggle with expense classification, where operational costs are misallocated as capital expenditures to enhance financial statements (Abed et al., 2022). Asset valuation is complex due to fluctuating property values, with institutions often overstating real estate worth (Nurmalitasari & Durya, 2022). Debtor provision issues arise as universities fail to recognize unpaid tuition and research grants as financial risks, leading to misleading solvency assessments (IPSASB, 2025). Regulatory compliance with IFRS and IPSAS is essential, yet weak internal controls expose institutions to financial mismanagement risks.

The accurate and transparent recognition of revenue is a critical component of financial reporting, as it directly impacts the quality, reliability, and credibility of financial statements. Proper revenue recognition ensures that financial data reflects an institution's true financial position, allowing for effective decision-making, accountability, and stakeholder confidence. However, when revenue recognition is manipulated through creative accounting techniques, it can lead to financial misstatements, resource misallocation, and loss of stakeholder trust. Discrepancies in revenue recognition affect

accuracy, transparency, and reliability of financial statements, misleading stakeholders, regulators, and funding agencies (IPSASB, 2025).

Recent studies suggest that public universities in Kenya struggle to apply consistent revenue recognition techniques, affecting financial report reliability (Wafula, 2021). Despite IPSAS adoption, delayed income recognition and irregular accounting for grants remain common (Mutunga & Okello, 2022). Few empirical studies focus on how these inconsistencies affect comparability and user confidence in university financial reports. Literature often generalizes public institutions and lacks a university-specific lens (Njiru & Makau, 2021). Furthermore, the link between creative revenue recognition and external audit challenges in universities is under-researched, especially under funding pressure (Onyango, 2023)

While IPSAS requires clear classification of expenses, recent literature shows that universities misclassify operational costs as development expenditure, misleading stakeholders (Omollo, 2022). There is limited empirical focus on how this tactic influences reporting quality in Kenyan universities. Studies like that of Mugo and Njeru (2021) indicate weak internal controls over expenditure grouping, opening doors to creative accounting practices. Additionally, audit reports reveal inconsistencies in classification, yet few academic inquiries have analyzed the resulting credibility issues (Okoth & Wambua, 2022). This reflects a significant methodological and contextual gap in financial accountability literature (Muriuki, 2023)

Despite the importance of asset valuation in financial reporting, public universities rarely adhere to consistent practices. Studies by Njoroge and Wekesa (2021) reveal irregularities

in valuation techniques, especially concerning non-current assets. Many institutions still rely on outdated cost models, distorting true asset value (Okeyo, 2022). Literature lacks empirical evidence on how these valuation gaps affect decision-making and reporting quality in higher education. Additionally, minimal attention is given to liabilities such as contingent obligations and how their misvaluation can affect institutional solvency reports (Odhiambo & Langat, 2023). These issues expose significant reporting risks (Mutiso, 2022)

Recent findings show that universities often fail to provide adequately for doubtful debts, impacting the integrity of financial statements (Chege & Wanyama, 2021). Most focus is on commercial debtors, while student-related receivables, which dominate university balance sheets, remain underexplored (Makori & Wekulo, 2022). Empirical research on how inconsistent provisioning skews financial health indicators in universities is limited. Moreover, audit reports highlight provisioning gaps, yet academic studies fail to link these directly with creative accounting intent (Kimathi, 2023). Additionally, the effectiveness of debtor provision policy enforcement across institutions is insufficiently evaluated (Mutie & Atieno, 2022)

Although some research suggests that institutional size affects governance and financial control systems, its moderating role in creative accounting remains under-studied (Otieno & Gikunda, 2021). Large institutions may have better controls, but this does not automatically reduce manipulation unless studied empirically (Wachira & Musyoka, 2022). Most studies treat public universities as homogeneous, ignoring the impact of scale

on accounting integrity (Kibet & Nyaga, 2023). Moreover, the literature does not model how institutional size alters the strength of internal control–reporting quality relationships, leaving a theoretical and statistical gap (Njenga & Kiptoo, 2022)

1.1.2 Quality of Financial Reporting

Financial reporting quality is commonly defined as the systematic recording of financial information in accordance with applicable accounting standards. Quality financial reporting involves the compilation and delivery of relevant financial data to different stakeholders within an organization, providing an overview of its performance during a specific period (Malimu, Ondiek, & Musiega, 2023). The stakeholders extend beyond investors, lenders, suppliers, the government, and its agencies. The organization is required to prepare a variety of statements in the appropriate format, including the Statement of Financial Position, Statement of Comprehensive Income, Statement of

Cash Flow, Statement of Changes in Equity, and notes providing financial explanations. The statements have to be audited and the auditor gives his opinion on whether the statements show a true and fair view of state of affairs of the organization (Kukutia, 2019).

The primary objective of financial reporting is to furnish stakeholders with dependable, precise, and prompt financial information necessary for making informed decisions concerning organization's operations. The objective of financial reporting is to effectively convey financial information to users, enabling them to make well-informed and unbiased decisions (Abed *et al*, 2022). Reliability of this information is given more weight after they have been audited and the auditor gives his opinion to that effect. However, creative

accounting gives prepares of financial statements considerable freedom in accounting procedures and the exercise of objective judgement to establish measurement rules, recognition criteria, and, in certain instances, the classification of the accounting body (Abed *et al*, 2022). The capacity to selectively utilize accounting components enables intentional manipulation or concealment of data. These adjustments can enhance a company's perceived attractiveness by creating the illusion of greater profitability and financial stability than its true state. Utilizing disinformation can deceive users and investors, posing a major obstacle to corporate expansion and investment mobilization (Cardoso & Bernardo, 2020).

In the public sector, for financial reports are said to be quality, if they adhere to the requirement of IPSAS, audited and audit opinion having been provided by the auditor. The auditor expresses satisfaction or non-satisfaction of the financial statements through audit opinions. These opinions are unqualified, qualified, adverse or disclaimer (Ojeh, & Eze, 2023).

The main reason for the establishment of IPSAS, or International Public Sector Accounting Standards, for public sector financial reporting, has been the necessity for harmonised accounting standards (Egolum, & Ndum, 2021). The term "IPSAS" is used to describe the suggestions put forward by the IPSASB, which is an arm of the IFAC (Hussaini, 2022). General purpose financial statements are required to recognise, measure, present, and disclose transactions and events in accordance with IPSAS, which are standards. Governments' resource allocation decisions can be better evaluated with the help of the IPSASB, which is primarily responsible for making sure that publicly available

financial statements are consistent in both content and format and say exactly what they mean (Castaneda-Rodriguez, 2022). According to Karai (2023), the International Public Sector Accounting Standards Board (IPSASB) publishes IPSASs that address cash basis and accrual basis financial reporting. All public universities in Kenya report using the accrual basis for financial reporting, which is the optimal model for all public entities.

1.1.3 Size of the University

According to De Meulenaere, Winne, Marescaux, and Vanormelingen, (2021), firm size is defined as one of the references used to measure the organization's share of available market (either customers or capital) and earn a return based on the total assets owned. The bigger the organization, the more people pay attention, and thus it is easier for big organizations to obtain funding sources. Larger organizations make public demand for disclosure of financial reporting information to be higher because these organizations are considered to be disclosing more information than organizations that have a smaller size.

Firm size holds an important role in presentation of financial statements. Large organizations are faced with increased demands from the shareholder to give good financial statements as compared to small organizations (D'Amato, & Falivena, (2020). According to Chodorow-Reich et al., (2022), firm size plays an important role in determining the extent of information disclosure in annual reports. The notion of firm size was explored by D'Amato and Falivena (2020). Due to the higher volume of contracts between managers and shareholders, the primary agent issue is more prevalent in large organisations

compared to small ones. Managers and stockholders may have lower agency costs if they were more transparent. One further reason why big companies are more likely to be transparent is because they have better information systems in place. This means that they can get and publish information for less money than small companies (D'Amato, & Falivena, (2020).

The size of a university, often represented by its approved annual budget, is a critical moderating variable in studies examining financial practices, including creative accounting. Larger universities, with more substantial budgets, typically have greater financial complexity due to diverse revenue streams and expenditures. This complexity can create opportunities for creative accounting practices, such as revenue recognition manipulation or expense reclassification, as noted by Agyemang and Yeboah (2023) in a study on financial management in higher education. Larger institutions may also face less scrutiny compared to smaller universities, allowing for more discretion in financial reporting (Ahmed & Naima, 2023). Conversely, smaller universities with limited budgets may have fewer resources to engage in sophisticated financial manipulation, but they may also face greater pressure to present favorable financial statements to secure funding or attract students (Gupta & Kaur, 2023). The moderating effect of budget size is further supported by studies such as those by Al-Nimer, Omush and Al-Eitan (2023)), which highlight how organizational size influences the likelihood and extent of earnings management. These findings underscore the importance of considering budget size as a moderating variable when analyzing financial practices in universities, as it significantly impacts both the capacity and motivation for creative accounting.

1.1.4 Public Universities in Kenya

Public universities play a crucial role in conducting research and providing education and training to develop human resources, with the aim of achieving the United Nations Millennium Development Goals. Nevertheless, public universities are encountering challenges such as reduced government funding, privatization, growing student enrollments, and rapid expansion. These factors raise concerns about the institutions' ability to effectively fulfill their primary responsibilities. Stakeholders expect universities to strive for high levels of excellence in service provision and guarantee that clients, especially students, are content. Universities must guarantee that their offerings align with the requirements and expectations of their clients (World Bank, 2011).

The Commission for University Education [CUE] disseminated the Universities Standards and Guidelines, which were designed to provide quality control and enhancement in university education in Kenya. The rules outline the qualifications required for academic staff and require universities to provide sufficient lecture rooms/theatres, laboratory facilities, a high-quality university library, and effective student welfare services that are appropriate for the number of students enrolled. Furthermore, the universities must actively uphold the utmost levels of instruction and education, guaranteeing that students gain proficiencies that align with the educational objectives and ambitions of Kenyan society (CUE, 2021). According to the Commission of University Education (CUE) by 2021 there were 35 states sponsored (CUE, 2021).

Amidst these circumstances, many universities have resorted to utilizing creative accounting methods in order to create the illusion of financial stability, due to the problem

of funding and money. The use of creative accounting techniques can significantly undermine the quality of financial information, leading to misallocation of resources and loss of stakeholder trust(Nyamori, 2022). Public universities in Kenya, like other institutions, rely on government funding, tuition fees, research grants, and donor contributions. However, when financial statements are manipulated through improper revenue recognition, expense misclassification, or asset overvaluation, the result is distorted financial reports that mislead decision-makers and stakeholders

One significant issue arising from revenue inflation is stalled infrastructure projects. Several public universities in Kenya have initiated large-scale construction projects based on inflated tuition revenue projections, only for these projects to remain incomplete due to insufficient funding. For example, in 2019, the Auditor General reported that a major university had several unfinished student hostels and lecture halls due to poor financial planning and revenue misreporting. Funds meant for these projects had been overcommitted, leading to financial strain when actual tuition revenue fell short (Office of the Auditor General, 2020).

The misuse of research grants is another consequence of improper revenue recognition. Some Kenyan universities have been found to divert research funds to cover operational costs, violating grant agreements and eroding trust with funding agencies. A notable case involved a leading university misallocating research grants meant for STEM projects to settle salary arrears, resulting in the withdrawal of funding from international donors. Such misallocation not only affects the progress of academic research but also leads to

reduced future grant opportunities, as funding agencies become wary of financial mismanagement (Commission for University Education, 2021).

Additionally, loss of stakeholder trust is a critical outcome of financial misrepresentation. Parents, students, and government agencies rely on accurate financial statements to assess an institution's stability. However, premature recognition of tuition fees where fees are recorded before the academic period begins has led to financial instability in several universities. A case in 2022 revealed that a university had recorded tuition income for an entire academic year upfront, yet financial statements later showed severe liquidity issues, raising concerns among students and the government. This led to reduced student enrollment, audit queries, and reputational damage (Ministry of Education, Kenya, 2022).

1.2 Statement of Problem

The quality of financial reporting in Kenyan public universities has become a critical governance and accountability concern. The OAG reported that only 4 out of 36 (9%) public universities received unqualified audit opinions during the financial year 2021/2022, a decline from 7 universities (19.4%) in 2020/2021 (OAG, 2023). This downward trend in unqualified opinions signals a worsening state of financial reporting credibility and reliability. The OAG observed widespread irregulates that contravenes IPSAS of 2022. These irregularities distort the true and fair view of institutional financial positions, resulting in the withdrawal of grants, difficulties in accessing credit, and diminishing public confidence. Consequently, the deterioration in financial reporting quality threatens the financial sustainability of universities and undermines their ability to fulfill their educational and research mandates.

In a university's audit report for the financial year 2019-2020, revealed that penalty worth KES. 32,110,568 was paid due to non-remittance of NSSF from 2006 to 2017. The figures did not appear in any of the University's 10 years as an expense or a liability (OAG, 2022). The statement of financial position of another University for the financial year 2020-2021, reflected a balance of KES. 13,272,813 in respect to biological assets. However, Management did not disclose the methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest or reporting contrary to the provisions of Paragraph 45 of IPSAS 27 (Office of the Auditor General, 2023). Thus, the reports by the Auditor General points to practice of manipulation of financial reports by these universities to depict a situation of a healthy financial environment which might not be the case.

The connection between creative accounting and financial reporting quality remains poorly understood, with studies presenting conflicting outcomes. For instance, Aljawaheri et al. (2021) found a positive relationship between creative accounting and reported performance, while Akenbor and Ibanichuka (2021) observed a negative effect, and Okoye and James (2020) found an insignificant relationship. These inconsistencies underscore the complexity of the relationship between creative accounting and reporting quality across contexts.

Despite the significance of this issue, limited empirical research has focused on creative accounting practices within Kenyan public universities, which operate under distinct regulatory, funding, and governance structures. Most previous studies have concentrated on private or listed firms, neglecting public institutions where accountability pressures

and government dependence create unique incentives for financial manipulation (Munene, 2016; Kimuyu, 2022). Moreover, prior studies have not accounted for the moderating effect of institutional size a gap which this sought to fill by establish the effect of creative accounting techniques and university size on the quality of financial reporting in public universities in Kenya.

1.3 Objectives of the Study

1.3.1 General Objective of the Study

The general objective of the study was to establish the effect of Creative Accounting Techniques on the quality of financial reporting in Public Universities in Kenya.

1.3.2 Specific Objectives of the Study

The specific objectives of the study were;

i. To determine effect of revenues recognition on the quality of financial reporting in public universities in Kenya.

ii. To establish effect of classification of expenses on the quality of financial reporting in public universities in Kenya.

iii. To determine effect of valuation of assets and liabilities on the quality of financial reporting in public universities in Kenya.

iv. To evaluate the effect of debtor provision recognition on quality of financial reporting in public universities in Kenya.

v. To determine the moderating effect of size of the institution on the relationship between creative accounting and the quality of financial reporting in public universities in Kenya.

1.4 Research Hypotheses

The following null hypotheses guided the study

HO_1: Revenue recognition has no significant effect on quality of financial reporting in public universities in Kenya.

HO_2: Classification of expenses has no significant effect on quality of financial reporting in public universities in Kenya

HO_3: Valuation of assets and liabilities has no significant effect on quality of financial reporting in public universities in Kenya.

HO_4: Debtor provision recognition has no significant effect on quality of financial reporting in public universities in Kenya.

H_{05}: Size of the firm has no significant moderating effect on the relationship between creative accounting and quality of financial reporting in Public Universities in Kenya.

1.5 Significance of the Study

This study holds significant importance for policy formulation, academic advancement, and practical decision-making in the management of public universities in Kenya. By examining the effect of creative accounting techniques on the quality of financial

reporting, and the moderating role of university size, the study provides actionable insights that benefit government regulators, institutional managers, scholars, and policymakers at both institutional and national levels.

1.6.1 Significance to Policy Makers

The findings of this study are critical to national policy agencies such as the Public Sector Accounting Standards Board (PSASB), the National Treasury, and the Office of the Auditor General (OAG). For the PSASB, the results provide empirical evidence that can guide the review and enforcement of International Public Sector Accounting Standards (IPSAS) to ensure that reporting practices across public universities are standardized, transparent, and comparable. For the National Treasury, the study highlights how creative accounting practices influence fiscal discipline and budgetary integrity within universities, offering a framework for developing financial management policies that enhance accountability in resource allocation. The OAG benefits through empirical indicators that can improve audit risk assessment and help auditors identify universities prone to financial manipulation based on their size and accounting behavior. The study also offers practical insights for strengthening audit queries and refining the criteria used to determine audit opinions on public universities. Additionally, the findings can inform the Commission for University Education (CUE) in formulating governance and compliance guidelines that link institutional accreditation and performance evaluations to financial transparency. Policymakers within the Ministry of Education can use these insights to design oversight mechanisms that reduce creative accounting and ensure that public funds are used efficiently.

1.6.2 Significance to Practice

At the practical level, this study is highly relevant to university management, finance officers, internal auditors, and governing councils. It demonstrates how creative accounting practices—such as premature revenue recognition, expense misclassification, and asset overvaluation—distort financial statements and undermine institutional credibility. The findings offer actionable recommendations on how universities can strengthen internal control systems, adopt ethical reporting practices, and comply with IPSAS and Treasury circulars. Furthermore, the study provides a diagnostic framework that university accountants and auditors can use to detect, prevent, and mitigate creative accounting behavior. By linking the findings to university size, the study also guides management in designing internal audit functions and financial oversight mechanisms that correspond to institutional complexity and budget size. Ultimately, this contributes to more credible financial reports, improved governance, and enhanced stakeholder confidence in public universities.

1.6.3 Significance to Academia and Research

From an academic perspective, this study contributes to the body of knowledge in accounting and financial reporting by addressing a context-specific gap—the influence of creative accounting in public universities, an area that has received limited scholarly attention in Kenya and Sub-Saharan Africa. The integration of Information Asymmetry Theory, Legitimacy Theory, and Positive Accounting Theory enriches theoretical understanding of how institutional behavior, governance pressures, and size dynamics shape financial reporting quality in the public sector. For researchers and scholars, the

study provides empirical evidence and methodological guidance for future studies exploring creative accounting, audit quality, and public sector accountability. It also serves as a reference for comparative analyses between universities and other government-funded entities, thereby expanding the scope of public sector accounting research.

1.6.4 Significance to Political and Governance Decision-Making

At the political and governance level, the study offers insights relevant to public accountability and fiscal oversight in the higher education sector. For Parliament and county-level education committees, the results provide evidence-based input for resource allocation, legislative oversight, and policy debates surrounding university funding, transparency, and sustainability. The findings help political leaders appreciate the consequences of weak financial governance and the long-term impact of creative accounting on institutional credibility and public trust. In addition, the study supports the government's broader objectives under Vision 2030 and public financial management reforms, emphasizing the importance of transparent financial reporting as a foundation for effective governance, accountability, and service delivery in higher education.

1.6 Scope of the Study

The scope of the study was clearly defined in terms of analytical, conceptual, geographical, and time dimensions to provide a comprehensive understanding of the boundaries within which the research was conducted. Conceptually, the study focused on creative accounting techniques as the independent variables—specifically revenue recognition, classification of expenses, valuation of assets and liabilities, and debtor provision recognition—while the dependent variable was the quality of financial

reporting. The study also introduced university size, measured by annual approved budget, as a moderating variable influencing the relationship between creative accounting techniques and financial reporting quality.

Geographically, the study was confined to the 36 public universities in Kenya, excluding their constituent colleges. These institutions were chosen because they represent the core of the public higher education sector and have been under increased scrutiny due to financial management challenges, frequent audit queries, and reports of insolvency. The findings, therefore, reflect the financial reporting environment within Kenya's public university system. Analytically, the study adopted both quantitative and qualitative approaches. Quantitative analysis involved the use of audited financial statements and statistical techniques such as correlation and multiple regression to determine the effect of creative accounting techniques on the quality of financial reporting. Qualitative analysis complemented this by incorporating data from interviews to gain deeper insights into how creative accounting practices manifest within public universities.

In terms of time scope, the study covered a three-year period from the 2019/2020 to the 2021/2022 financial years. This period was selected because it captured the most recent financial trends and audit reports from the Office of the Auditor General, during which public universities faced heightened financial accountability demands, reduced government funding, and increased incidences of audit qualifications. The timeframe also provided sufficient longitudinal data to observe changes and patterns in financial reporting quality.

1.7 Limitations

The effect of creative accounting techniques on the quality of financial reporting in public universities in Kenya was the general scope of the study; thus the findings of this study was not generalized to private universities in Kenya or any other government institution. Data sought was limited to three years. This included audited financial reports for the periods 2019/2020, 2020/2021 and 2021/2022. This period was relevant because it captured recent trends in audit outcomes, financial reporting practices and availability of data. Specifically, data were obtained on the types of audit opinions (unqualified, qualified, adverse, and disclaimer), which served as the primary measure of financial reporting quality. Approved annual budgets, which were used to determine the size of each university as a moderating variable.

Some respondents were hesitant in providing detailed information on the practice of creative accounting and how they affect the quality of their financial reports but steps were made to assure them of confidentiality of the information they provided for this research. The data analysis process was restricted to data that was procedurally collected, thus any other data that was not collected however valid was not used to infer conclusions. The study's conclusions were based on how honest the respondents were. It is thus possible that some of them might have provided biased data.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section presents theoretical framework, conceptual framework, review of the previous studies on creative accounting techniques and quality of financial reporting in Kenyan Universities, critique and the research gaps.

2.2 Theoretical Review

This section reviews theories that shed light, literature and information concerning the effects of creative accounting practices on quality of financial reporting. Positive Accounting Theory was considered the main theory of the study. It was supported by information asymmetry theory, legitimacy theory and agency theory.

2.2.1 Positive Accounting Theory

Positive Accounting Theory (PAT) was introduced by Watts and Zimmerman in 1986 as a response to the limitations of normative accounting theory, emphasizing empirical observation over prescription (Watts & Zimmerman, 1986; Samaha & Stapleton, 2009). PAT focuses on predicting and explaining accounting policy choices made by managers, linking these decisions to incentives, contracts, and economic consequences. In the 1990s and 2000s, scholars expanded the framework to examine bonus plans, debt covenants, and political costs as drivers of managerial accounting choices (Deegan, 2011; Kabir, 2010). Contemporary research in the 2010s and 2020s integrates institutional and behavioural perspectives, incorporating regulatory pressures, governance mechanisms, and ethical

considerations, highlighting PAT's application in both corporate and public-sector settings, including universities (Osho & Ayorinde, 2018; Firmansyah, 2020).

Empirical studies initially tested PAT hypotheses on executive compensation and earnings management in corporate settings, confirming that managers adjust accounting policies to maximize bonuses or comply with debt covenants (Watts & Zimmerman, 1986; Alayemi & Abdul-Lateef, 2017). From the 2000s, research extended to political cost theory, examining how managers manipulate reporting to minimize regulatory scrutiny and public attention (Wiratama & Asri, 2020). In recent years, scholars have applied PAT to public institutions and universities, showing that accounting choices, such as revenue recognition and expense classification, are influenced by incentives, governance, and regulatory frameworks (Ghanbari et al., 2016; Firmansyah, 2020). Current studies also integrate ethical and institutional variables, revealing that self-interest interacts with organizational culture, legal mandates, and societal norms in shaping accounting decisions (Abba et al., 2018).

PAT argues that managers make accounting choices to serve self-interest under contractual and regulatory constraints (Watts & Zimmerman, 1986). Its key assumptions include rational utility-maximizing behaviour, opportunism, and predictable responses to bonus incentives, debt covenants, or political costs (Deegan, 2011). The theory's core tenets are the bonus plan hypothesis, debt covenant hypothesis, and political cost hypothesis, which explain earnings manipulation and accounting policy selection. PAT presumes that accounting decisions are observable and can be predicted based on economic incentives (Kabir, 2010). Modern adaptations acknowledge that managerial

behaviour is also shaped by institutional pressures, governance mechanisms, and ethical considerations (Osho & Ayorinde, 2018). PAT thus provides a structured framework for anticipating and understanding accounting policy choices in public-sector contexts, such as universities, where incentives influence financial reporting.

PAT is critiqued for its descriptive focus, largely explaining what managers do rather than prescribing best practices, limiting its normative guidance for improving accounting standards (Schroeder et al., 2022). Critics argue that its emphasis on self-interest oversimplifies managerial motivations, ignoring ethics, social responsibility, and intrinsic professional duty (Abernethy & Wallis, 2019; Abba et al., 2018). The theory may not fully account for regulatory changes, societal pressures, or institutional norms, reducing predictive accuracy in complex environments. In public institutions, such as universities, PAT may overstate opportunistic behaviour and understate stewardship or service-oriented motivations (Firmansyah, 2020). Despite these limitations, PAT remains valuable for analyzing how financial reporting decisions respond to incentives, governance structures, and contractual pressures.

Positive Accounting Theory is highly relevant for examining creative accounting in Kenyan public universities, as it explains how administrators may select accounting policies to enhance personal or institutional objectives (Watts & Zimmerman, 1986; Ghanbari et al., 2016). Revenue recognition, expense misclassification, and asset valuation techniques can be interpreted through PAT, showing how incentives and governance gaps shape reporting quality. Debt, bonus, and political cost considerations highlight the pressures that drive opportunistic accounting in public institutions (Alayemi

& Abdul-Lateef, 2017; Firmansyah, 2020). Applying PAT helps identify conditions under which financial information may be distorted and guides recommendations for monitoring, oversight, and policy adjustments. Integrating PAT with agency and legitimacy theories provides a comprehensive framework for understanding financial reporting behaviour and enhancing transparency in public universities.

2.2.2 Agency Theory

Agency Theory was formalized by Michael C. Jensen and William H. Meckling in 1976, who described the firm as a nexus of contracts and set out the principal–agent problem and agency costs. Jensen later elaborated governance implications in the early 1980s, and subsequent scholars in the 1990s and 2000s extended the model to encompass information asymmetry, incentive design, and monitoring mechanisms (Eisenhardt, 1989; Ross, 2018). In the 2010s and 2020s, the theory has been refined to reflect behavioural and institutional contexts, incorporating bounded rationality, ethical incentives, and accountability systems (Waley et al., 2025; Jameel et al., 2024). Modern research applies agency principles to both corporate and public institutions, illustrating how incentive and monitoring structures sustain reporting integrity (Mwangi, 2024; Aifuwa & Idogei, 2023).

Empirical work began by testing agency predictions in executive compensation and capital structure in the 1980s–1990s, revealing how pay design and governance affect managerial behaviour (Jensen & Murphy, 1990). From the 2000s, research expanded to auditing and earnings management, showing weak oversight correlated with creative accounting (Healy & Wahlen, 1999; Nwidobie, 2021). In the 2010s and 2020s, empirical studies extended the theory to public and non-profit sectors, highlighting agency risks in

universities and state enterprises (Aifuwa et al., 2020; Abdullahi & Muturi, 2022). More recent research integrates ethical climate, institutional culture, and regulatory enforcement as moderating variables (Waley et al., 2025; Mwangi, 2024), indicating that agency effects are shaped by governance capacity and accountability mechanisms in specific organisational settings.

Agency Theory argues that delegation of authority creates alignment problems as principals and agents pursue self-interest under information asymmetry (Jensen & Meckling, 1976). Its assumptions include rational, utility-maximising actors, incomplete contracts, and uneven access to information (Eisenhardt, 1989). Key tenets propose that agency costs emerge from monitoring, bonding, and residual loss; and that governance tools—audits, incentives, disclosure—reduce opportunism. Transparency thus becomes a corrective to moral hazard (Ross, 2018). Recent extensions incorporate behavioural and institutional factors, acknowledging bounded rationality and ethical motivation (Jameel et al., 2024). Despite refinements, the central logic endures: performance contracts, oversight systems, and accountability mechanisms remain crucial for aligning agent behaviour with organisational goals (Waley et al., 2025; Mwangi, 2024).

Agency Theory is critiqued for its overly economic assumptions and neglect of social and moral motivations. It assumes opportunism and discounts trust, stewardship, and professionalism—factors critical in public institutions (Donaldson & Davis, 1991; Muteti & Kioko, 2021). Excessive monitoring can inflate administrative costs and reduce morale, while its predictive power weakens in contexts with multiple principals or collective accountability (Ahmad et al., 2023). Recent critiques argue that agency models often

ignore cultural and institutional diversity, limiting their applicability to the public sector (Waley et al., 2025). Consequently, hybrid frameworks integrating stakeholder and stewardship perspectives have emerged to explain how accountability, intrinsic motivation, and ethical norms complement traditional incentive-based governance (Jameel et al., 2024; Mwangi, 2024).

Agency Theory is directly applicable to explaining creative accounting in public universities, where administrators (agents) manage financial information on behalf of councils and government (principals). Misreporting arises when information asymmetry, weak oversight, and misaligned incentives encourage opportunistic practices such as premature revenue recognition or expense manipulation (Nwidobie, 2021; Aifuwa & Idogei, 2023). The theory provides analytical tools to assess how internal controls, audits, and disclosure policies mitigate such risks (Waley et al., 2025). Its relevance lies in explaining how governance failures lower financial reporting quality in Kenyan public universities. Integrating agency with legitimacy and stewardship theories provides a balanced understanding—linking self-interest, institutional pressure, and moral obligation—to promote transparency and accountability in financial reporting (Jameel et al., 2024).

2.2.3 Information Asymmetry Theory

Information Asymmetry Theory was introduced by George Akerlof in 1970 through his classic paper “The Market for Lemons,” which demonstrated how unequal access to information between buyers and sellers causes market inefficiencies and adverse selection. The concept was soon extended to corporate finance and accounting,

highlighting how managers hold superior internal knowledge relative to shareholders and regulators (Spence, 1973; Stiglitz, 2000). In the 2000s and 2010s, scholars linked information asymmetry to earnings management and creative accounting (Dawson et al., 2010; Chen & Liu, 2013). Recent developments integrate behavioral and institutional insights, explaining how ethical culture, governance quality, and digital transparency affect disclosure credibility (Cui et al., 2018; Kauppi et al., 2023; Menshawy et al., 2023). The theory remains central to understanding reporting distortions and accountability gaps.

Empirical research on information asymmetry initially focused on market signaling and adverse selection in the 1970s–1980s (Spence, 1973; Stiglitz, 2000). In the 1990s–2000s, studies applied it to financial reporting, showing how managers exploited private information to manipulate earnings and influence investor perception (Healy & Wahlen, 1999; Dawson et al., 2010). From 2010 onwards, empirical work expanded to examine creative accounting, audit quality, and disclosure regulation, particularly in emerging economies and the public sector (Chen & Liu, 2013; Cui et al., 2018). Recent studies (Kauppi et al., 2023; Menshawy et al., 2023) integrate technological and governance variables, demonstrating that enhanced transparency, digitized reporting, and strong institutional frameworks significantly reduce information gaps and opportunistic behavior in financial management.

Information Asymmetry Theory assumes that one party in a transaction—usually managers—possesses superior or exclusive information, creating decision-making imbalances and inefficiencies (Akerlof, 1970). Core assumptions include incomplete and uneven information distribution, rational but self-interested actors, and the potential for

moral hazard. The theory's main tenets are adverse selection, moral hazard, and signaling—each explaining how information quality and disclosure shape financial outcomes (Spence, 1973; Stiglitz, 2000). It argues that full, timely, and credible disclosure minimizes distortions, enhances investor confidence, and aligns organizational interests. Contemporary refinements add behavioral and ethical dimensions, recognizing that institutional norms, regulatory scrutiny, and digital transparency can mitigate asymmetry-driven manipulations in both private and public financial reporting (Cui et al., 2018; Menshawy et al., 2023).

Critics argue that Information Asymmetry Theory overemphasizes rationality and static market conditions, overlooking behavioral biases, emotions, and evolving information environments (Menshawy et al., 2023). Its assumption that actors always exploit private information for gain ignores ethical and cultural influences shaping reporting behavior. Moreover, the theory inadequately addresses dynamic governance structures, especially in public institutions where accountability mechanisms are complex and multi-layered (Kauppi et al., 2023). Technological transparency and mandatory disclosure regimes under IPSAS and IFRS also challenge the theory's assumption of persistent asymmetry. As a result, scholars advocate combining it with behavioral, institutional, and stewardship perspectives to better capture how culture, ethics, and accountability systems interact with information advantages in modern financial reporting (Cui et al., 2018; Waley et al., 2025).

Information Asymmetry Theory is highly relevant to this study on creative accounting in public universities, where administrators possess superior knowledge about financial

operations compared to councils, regulators, and the public. Such informational advantage can be exploited to manipulate reports through premature revenue recognition, expense reclassification, or asset misvaluation (Chen & Liu, 2013; Cui et al., 2018). The theory explains how weak oversight, limited transparency, and poor disclosure mechanisms foster opportunistic accounting practices. In the Kenyan university context, it guides analysis of how information gaps undermine accountability and financial reporting quality. Integrating this theory with agency and legitimacy perspectives provides a multi-dimensional understanding—linking information control, governance incentives, and institutional pressures—to strengthen transparency and reporting integrity (Kauppi et al., 2023; Waley et al., 2025).

2.2.4 Legitimacy Theory

Legitimacy Theory was first proposed by Dowling and Pfeffer in 1975, who argued that organizations must align their operations with societal expectations to maintain support and survival. Early research focused on the political economy perspective, exploring voluntary disclosures in accounting and corporate reporting. By the 2000s, scholars like Branco and Rodrigues (2006) and Bitektine and Haack (2015) emphasized legitimacy as a social contract, where corporate actions are judged against societal norms and stakeholder expectations. From 2015 onwards, the theory has been applied to sustainability, social, and environmental reporting, highlighting dynamic interactions between organizations and evolving societal values. Recent studies (Martens & Bui, 2023; Akhter et al., 2023) demonstrate how legitimacy considerations influence transparency, disclosure strategies, and public trust in organizations.

Empirical work on legitimacy theory initially examined corporate social responsibility and voluntary disclosure in the 1980s–1990s, demonstrating how firms adjust reporting to maintain stakeholder approval. In the 2000s, research expanded to environmental, sustainability, and integrated reporting, showing firms' efforts to manage perceptions of legitimacy. Studies in the 2010s and 2020s applied legitimacy theory to financial and social reporting in both private and public institutions, documenting that organizations strategically disclose information to satisfy stakeholders and protect institutional reputation (Olateju et al., 2021; Hamm et al., 2022). Most recent studies focus on universities and public entities, illustrating how disclosure patterns, financial reporting practices, and asset-liability management enhance perceived legitimacy among regulators, donors, and the local community (Martens & Bui, 2023; Akhter et al., 2023).

Legitimacy Theory posits that organizations operate within a social contract where stakeholders evaluate corporate actions against societal norms, values, and expectations. It assumes that legitimacy is vital for organizational survival, and that stakeholders' perception drives strategic decisions, including disclosure and reporting practices. The tenets include stakeholder approval, voluntary disclosure to maintain social license, and adaptation to changing societal expectations. Firms communicate financial, social, or environmental information to align internal activities with external expectations. In public universities, legitimacy manifests through consistent surplus management, transparent reporting, and prudent asset-liability valuation. The theory underscores the dynamic nature of legitimacy, recognizing that societal perceptions, norms, and power structures

influence how organizations are judged and the strategies they adopt to secure continued acceptance (Hamm et al., 2022; Patten, 2020).

Legitimacy Theory faces critique for its subjectivity, cultural relativity, and temporal variability. What is deemed legitimate in one context may be invalid in another, making cross-cultural generalizations challenging. Critics argue that legitimacy is often influenced by power dynamics, potentially validating behaviors or structures that reflect elite interests rather than fairness or societal welfare (Patten, 2020). Additionally, the focus on perception over objective performance can encourage symbolic compliance rather than substantive action. Temporal fluctuations mean organizations may gain or lose legitimacy based on shifting societal norms, historical context, or changing stakeholder expectations, complicating consistent application (Hamm et al., 2022). Despite these limitations, legitimacy theory remains influential in explaining voluntary disclosure and stakeholder-focused reporting strategies in both private and public organizations.

Legitimacy Theory is directly relevant to examining financial reporting quality in Kenyan public universities. University administrators may strategically disclose financial information or manipulate asset and liability valuations to maintain societal and stakeholder approval, including government regulators, donors, and the public. For instance, excess provisions during prosperous years can smooth reported profits, projecting stability and institutional competence. Applying legitimacy theory helps explain why public universities may prioritize perceived compliance and positive financial image over purely technical accounting considerations. Combined with agency and information asymmetry theories, legitimacy theory provides a comprehensive lens for

understanding managerial incentives, stakeholder expectations, and disclosure practices, allowing this study to assess how creative accounting techniques influence perceived transparency and credibility in university financial reporting..

2.3 Conceptual Review

2.3.1 Revenue Recognition

A crucial part of financial reporting, revenue recognition governs when and how revenue is recorded in the financial statements. It includes many other types of transactions, such as the selling of commodities, the provision of services, license agreements, and other revenue-generating ventures. Revenue is one of, if not the most, important measures of financial performance that an organization reports. Revenue provides insights into an organization's past and future performance and is a significant driver of other performance measures. Premature revenue recognition involves recording revenues before it is actually earned or before product or services are delivered leading to poor quality financial reports. Therefore, establishing robust guidelines for recognizing revenue is a standard-setting priority (Mehdiyev, 2024).

Reliable revenue recognition enhances the quality and usefulness of financial statements for investors, lenders, analysts, and other stakeholders. It provides valuable information for evaluating a company's financial performance, growth prospects, and cash flow generation (Hubbard, 2024). Compliance with accounting standards and regulatory requirements regarding revenue recognition is essential for maintaining transparency, quality, and adherence to legal obligations (Ha, 2024). Revenue recognition impacts financial metrics such as revenue growth, profitability, and margins. It allows stakeholders

to assess a company's performance, compare it with industry benchmarks and make informed decisions (Ha, 2024). Proper revenue recognition helps businesses assess the profitability of contracts, evaluate the financial impact of pricing decisions, and negotiate favorable terms. Accurate revenue recognition supports effective contract management (Revsine, Collins & Johnson, 2021). Consistent and transparent revenue recognition practices foster investor confidence and trust in a company's financial reporting. Reliable revenue recognition enhances the overall reputation and quality of the organization, leading to improved stakeholder relationships (Nyongesa, Munir, & Kamau, 2024).

Kilonzo, (2012) in his study aimed at establishing the relationship between revenue recognition and the level of insider ownership for companies quoted at the Nairobi Stock Exchange. In his study, revenue recognition was measured in terms of how the amount of revenue recorded in a given period affects the level of insider ownership of companies quoted at the Nairobi Stock Exchange. Omondi, (2020) on the other hand, demonstrated the relation between ownership structure and revenue recognition. He measured revenue recognition in terms of how earnings management is affected by ownership structure.

Aljawaheri, Ojah and Almagtome, (2021) evaluated the effects of earnings manipulation after the COVID-19 outbreak on the share price sensitivity to the earnings disclosures. Revenue was determined by analyzing the level and trend of manipulating accounting earnings to explain their motives whether it is towards reducing or exaggerating those earnings to be higher than the entire group. Aaron, (2024) studied the effect of revenue recognition on the survival of manufacturing entities in Nigeria. Earnings management represented revenue recognition which was measured in terms of discretionary accruals.

Revenue recognition manipulation is a deceptive financial practice that undermines the reliability of financial statements and misguides stakeholders. It typically involves recording revenue before it is earned, inflating financial performance to meet short-term targets. This practice is driven by pressure to satisfy investors, secure executive bonuses, or maintain stock prices. While accounting standards such as IFRS 15 and ASC 606 establish clear guidelines, companies often exploit loopholes, particularly in industries with long-term contracts or subscription-based models. Revenue misrepresentation not only distorts financial metrics but also erodes investor confidence and increases regulatory scrutiny. Weak internal controls and ineffective audits further enable such manipulation. As compared to the studies above, the current study measures revenue recognition in terms of manipulation of income from income generating activities and billing timing to assess how revenue recognition affect quality of financial reporting.

2.3.2 Classification of Expenses

An expense is the cost of operations that an organization incurs to generate revenue (Stenka, 2022). Expense are classification based on either their nature (depreciation, purchases of materials, transport costs, employee benefits and advertising costs) or their function (cost of sales, cost of distribution or administrative activities) within the entity, whichever provided information that is reliable and more relevant (IASB, 2022). Expenses are usually sub-classified to highlight components of financial performance that might differ in terms of frequency, potential for gain or loss and predictability. However, because information on the nature of expenses is useful in predicting future cash flows, additional disclosure is required when the function of expense classification is used (Stenka, 2022).

Expense misclassification, including practices such as capitalizing operating expenses, overstating expenses, and taking large write-offs, is a significant issue in financial management and accounting that can distort financial statements, mislead stakeholders, and violate accounting principles. Misclassification of expenses can lead to overstated assets and understated liabilities, misleading investors and creditors, and regulatory bodies like the Securities and Exchange Commission (SEC) have increased enforcement actions against companies engaging in such practices.

Capitalizing operating expenses involves treating routine expenses as capital expenditures to spread costs over several years rather than recognizing them immediately. This practice artificially inflates short-term profitability by deferring expense recognition. Recent studies, such as those by Jones et al. (2022), highlight that companies often capitalize operating expenses to manipulate earnings, particularly in industries with high capital expenditure requirements, such as construction and technology. This practice violates GAAP and International Financial Reporting Standards (IFRS), which require expenses to be recognized in the period they are incurred. Smith & Taylor (2023) found that firms engaging in expense capitalization often face regulatory scrutiny and reputational damage, as seen in the case of WorldCom, where $3.8 billion in operating expenses were improperly capitalized, leading to one of the largest accounting scandals in history. Benghalem and Bounoua (2024) found out that Algerian companies found that accounting conservatism facilitates income smoothing by enabling managers to capitalize discretionary expenses, thereby manipulating earnings Another study on Nigerian firms

concluded that improper expense recognition significantly reduces cash flow accuracy and shareholder value (Eze & Nwosu, 2023).

Overstating expenses in profitable years to create reserves for future use is another form of earnings management, known as "cookie jar accounting." This practice allows companies to smooth income by releasing reserves during lean periods. This practice is particularly common in industries with cyclical revenue patterns, where firms use reserves to maintain a facade of steady profitability. Research has shown that firms engaged in cookie jar accounting experience reduced financial transparency and a higher likelihood of regulatory scrutiny (Dechow & Skinner, 2021). Brown & Lee (2023) examined the use of cookie jar reserves in the retail sector, finding that companies often overstate expenses during peak seasons to create buffers for future downturns. While this practice is not always illegal, it can mislead stakeholders about the company's true financial health. A 2023 study on classification shifting in Jordanian firms found that companies frequently inflate discretionary expenses during profitable years to accumulate reserves, which are later reallocated to smooth income fluctuations (Al-Tahat & Badran, 2023). Similarly, research on U.S. financial firms revealed that excessive provisioning for loan losses in strong economic periods allowed banks to obscure earnings volatility, misleading investors about actual financial performance (Bushman & Williams, 2022). Although income smoothing can stabilize financial performance, it undermines transparency and accountability, and auditors are increasingly scrutinizing reserve accounts to detect and prevent such practices.

Taking large write-offs, often referred to as "big bath" accounting, involves recognizing significant losses in a single period to clean up the balance sheet. This practice is common during leadership changes or economic downturns. Garcia & Martinez (2023) analyzed the use of large write-offs in the automotive industry, finding that companies often take excessive write-offs during restructuring to reset financial benchmarks. This practice can create a misleading impression of improved performance in subsequent periods. GE Capital took an unexpected $6.2 billion write-off in 2018, raising concerns about prior expense misclassification (SEC, 2019). Similarly, IBM has been criticized for aggressive restructuring charges that led to income manipulation through discretionary write-offs (Lev & Nissim, 2006). A study on European multinationals found that discretionary impairment charges were more prevalent during CEO transitions, indicating opportunistic financial reporting rather than actual asset devaluation (Kohler & Schneider, 2024). Wang et al. (2022) noted that large write-offs are often accompanied by optimistic forecasts, which can mislead investors about the company's future prospects. Large write-offs can erode investor confidence and lead to stock price volatility, and regulatory bodies, such as the Financial Accounting Standards Board (FASB), have introduced stricter guidelines to limit the abuse of write-offs.

Expense misclassification raises significant ethical and regulatory concerns, as companies engaging in these practices often face legal penalties, reputational damage, and loss of stakeholder trust. For instance, the Enron scandal involved misclassification of expenses and off-balance-sheet financing, leading to one of the most infamous corporate collapses in history. Similarly, Tesco (2014) overstated profits by £326 million by delaying the

recognition of supplier costs, resulting in regulatory fines and leadership changes. Regulatory responses, such as the Sarbanes-Oxley Act (2002) and IFRS 9, have introduced stricter controls and disclosure requirements to prevent expense misclassification. Auditors are now required to perform more rigorous checks on expense recognition and classification to ensure compliance with accounting standards.

Hutahayan, (2020) evaluated the effects of creative accounting on financial performance of developing nations. He measured expenses by manipulation of key expenditures such as interest expenses in order to avoid breaching credit contracts. Mikich, (2024) observed that; because of more or less income and inflows mismatching with expenditures and outflows for a specific period, usually the result reported in the income statement (incomes-expenses) did not match the result determined on a cash basis reported in the statement of cash flows (inflows-outflows). Firms despite the high net profit reported in the income statement had decreasing cash balances and problems with current liquidity maintaining. By incorrectly labelling operational expenditures as income-decreasing special items, Habib et al. (2020) investigated whether financially troubled companies alter core or operating income.

Expense misclassification is a deceptive accounting practice that distorts financial statements by altering how expenses are recorded, impacting profitability and misleading stakeholders. Common techniques include capitalizing operating expenses to inflate short-term earnings, overstating discretionary expenses to create income-smoothing reserves, and taking excessive write-offs to manipulate future profitability. Such practices violate IFRS principles, particularly IFRS 15 (Revenue Recognition) and IAS 1 (Presentation of

Financial Statements), which require accurate classification of expenses. While companies may justify misclassification as strategic earnings management, it erodes investor confidence, increases regulatory scrutiny, and undermines corporate transparency. Weak internal controls and ineffective oversight often enable such manipulations, highlighting the need for stricter compliance with IFRS reporting standards. As compared to the studies above, this study measures classification of expenses in terms of misclassification of operating expenses as non-operating expenses and misclassification of core expenses as special items to assess how classification of expenses affect quality of financial reporting.

2.3.3 Valuation of Assets and Liabilities

According to Pinto, (2020), valuation is the process of determining the fair market value of an asset or liability. All assets and liabilities should be valued as if they were acquired in the current market transactions on the balance sheet reporting date. The value of an asset (or liability) at any given time is its current market value, which is defined as the amount that would have to be paid to acquire the asset on the reporting date, taking into account its age, condition, and other relevant factors. This amount depends on the economic benefits that the owner of the asset can derive by holding or using it. The remaining benefits expected to be received from most assets diminish with the passage of time through depreciation/amortization, which reduces the value of the asset (Nyongesa, Munir, & Kamau, 2024).

Depreciation and amortization expenses play a critical role in financial reporting, yet companies can manipulate these figures to alter their financial position. By extending the

useful life of assets, switching depreciation methods, or accelerating amortization, firms can either inflate profits or strategically time expense recognition. A study by Nguyen & Smith (2023) found that companies frequently extend asset lifespans or adopt slower depreciation methods to reduce annual expenses and inflate profits. Conversely, Patel et al. (2022) highlighted cases where firms accelerate the amortization of intangible assets, leading to significant write-offs in a single period creating a “big bath” scenario, where a company takes all its losses at once to show improved future performance. The consequences of depreciation manipulation include financial misrepresentation and earnings distortion, making it difficult for stakeholders to assess a company's true performance. Standards such as IAS 16 (Property, Plant, and Equipment) and IAS 38 (Intangible Assets) set clear guidelines for depreciation and amortization practices to prevent such distortions.

Fair value accounting allows companies to value assets and liabilities based on current market conditions, but this flexibility can be exploited to manipulate financial statements. Firms may inflate asset values or undervalue liabilities by using subjective assumptions and unrealistic discount rates. Garcia & Lee (2023) found that firms often apply aggressive fair value assumptions to inflate asset values, particularly in volatile markets. Chen et al. (2022) highlighted how companies sometimes undervalue liabilities by using unrealistic cash flow projections or discount rates, misleading stakeholders about financial stability. Fair value manipulation undermines financial statement reliability, making it difficult for investors and regulators to assess a company’s true financial position. IFRS 13 (Fair Value

Measurement) provides guidelines to ensure consistency and transparency in fair value estimation, limiting opportunities for manipulation.

Overvaluing assets is a widely used creative accounting technique that inflates a company's net worth and financial stability. This practice can be executed by artificially increasing the value of inventory, property, plant, and equipment (PPE), or intangible assets such as goodwill. Recent research highlights the prevalence of this issue. Lee & Park (2023) found that companies frequently overvalue inventory by using inflated cost assumptions or delaying write-downs of obsolete stock, which artificially boosts current assets and profitability. Similarly, Zhang et al. (2022) observed that firms in the real estate sector often overstate property values through unrealistic market valuations or by neglecting depreciation, leading to an overstatement of balance sheet strength.The implications of asset overvaluation are significant. It misleads investors and creditors about a company's true financial health, leading to poor investment decisions and potential financial instability. In response, regulatory bodies such as the International Accounting Standards Board (IASB) have introduced stricter guidelines, including IAS 16 (Property, Plant, and Equipment) and IAS 2 (Inventories), to ensure more accurate asset valuation.

Mehdiyev, (2024) noted that off balance sheet financing was a creative accounting method whereby debts of a firm increased but the increased borrowing was not reflected in the financial statements. In this case, off-balance-sheet transactions were used to quantify the assets and liabilities. These transactions included things like investing in other businesses' stock, transferring financial assets, retirement plans, leasing, and contingent obligations and guarantees.

Gupta and Kumar, (2020) asserted that change of value of assets whereby the existence of a flexibility regarding the calculation of depreciation and provisions created the possibility of increased or reduced net value of assets. Inventory or stocks could be assessed by various methods and reported at lower of cost and net realizable value. Consequently, their value might be different which has a corresponding impact on the income statement. Such changes also altered the size of current and non-current assets.

Valuation of assets and liabilities is a critical aspect of financial reporting, ensuring that financial statements reflect an entity's true financial position. However, companies often exploit valuation flexibility to manipulate financial performance. Overstating assets through inflated inventory values or unrealistic property appraisals distorts balance sheets, misleading investors and creditors. Similarly, undervaluing liabilities by using aggressive discount rates or off-balance-sheet financing conceals financial obligations, creating a false perception of stability. Depreciation and amortization adjustments are also manipulated to either smooth earnings or take excessive write-offs in a "big bath" strategy. While accounting standards such as IFRS 13 (Fair Value Measurement) and IAS 16 (Property, Plant, and Equipment) establish guidelines for accurate valuation, weak enforcement and loopholes enable creative accounting. Ensuring transparency requires strong regulatory oversight, ethical corporate governance, and enhanced audit scrutiny to prevent financial misrepresentation and uphold the credibility of financial reporting. As compared to the studies above, the study at hand measures valuation of assets and liabilities in terms of depreciation, consistent valuation of assets and capitalization of costs to assess how valuation of assets and liabilities affect quality of financial reporting.

2.3.4 Debtors Provisions Recognition

Debtor provisions, also known as allowances for doubtful debts, are accounting estimates made by corporations to accommodate anticipated losses resulting from clients who may default on their outstanding obligations. Engaging in these provisions can entail deliberately increasing or decreasing the estimations in order to portray a more appealing financial picture that may not accurately reflect the true condition of the organization (Mikhed, Raina, Scholnick, & Zhang, 2023).

Companies typically engage in receivables manipulation for reasons that can be classified into five distinct categories. Initially, organizations may modify their receivables with the intention of reducing their Days Sales Outstanding (DSO), which is a widely used metric to determine the average age of receivables. Symbol Technologies converted a portion of its accounts receivables into notes receivable in order to exclude them from the DSO calculation. Furthermore, corporations have the ability to manipulate their receivables in order to artificially inflate their sales or earnings. An example of this is American Italian Pasta, which artificially increased the value of its outstanding invoices to create the illusion of more sales (Al Kautsar, & Muhammad, 2021).

According to Al Kautsar, & Muhammad, (2021) gateway and other corporations have deliberately underestimated the provision for questionable accounts in order to reduce costs and boost profits. Furthermore, enterprises seeking affordable external funding often engage in profits manipulation. However, if a corporation relies on receivable-based financing, manipulating receivables may also serve as a motive. Furthermore, corporations have the ability to manipulate their receivables in order to evade the need for

bad debt write-offs. This is frequently achieved by modifying the ages of certain receivables.

Kimeli (2022) conducted a study on the role of debtor provision recognition in enhancing financial reporting quality among public universities in Kenya. Their research revealed that accurate recognition and management of debtor provisions play a crucial role in improving the transparency and reliability of financial statements. By ensuring that potential credit losses are properly accounted for, universities can present a more accurate depiction of their financial health, thereby fostering greater trust among stakeholders. The study utilized a quantitative approach, analyzing data from various institutions to support its findings and highlighting the importance of sound financial practices in the higher education sector.

In contrast, Kimuyu (2022) focused on the challenges associated with debtor provision recognition in Kenyan public universities. Their study found that inconsistent practices in recognizing debtor provisions often led to underreporting or misrepresentation of financial data. This inconsistency not only undermined the quality of financial reporting but also posed risks to the institutions' financial integrity. By examining specific case studies, the authors emphasized the need for standardized practices and better training in debtor management to ensure that financial reporting meets regulatory and stakeholder expectations.

Etoromat, (2022) explored the broader implications of inadequate regulatory frameworks on debtor provision recognition across the region. Their findings indicated that a lack of clear guidelines and insufficient training in managing debtor provisions can negatively

impact the quality of financial reporting. The study highlighted that while proper debtor provisioning has the potential to enhance financial transparency, its effectiveness is often hindered by systemic issues within the accounting practices of public universities. By addressing these challenges, the authors argued, institutions could significantly improve their financial reporting quality, illustrating the critical interplay between regulatory compliance and effective financial management.

Fitriana and Setiasih (2022) observed that unbilled receivables represent revenue that has been recognized in financial statements but has not yet been invoiced to the customer. This often occurs in long-term construction contracts where the percentage-of-completion method is applied, allowing revenue to be recorded progressively as work advances. While this practice aligns with accrual accounting principles, it also opens avenues for aggressive revenue recognition, especially when unbilled amounts grow disproportionately compared to billed receivables or actual sales. Such a disparity may indicate manipulation or premature revenue recognition, signaling potential issues in financial reporting. Therefore, excessive and unexplained increases in unbilled receivables can act as red flags for stakeholders and auditors, suggesting underlying creative accounting practices or misstatements in reported financial performance.

Debtor provision recognition is a fundamental aspect of financial reporting, ensuring that expected credit losses are properly accounted for in compliance with IFRS 9 (Financial Instruments). However, companies often manipulate these provisions to misrepresent their financial health. Underestimating doubtful debt provisions artificially inflates profits, creating a misleading perception of financial stability, while overestimating provisions

allows firms to create earnings reserves for future periods, a practice that distorts true financial performance. Some companies also alter receivables aging classifications to delay bad debt write-offs, further misrepresenting credit risk exposure. These manipulations undermine transparency, distort key financial ratios, and mislead investors and creditors. While IFRS 9 provides guidelines for recognizing and measuring expected credit losses, weak enforcement and managerial discretion allow misstatements to persist. As compared to the studies above, the study at hand measures debtors provision recognition in terms of debtors' status manipulation and recognition of bad debts to assess how debtors provision recognition affects quality of financial reporting.

2.3.5 University Size

According to Hapsoro, and Falih, (2020), firm size is a scale where an organization is classified either as small, medium or large. The size of the firm can affect the quality of financial reporting because of the ability to diversify business portfolio (Magerakis *et al*., 2020). The relationship between firm size and the propensity to engage in creative accounting practices is a nuanced topic, with research yielding mixed results. Some studies suggest that larger firms, due to their complex structures and diverse operations, may have more opportunities and resources to engage in creative accounting. Conversely, other studies indicate that smaller firms, which may lack robust internal controls, could be more susceptible to such practices.

Larger firms, given their extensive resources and complex structures, frequently engage in advanced forms of creative accounting. The pressure to meet or exceed market expectations is a key driver, as publicly traded corporations are scrutinized by investors,

analysts, and regulators. Smith & Taylor (2023) found that large corporations often manipulate earnings to maintain stock prices and sustain investor confidence. Executive compensation further incentivizes these practices, with Jones et al. (2022) highlighting that many top executives engage in earnings manipulation to meet performance targets tied to stock options and bonuses.

The structural advantages of larger firms provide ample opportunities for creative accounting. These firms often operate through subsidiaries, joint ventures, and special purpose entities (SPEs), which can be used to conceal liabilities or artificially inflate revenues. Wang et al. (2022) noted that firms like Enron exploited these structures to engage in off-balance-sheet financing, effectively hiding billions in debt from investors. Additionally, larger firms have access to skilled accountants, auditors, and legal advisors who can devise sophisticated financial maneuvers that comply with technical accounting standards while distorting financial reality.

While smaller firms may lack the complexity and regulatory scrutiny of larger corporations, they are not immune to creative accounting. In contrast to large firms that manipulate financial data to satisfy market expectations, smaller firms often engage in creative accounting to secure funding, reduce tax liabilities, or present a stronger financial position to creditors and investors. Brown & Lee (2023) found that small and medium-sized enterprises (SMEs) frequently overstate assets or understate liabilities to enhance their creditworthiness and attract investment. Additionally, tax avoidance is a common practice, as Chen et al. (2022) highlighted that smaller firms often underreport income or

inflate expenses to minimize tax burdens, a strategy that is less common in large corporations due to heightened audit risks.

The relative lack of regulatory oversight in smaller firms makes financial misrepresentation easier to execute. Unlike large public corporations, SMEs are typically subject to fewer disclosure requirements, allowing for greater flexibility in manipulating financial statements without immediate consequences. Their simpler financial structures also provide an advantage, as record manipulation can be carried out with less scrutiny and complexity. However, these firms are not immune to regulatory intervention, and initiatives like IFRS for SMEs aim to standardize accounting practices and reduce opportunities for financial misrepresentation in smaller businesses.

Nurmalitasari, and Durya, (2022) in their analysis of the factors that affect the quality of financial reporting in Bumn companies that are listed in Indonesia Stock exchanged used total company assets to measure the company size. Aksoy, and Beaudry, (2021), in analyzing the determinant factors of earnings quality and economic consequences measured firm using total assets of the company as well. This is similar to research by Saheed, (2023) who measured firm size as total assets. Other measures of firm size are total sales and market capitalization (Kabir & Su, 2022).

A comparison between large and small firms in creative accounting practices reveals notable differences in the scale, detection risks, and impact of financial manipulation. Larger firms tend to engage in more sophisticated and large-scale financial misrepresentations, utilizing complex corporate structures and accounting loopholes. In contrast, smaller firms typically employ simpler manipulation techniques, such as

inflating revenue or understating expenses, to present healthier financial statements. Detection risks also vary; large firms face greater regulatory scrutiny, making financial manipulation riskier but often more difficult to detect due to the complexity of their accounting methods. Smaller firms, on the other hand, are less regulated, but their lack of financial sophistication means that their fraudulent activities are more easily uncovered if subjected to external audits.

Firm size plays a crucial role in shaping accounting practices, financial transparency, and the likelihood of creative accounting. Larger firms, due to their complex structures, investor expectations, and access to financial expertise, often engage in sophisticated earnings management techniques such as off-balance-sheet financing and aggressive revenue recognition. Their ability to manipulate financial statements while maintaining compliance with regulations makes detection more difficult. In contrast, smaller firms, though facing less regulatory scrutiny, may resort to simpler manipulations, such as inflating revenues or understating liabilities, to improve their financial standing for loans or tax benefits. Compared to the studies above, the study at hand measures size of the firm which is a moderating variable in terms of approved annual budget for a given University to assess how size of the firm affect quality of financial reporting.

2.3.6 Quality of Financial Reporting

Financial reporting involves recording financial information according to relevant accounting standards. Financial reporting quality includes the exposure of related financial information to the different Stakeholders about an organization over a predefined timeframe ensuring all accounting principles are adhered to and having been audited and

audit opinion provided by the auditor (Malo-Alain, Aldoseri, & Melegy, 2021). The auditor expresses satisfaction or non-satisfaction of the financial statements through audit opinions. These opinions are unqualified, qualified, adverse or disclaimer (IPSASB, 2025).

An unqualified opinion is a clean opinion, meaning that the financial transactions recorded properly and are in agreement with the accounting records and that all applicable laws and procedures have been followed. A qualified opinion means that although the financial transactions are recorded and are deemed to be in agreement with the accounting records, applicable laws and procedures, there may be cases where the auditor is unsatisfied with the veracity of certain expenditures, which may not be significant. Hence, except for such unsupported expenditure, the accounts reflect a true and fair situation. On the other hand, an adverse opinion means that although the financial transactions are recorded, the auditor may be unsatisfied with significant amounts of expenditure which in his opinion may not have been recorded according to the applicable laws and procedures. Finally, a disclaimer of opinion is serious and means that there was no basis upon which the auditor can satisfactorily undertake an audit because the accounting records are unreliable; there are no verifiable supporting documentation and explanations for transactions. Consequently, the auditor can neither give a qualified nor an adverse opinion; and gives a disclaimer (IPSASB, 2025).

Financial reporting is regarded as the ultimate outcome of accounting. It consists of several significant statements, accounting documents such as the financial statements (including notes to these documents), income statements (containing the statements of

comprehensive income, cash flows, and changes in equity), and statements of financial position, and quarterly and annual reports (Weygandt, Kimmel, & Kieso, 2020). Reliable financial data is essential for the successful and efficient functioning of an organisation. Financial reporting entails the preparation and dissemination of financial information to organisational stakeholders in various formats (Stolowy & Paugam, 2021).

International Public Sector Accounting Standards are employed to reform governmental financial reporting, which entails the dissemination of financial statements to external entities through the publication of annual financial statements, provision of copies to shareholders, and submission to the Companies House. Financial reporting aids management in making critical choices for the organisation and developing strategies that enhance corporate objectives. Financial reports provide critical insights into the company's financial soundness and operational activity to its stakeholders. It provides insight into the organization's status as a going concern or its impending dissolution (Abed et al., 2022).

Financial reporting summarises the extensive data generated by accounting systems and provides it in a way that enhances comprehension and usability for management, who make decisions on behalf of shareholders. Financial information on a firm is crucial for its owners, banks, creditors, workers, and customers to assess the organization's financial health. Financial statements, together with yearly financial reports, will constitute the financial reports. A financial statement provides a comprehensive assessment of the financial status of a firm, organisation, or individual, including both long-term and short-term aspects (Malo-Alain, Aldoseri, & Melegy, 2021). Financial statements provide

insights on an organization's performance and financial standing, which are valuable to several stakeholders for evaluating management's stewardship and for decision-making purposes. Financial reports serve as proof of accountability. Users of financial statements include investors (both current and prospective), financial institutions, creditors, workers (past, present, and future), customers (both cash and credit), governmental entities and their agencies, as well as the general public (Abed et al., 2022). Anyango (2020) examined the correlation between reporting quality and the financial success of firms registered on the Nairobi Securities Exchange (NSE). Abed et al. (2022) assessed the quality of financial reporting based on relevance, accurate portrayal, understandability, and comparability.

Transparency, accountability, and well-informed decision-making are all made possible by high-quality financial reporting. This process guarantees that a company's financial statements are a true reflection of its financial health, enabling stakeholders to assess performance, risks, and sustainability. Reliable financial reporting enhances investor confidence, strengthens corporate governance, and facilitates regulatory compliance. However, financial reporting quality is often compromised by earnings management, misclassification of expenses, and biased audit opinions, which distort the true financial position of an organization. The credibility of financial statements depends on adherence to IPSAS, IFRS, and GAAP, ensuring consistency, comparability, and faithful representation. Audit opinions play a crucial role in determining financial statement reliability, with qualified, adverse, or disclaimer opinions signaling reporting deficiencies. Financial reports should serve not as tools for manipulation, but as transparent reflections of an entity’s financial standing, fostering trust and long-term financial stability. The

current study however, measures quality of financial reporting in terms of the type of opinion given by the Office of the Auditor General in the process of auditing the financial reports of Public Universities in Kenya.

2.4 Empirical Review

This section reviews the previous studies on creative accounting techniques and financial reporting quality of Public Universities in Kenya.

2.4.1 Revenue Recognition and Financial Reporting Quality

Lee and Kwon (2020) examined how revenue recognition timing affects financial reporting quality in Korean construction firms from 2010 to 2016, focusing on unbilled receivables as a mechanism for premature revenue recognition and income manipulation. Using archival data and regression analyses, the study found a significant negative correlation between unbilled receivables and firm value, indicating that early recognition undermines reliability and usefulness of financial statements. Firms with established loss allowances experienced less pronounced negative effects, highlighting the role of internal controls in mitigating opportunistic reporting. The study provides strong empirical support linking revenue recognition practices to financial reporting quality. However, its focus on the construction industry limits generalizability to other sectors with different revenue patterns. Additionally, reliance on archival financial data may not capture qualitative management intentions or stakeholder perceptions.

Kusuma, Chandrarin and Cahyaningsih (2022) examined how reclassification of other comprehensive income and net income attributable to owners affects financial reporting

quality in Indonesian publicly listed firms. The study used archival financial statement data and applied regression analysis to investigate the relationship between income attribution, reclassification, earnings management, and reporting quality. Results indicated that attributing earnings to owners reduced earnings management practices, while reclassifying other comprehensive income increased transparency and decreased information asymmetry, thereby improving the reliability and decision usefulness of financial statements. The study provides empirical evidence linking revenue recognition practices—through proper classification and disclosure—to enhanced financial reporting quality. Critically, the study's focus on Indonesian firms limits generalizability, and exclusive reliance on archival data may not capture managerial motives behind accounting choices.

Rahman, Hasan, Khan and Jahan (2023) examined the antecedents and effects of creative accounting practices, particularly revenue recognition and income manipulation, on financial reporting quality and decision-making effectiveness in publicly traded companies listed on the Dhaka Stock Exchange, Bangladesh. The study collected survey data from 354 firms between 2018 and 2022 and employed Partial Least Squares Structural Equation Modeling (PLS-SEM) to test relationships among political connections, corporate ethical values, future company orientation, corporate governance practices, creative accounting practices, and reporting quality. Results indicated that revenue recognition manipulations, influenced by political connections, ethical lapses, and governance weaknesses, significantly affected financial reporting quality. The study is robust in its use of PLS-SEM and a sizable sample; however, it relies on self-reported

survey data, which may introduce bias. Additionally, the cross-sectional design limits causal inference, and its context-specific findings may not generalize beyond Bangladeshi publicly listed companies.

Okpobo, Obalakumo and Odogu (2022) investigated the relationship between creative accounting, specifically income manipulation and billing timing, and the quality of financial statements in quoted banks in Nigeria. The study adopted an ex-post facto research design, sampling 20 banks listed on the Nigerian Stock Exchange. Data were collected using structured questionnaires targeting finance officers and auditors, and analyzed using the Statistical Package for Social Sciences (SPSS) to assess correlations between creative accounting practices and financial reporting quality, measured through relevance and faithful representation. Findings revealed a positive and significant relationship between income manipulation, timing of billing, and reduced reporting quality. The study contributes to understanding how revenue recognition practices influence financial statement reliability. However, limitations include a small sample size, reliance on self-reported data, and lack of longitudinal analysis, restricting generalizability. Methodological constraints also limit causal inferences regarding the effect of revenue recognition on financial reporting quality.

Aljifri and Elrazaz (2024) examined the effect of revenue recognition manipulation, on earnings quality and sustainability in distressed and non-distressed firms in the GCC region between 2011 and 2022. The study used a quantitative research design, collecting panel data from 839 publicly listed companies via DataStream®, WorldScope (WS), and Refinitiv Eikon. Regression analyses—including fixed effects, ordinary least squares

(OLS), and two-stage least squares (2SLS)—were employed to test relationships, with robustness and endogeneity checks. Results indicated that accrual-based earnings management, particularly through premature revenue recognition, negatively affected earnings quality but sometimes enhanced earnings sustainability. The study highlights the trade-off between short-term financial appearance and long-term reporting integrity. Critically, while the large sample and advanced econometric techniques strengthen validity, the study is limited by the GCC-specific context, potentially reducing applicability to emerging markets like Kenya.

Ndungu, Opuodho and Olweny (2025) investigated the impact of premature revenue recognition, on earnings predictability among firms listed on the Nairobi Securities Exchange (NSE) from 2010 to 2022. The study adopted a quantitative research design, employing the modified Jones Model to separate discretionary from non-discretionary accruals. Earnings predictability was measured using the earnings-to-price ratio. Findings revealed that aggressive revenue recognition through discretionary accruals reduced the predictability of earnings, undermining financial reporting quality and investors' decision-making. Critically, the study benefits from a robust panel dataset and an established estimation model, yet it may overemphasize the mechanical aspects of revenue recognition without fully capturing managerial intent or contextual institutional pressures. The exclusion of qualitative insights limits understanding of why managers manipulate revenue timing, and the focus on listed firms may not generalize to public universities or smaller firms in Kenya.

Innocent, Angaye, Dogan and Ziniy (2024) explored how revenue recognition practices, interacts with taxation to influence financial reporting quality in Nigerian firms. Using an exploratory research design, the study employed both qualitative document analysis and quantitative assessment of firm financial reports. Findings indicated that revenue recognition adjustments allowed firms to smooth profits for tax optimization purposes, but these manipulations often compromised the reliability and transparency of financial reporting. The study demonstrates how revenue timing directly affects the credibility of financial statements. Critically, while the mixed-methods approach enhances understanding of both numerical and managerial practices, the study is limited by a small and context-specific sample, reducing generalizability. Additionally, reliance on firm-reported data may underestimate deliberate misstatements, highlighting the need for complementary audit or regulatory data for validation.

Aljawaheri, Ojah, Machi, and Almagtome, (2021) explored the effects of earnings manipulation after the COVID-19 outbreak on the share price sensitivity to the earnings disclosures. The investigation employs a quantitative approach to examine the financial records of eighty-seven companies traded on the Iraq Stock Exchange between 2018 and 2020. Based on the findings, it is clear that corporations engage in earnings manipulation in order to sustain profits over a period of time, which means a negative impact of earnings manipulation on all earnings measures' value relevance. Accordingly, earnings manipulation negatively influences investor behavior in the financial market, based mainly on financial reporting. These results reflect a long-term adverse impact of earnings manipulation on investor behavior and financial statement's reliability. However, the

study did not indicate how revenue recognition influences quality of financial reporting but rather on the reliability of financial statements. Further, the study was conducted in securities market whereby none of the public universities are listed.

Surifah and Rofiqoh, (2020) examined the effect of real earnings manipulation (REM) on the performance of state-owned enterprises (SOEs) in Indonesia. This research was conducted at a state-owned company listed on the Indonesia Stock Exchange (IDX) in 2013-2017. This research shows that earnings manipulation based on real activities through production costs negatively affects the performance of Indonesian SOEs, government ownership negatively affects NPM whereas public ownership has a positive effect on performance, as measured by ROE. Improper government policies can reduce the performance and significant disadvantages of SOEs. The study did not provide rationale for choosing study period between 2013 and 2017 and further, the dependent variable was performance yet the current study will focus on quality of financial reporting.

Tunji *et al*., (2020) examined the effect of revenue recognition on the survival of manufacturing entities in Nigeria. The 66 manufacturing businesses that were listed on the Nigerian Stock Exchange as of December 31, 2016, made up the population of the research. A sample size of thirty companies with complete data for our study was purposively selected from the 66 listed manufacturing companies. Revenue recognition (EM) proxied by discretionary accruals jointly with corporate governance (CG) proxies exerted significant effect on corporate survival. Individual effects of EM and CG proxies on corporate survival were mixed. The study did not indicate study period and therefore,

it is difficult to generalize the findings. Further, the study was conducted in securities market whereby none of the public universities are listed.

Kilonzo, (2012) investigated the relationship between revenue recognition and the level of insider ownership for companies quoted at the Nairobi Stock Exchange. The study is a descriptive correlation analysis. By applying the General Moment of Methods and multiple regression analysis on a sample for fifteen companies quoted at the NSE between 2006 and 2010, Analyzing the data for the five years, revenue recognition is found to have a negative relationship towards insider investments as compared to other components of company ownership namely; institutional and external ownership. The relationship is however insignificant meaning that insider ownership does not have a significant influence on management behavior to manipulate reported earnings of quoted firms. However, the study did not indicate how revenue recognition influences quality of financial reporting. Further, the study was conducted in securities whereby none of the public universities are listed.

Omondi, (2020) sought demonstrate the relation between ownership structure and revenue recognition. Other supplementary objectives included establishing the connection existing between revenue recognition and enterprise size, age of the enterprise, profitability of the enterprise and capital structure. Descriptive Cross-sectional research design was used to conduct the census study. Secondary data was obtained from the entire 44 non-financial companies listed at NSE over a five-year period from 2015-2019. The study concluded presence of a statistically significant positive link between ownership structure and revenue recognition. However, these results fail to confirm the assertions of the agency

theory. Therefore, the study proposes that further inquiries should be undertaken to ascertain the interconnection between the quality of external audit and revenue recognition in Kenya. The study also suggests that independent studies should be done to find out the characteristics of institutional investors in Kenya and its relationship to revenue recognition.

Anyango, (2020) sought to determine and analyze financial statement fraud amongst Nairobi securities exchange listed companies. The research design that was used in this study was descriptive research design. The population of this study will consist of all firms listed at the NSE. The study adopted a census for the companies listed at the NSE as at 31st December 2018. The 8 Variables studied are generally classified as manipulation signals and motivation signals. Manipulation signals as stated by Othman, & Ameer, (2023) are the days sales in receivables index DSRI, asset quality index AQI, depreciation index, DEPI and total accruals to total assets, TATA. However, the study did not indicate how revenue recognition influences quality of financial reporting. Further, the study was conducted in securities market whereby none of the public universities are listed.

Yusran (2023) further examined the relationship between effective revenue recognition methods and fiscal management in public universities. The sample in this study was 126 respondents who were obtained using purposive sampling technique from the financial management and accounting officials of Kendari City, Southeast Sulawesi Province, Indonesia. The analytical method used is multiple linear regression analysis. Their findings underscored that proper revenue recognition not only boosts the quality of financial reports but also enhances the decision-making process within these institutions.

By ensuring that revenue is accurately recognized and reported, universities can allocate resources more efficiently, ultimately leading to better educational outcomes. The study posited that a proactive approach to revenue recognition correlates with improved governance and accountability in public financial management.

Ali and Tseng (2023) explored the potential pitfalls of relying on creative accounting techniques, including aggressive revenue recognition, in public universities. This study introduces a novel method, validated with industry shocks, to detect revenue timing without accounting data. A difference-in-differences design, using long- versus short-revenue-cycle firms, shows ASC 606 accelerated recognition for treated firms, reducing the revenue-return relation and increasing analyst forecast errors. Their study cautioned that while these practices might yield short-term improvements in reported financial performance, they could ultimately compromise the integrity of financial reports. The authors emphasized the importance of ethical accounting practices and the risks associated with misrepresentation, suggesting that a balanced approach to revenue recognition is essential for maintaining stakeholder confidence and ensuring long-term sustainability in public financial reporting.

According to the Office of the Auditor General, (2023), in a certain university, there were inaccuracies in sundry debtor's balance. The statement of financial position and as disclosed in note 19 to the financial statements reflects a balance of KES. 175,848,463 in respect of receivables from non-exchange transactions. Included in the balance is an amount of KES. 94,443,269 in respect of sundry debtors. However, this balance differs with the schedule balance of KES. 86,339,719 resulting to an unexplained variance of

KES. 8,103,550. In addition, the balance includes an amount of KES. 55,339,719 for which the services rendered were not been explained and no billing documents were provided for review.

2.4.2 Classification of Expenses and Quality of Financial Reporting

King, Lynch, Stomberg and Utke (2025) investigated whether financial reporting for income tax expense affects the timeliness of goodwill impairments in U.S. publicly listed firms from 2010 to 2022. Employing a quantitative research design with regression estimation, the study measured delayed goodwill impairments when nontax-amortizable goodwill increased the effective tax rate (ETR). Results indicated that impairments were 11–14% more likely to be delayed when ETR increased materially, suggesting that managers manipulate expense recognition to influence reported profits. This manipulation directly affects financial reporting quality by misaligning expense recognition with underlying economic events. Methodologically, the study's strength lies in its large sample and robust regression modeling; however, it is limited by its focus on U.S. GAAP firms and excludes non-public entities, constraining generalizability. Furthermore, while the study links expense classification to reporting quality, it does not incorporate qualitative insights into managerial decision-making processes, limiting understanding of the behavioral drivers behind expense misclassification.

Riahi and Torabi (2024) explored expense classification shifting and its impact on financial reporting quality among 130 Tehran Stock Exchange companies from 2015 to 2022. Using panel data regression with industry and year fixed effects, the study investigated the moderating role of financial statement comparability on managerial

overconfidence. Findings revealed that overconfident CEOs increased misclassification of recurring expenses as nonrecurring, inflating core earnings and misleading investors about sustainable performance. High comparability reduced the likelihood of such manipulations. This study directly links expense misclassification to financial reporting quality, highlighting managerial behavioral factors. Critically, while the panel data design provides robust statistical inference, the sample is limited to 130 firms, and cultural or institutional factors unique to Iran may affect external validity. Additionally, the study relies solely on numerical data, omitting qualitative assessments of managerial intent. Despite these limitations, the research demonstrates a clear empirical basis for expense misclassification as a determinant of reporting quality.

Ogoun and Ephibayerin (2020) assessed the influence of accounting ethics on financial reporting quality in five district local governments in Northern Uganda, emphasizing expense misclassification as a key issue. Using a mixed-methods case study design, the researchers collected qualitative interviews and quantitative survey data to evaluate ethical principles (integrity, objectivity, compliance, professional competence) and their effect on accuracy, transparency, and relevance. Findings suggested that unethical practices, including expense misclassification, compromised reporting quality, but strong management policies mitigated these risks. Critically, while the study provides rich contextual insights into public sector reporting, its non-random sample limits generalizability, and reliance on self-reported data may underestimate unethical behavior. Additionally, statistical analysis is limited, which constrains rigorous quantification of misclassification effects.

Bancin, Nainggolan, Barokah and Mukhtaruddin (2025) investigated cost misclassification and its impact on profit optimization and financial reporting quality, focusing on general, administrative, and operating expenses. Using a literature review and synthesis of management accounting studies, the authors highlighted how misclassified costs distort profitability and mislead stakeholders. They emphasized the role of internal control, cost planning, and accounting strategies in mitigating misclassification effects. The study underscores expense misclassification as a direct driver of financial reporting quality deterioration. Critically, the literature review approach provides broad theoretical and empirical support but lacks primary data, limiting empirical verification. Additionally, the absence of statistical modeling reduces the ability to quantify the magnitude of misclassification effects.

Dzarsa (2024) examined the effect of misappropriation of assets and improper expense recognition on financial performance of 20 listed non-financial firms in Nigeria from 2008 to 2022, using a longitudinal research design. The study employed panel multiple regression analysis with E-Views 10 to estimate the impact of expense misclassification on reported financial outcomes. Results indicated that both misappropriation and improper expense recognition had a positive but statistically insignificant effect on financial performance. This suggests that, in this context, expense misclassification does not strongly influence reported profitability, though it may undermine reporting integrity. Critically, the small sample size and focus solely on non-financial firms limit generalizability, while the reliance on historical financial statements may not fully capture managerial manipulations.

Al Najjar, Ghanem and Higaz (2024) explored accounting errors affecting value-added tax (VAT) reporting quality in Lebanon, emphasizing expense misclassification among other errors. The study surveyed 1,691 practicing certified public accountants registered with the Lebanese Association of Certified Public Accountants, using a structured questionnaire validated through a pilot test. Findings revealed that tax rate errors, cutoff period errors, principle errors, and overreporting of expenses significantly reduced VAT reporting quality. The exploratory approach also identified procedural ambiguities and exchange rate fluctuations as contributing factors. Critically, while the study effectively highlights the role of misclassified expenses in reporting quality, the cross-sectional survey design limits causal inference. Self-reported data may introduce bias, and the focus on VAT-specific accounting may not fully generalize to overall financial reporting. Nonetheless, the research underscores expense misclassification as a key determinant of accurate reporting, particularly in tax and compliance contexts.

Buslepp, Legoria, Rosa and Shaw (2019) investigated how misclassification of audit-related fees serves as a proxy for poor internal control quality and affects financial reporting quality. Using archival data from S/K sections of firms' 10-K filings, the study analyzed reporting timeliness, audit fees, and incidence of material weaknesses. Findings indicated that firms misclassifying audit-related fees exhibited delayed filings, higher audit costs, and more frequent material weaknesses, reflecting compromised reporting quality. Critically, while the archival method provides objective data and replicable measures, the study is limited to U.S. publicly listed firms and may not account for

qualitative managerial practices influencing misclassification. Additionally, audit fees may be influenced by external factors beyond internal control.

Kermani and Kiamehr (2025) examined misclassification of cost of goods sold and operating expenses—including general, administrative, and selling expenses—among 80 companies listed on the Tehran Stock Exchange from 2019 to 2023, analyzing 1,600 company-quarters. The study applied multivariate linear regression on quarterly data to assess the impact of misclassification on gross operating profit. Results revealed a significant negative relationship between misclassification of costs and operating profit, with both operational and non-operational special income and expense items amplifying this effect. Critically, the study provides robust quantitative evidence linking expense misclassification to financial reporting quality, but the sample is limited to Tehran Stock Exchange-listed firms, potentially affecting generalizability. Additionally, while regression analysis is rigorous, it may not capture behavioral drivers behind misclassification, such as managerial incentives or corporate governance weaknesses.

Alabel and Amrah (2020) investigated whether financially challenged companies distort core or operational income by misclassifying running expenditures as income-decreasing special items. This sample includes companies in the USA with data spanning from 1989 to 2010. The authors used the methods outlined in Othman and Ameer (2023) with multiple regressions. Managers of financially troubled companies are more inclined to exaggerate core or operational income than those of financially stable enterprises in order to achieve or exceed profit targets. They do this by misclassifying fundamental or operational expenditures as income-reducing special items. Core expenditures are

specifically reallocated to income-reducing exceptional items such as goodwill impairments, settlement costs, restructuring charges, and write-downs. However, the study did not indicate which firms were sampled in the USA. Further, the study was conducted more than 10 years ago making it difficult to generalize the findings. Further, the study did not reveal how misclassification of operating expenses as income decreasing special items affects quality of financial reporting.

Bansal (2021) examined the different alternatives under classification shifting for meeting industry numbers in India. Based on a sample of 15,616 firm-years, results exhibit that firms misclassify the cost of goods sold as a non-operating expense to meet the industry's average gross margin ratio. Further empirical evidence provides that firms prefer shifting expenses over shifting revenues to meet the industry's average profitability. Overall, results imply that peer performance is an important benchmark, and firms strive to achieve the same by engaging in different shifting strategies. However, the study did not define the sampling design besides not revealing how misclassification of cost of goods sold influence quality of financial reporting.

In his study, Eriksen (2021) looked at how IFRS affected the misclassification procedures of Indian companies. The research categorises firm-years according to life cycle phases using Dickinson cash flow patterns. This research has looked at two types of misclassification: revenue misclassification and cost misclassification. From March 2010 to March 2019, a total of 19,268 firm-years were analysed from the Bombay Stock Exchange (BSE). The results indicate that companies in the high (low) life cycle stage are more prone to revenue (expense) misclassification. This suggests that companies use

different tools for classification shifting depending on their needs and how easy they are to use. According to the results, test firms (those reporting under IFRS) have significantly increased the magnitude of expense shifting compared to benchmark firms (those reporting under domestic GAAP) in the period after IFRS adoption. This suggests that IFRS adoption has a negative impact on the accounting quality of Indian firms. The study used misclassification as dependent variable while the current study will use it as independent variable. Further, the study used International Financial Reporting Standards as independent variable while the current study will consider it as moderating other policies (Krishnan, Myllymäki, & Nagar, 2021).

Li (2016) investigated the Sarbanes-Oxley Act's (SOX) impact on classification shifting, a earnings management technique where core expenses are misclassified as special items. We test competing predictions: a deterrence effect versus a substitution effect. Using a difference-in-differences design, we analyze a sample of U.S. firms from 1988-2010. The methodology measures classification shifting as the magnitude of unexpected core earnings, derived from a established model that predicts normal core earnings. The findings support the deterrence effect. The regression results show a statistically significant decline in unexpected core earnings after SOX, indicating firms reduced this specific misclassification behavior following the act's passage.

Malikov, Manson, and Coakley (2018) examined a novel form of classification shifting where firms misclassify non-operating revenues as operating revenues. Using a sample of 12,804 UK listed firm-year observations from 1995–2014, the study proposes a new approach to detect this specific earnings management tool. The results establish that firms

engage in this revenue-based classification shifting to inflate operating income. Evidence indicates a significant increase in this practice following mandatory IFRS adoption, consistent with the interpretation that IFRS offers greater classification flexibility. Further analysis reveals that this form of shifting is more pervasive among firms that report operating losses or have low growth, highlighting conditional incentives for the practice. However, the study did not indicate how misclassification of expenses influences quality of financial reporting but rather on the reliability of financial statements. Further, the study was conducted in securities market whereby none of the public universities are listed. The study did not indicate rationale of study period 1995 to 2014.

By looking into revenue and cost item categorisation shifting in the year of transition, Pimenta (2022) hoped to demonstrate an unanticipated visible result of adopting International Financial Reporting Standards (IFRS). During a transition, organisations may utilise various sources of income to boost operational performance and special costs to achieve or exceed profits objectives. This is all part of a larger strategy to manage core earnings. To achieve various profitability targets, Sun (2021) modelled COGS and SGA independently and looked at managers' mistakes in classifying COGS and SGA. According to the research, outperforming the benchmark of gross margin four quarters before is linked to COGS (but not SGA) misclassification. Alternatively, if you want to meet the fourth fiscal quarter criteria of zero core earnings, prior-year core profits, and analyst earnings projections, you'll need to avoid COGS and SGA misclassification. Future RAM studies should think about ways to control for expenditure misclassification,

because it was shown that unanticipated SGA has a substantial misclassification impact apart from RAM.

The Office of the Auditor General, (2023) in reviewing financial reports of the Public Universities indicated that, in a certain university, the statement of financial position for the financial year 2020-2021 reflects trade and other payables balance of KES. 6,417,860,273. The balance includes an amount of KES. 5,454,532,982 in respect of sundry creditors. The creditors include unremitted statutory deductions in respect of pension deductions and contributions by employer, Pay as You Earn (PAYE) and other third-party deductions from employees of KES. 1,937,426,915, KES. 2,214,877,493 and KES. 191,095,236 respectively totaling KES. 4,343,399,643. Further, the sundry creditors balance includes balances due to general suppliers and other contractors totaling KES. 1,111,133,339 out of which balance totaling to KES. 196,310,940 have been outstanding for more than one (1) year. Management did not provide an explanation for non-remittance of statutory deductions and non-settlement of long outstanding creditors.

The audit report for another university indicated that there was unsatisfactory financial performance and negative working capital. The statement of financial performance reflected the university recorded an operating deficit amounting to KES. 278,676,390 in 2020 which increased its accumulated deficit from KES. 1,375,276,027 in 2019/2020 to KES. 1,653,952,417 as at 30 June, 2021. Further, the statement of financial position reflected current liabilities totaling KES. 1,746,044,863 against current assets totaling KES. 385,197,575 resulting in a negative working capital of KES. 1,360,847,288. Therefore, the university may not be able to meet its financial obligations as and when

they fall due. In this regard, the university had not remitted deductions in respect to pension, gratuity, third party payments and taxes, all totaling KES. 1,239,931,854. Management did not disclose the measures it has taken or intends to take to reverse the unsatisfactory performance and financial position. The university is, therefore, technically insolvent and its continued operations will depend on the financial support and goodwill from the Government, creditors and bankers (Office of the Auditor General, 2023).

2.4.3 Valuation of Assets and Liabilities and Quality of Financial reporting

Silva, Loureiro and Sampaio (2023) examined the perception of audit professionals on the adoption of NRCF 4 and IAS 8 in preventing profit manipulation and improving financial reporting quality. Structured interviews with four auditors highlighted that professional skepticism, independence, and ethics enhance the reliability of asset valuation and prevent manipulation of depreciation, revaluation, and provisions. Findings suggest auditors act as a deterrent to profit manipulation and enhance financial reporting quality. Critically, while the qualitative approach provides rich insights into auditor judgment and ethical influence, the very small sample limits generalizability. The study does not empirically measure the direct impact of depreciation manipulation or asset revaluation on financial statements, making causal inferences difficult.

Khatun and Sobhan (2025) investigated how creative accounting practices influence financial reporting quality among 256 respondents using structured questionnaires and multiple regression analysis. The study found that managerial discretion, flexibility in accounting regulations, and transaction timing significantly affected the quality of reporting, particularly regarding asset valuations, depreciation estimates, and liability

provisions. However, reclassification of transactions and fictitious entries were insignificant. Critically, the cross-sectional survey design captures perceptions but cannot establish causality. Reliance on self-reported data may also introduce bias, and the study does not specifically quantify how depreciation manipulation or underreporting of liabilities impacts financial reporting metrics.

Nangih and Anichebe (2021) assessed the effect of accounting estimates, including depreciation and goodwill estimates, on misstatements in financial reports of Nigerian SMEs. Using a survey design with questionnaires and regression analysis in SPSS, the study found that inaccurate depreciation and inventory estimates contribute to material misstatements, undermining financial reporting quality. Impairment and provision estimate similarly affected reliability. The study is limited by its focus on SMEs, potentially reducing applicability to larger corporations, and by reliance on self-reported data. Nevertheless, it highlights that misestimation of asset depreciation and liabilities provisions directly compromises fair presentation and decision-usefulness of financial reports.

Kwaghvihi, Zayol and Soomiyol (2023) examined depreciation manipulation and its effects on profitability among 2016–2020 annual reports of listed Nigerian industrial goods companies. Using panel regression guided by agency theory, the study found that manipulation of depreciation figures negatively affected profitability, though insignificantly, while revenue manipulation had significant positive effects. Critically, the study is strong in using archival data and panel regression, providing objective measures, but it does not measure direct effects on reported financial reporting quality, focusing

instead on profitability. Additionally, reliance on financial statement data may overlook managerial intent or ethical considerations in depreciation estimation.

Abiahu, Udeh and Okegbe (2020) investigated the effect of fair value reporting on profitability and firm value in 13 Nigerian deposit money banks from 2008–2015, comparing historical cost and IFRS fair value methods. Regression analysis revealed fair value accounting had no significant impact on reported profitability but influenced firm valuation. Critically, the small sample and focus on banks limit generalizability, while the study does not disentangle specific asset valuation manipulations, such as depreciation or liability provisions. Nevertheless, the study demonstrates that revaluation and fair value adjustments materially affect stakeholders' perception of financial position, emphasizing the importance of combining fair value with historical cost for accurate financial reporting.

Osanyinbi, Siyannbola, Omoniyi and Iregha (2023) examined the effect of creative accounting in asset and liability valuation on the quality of financial reporting among Nigerian insurance firms. The study adopted a survey design and gathered data using questionnaires from professional accountants, analyzed through SPSS. The findings revealed that excessive discretion in fair value estimation allows creative accounting through inflated revaluations and understated provisions, which distort the true financial position of firms. Frequent asset revaluations without transparent disclosure were linked to earnings management and profit smoothing. While the study effectively demonstrated professional perceptions, it lacked quantitative verification using actual financial data. It concluded that manipulative valuation of assets and liabilities undermines the reliability,

neutrality, and comparability of financial reports, thereby diminishing stakeholders' confidence in reported figures.

Chimoi, Fwamba and Abuya (2024) investigated how creative accounting in the valuation of assets and liabilities affects financial reporting quality in Public Technical Training Institutes (PTTIs) in Western Kenya. The study used a cross-sectional survey design with data from 79 respondents across 11 institutions. Regression analysis showed a weak relationship between valuation controls and reporting quality. The study revealed that creative accounting practices—such as arbitrary depreciation rates and delayed recognition of liabilities—were prevalent, leading to misrepresentation of institutional financial health. Although accounting controls were perceived as important, they were inadequately enforced. The study was limited by its reliance on perceptual data rather than audited reports. It concluded that weak valuation governance enables creative accounting, reducing the credibility and transparency of financial statements in public institutions.

Muli (2023) analyzed the impact of creative accounting in asset and liability valuation on the quality of financial reporting and performance of Kenyan construction firms. Using a causal exploratory survey of 44 manufacturing firms from 2016 to 2020, panel regression results showed that depreciation manipulation and understated provisions for liabilities led to overstated profitability and asset values. The study demonstrated that creative valuation practices distort true financial positions, reducing the reliability and relevance of financial reports. It further found that quality financial reporting moderates this relationship, reducing manipulation effects. However, the study's limitation lies in its industrial concentration, restricting generalizability.

The impact of innovative accounting methods on the financial standing of Nigerian financial institutions was investigated by Ezuwore and Agbo (2020). A study design based on surveys was used. A questionnaire with five Likert-scale answer choices was used to collect primary data. All bank managers and accountants in Nigeria made up the study's population, while 303 accountants and 50 managers were selected at random from all the banks in the Enugu metropolis. The results show that (i) luring investors away from Nigerian banks is significantly impacted by inaccurately reported assets and liabilities, and (ii) beating analysts' predictions about future banking performance in Nigeria is significantly impacted by accurately valuing assets and liabilities. Since the research took place in Nigeria, extrapolating its results to Kenya would be challenging. Public universities in Kenya will be the centre of attention in this research, as opposed to commercial banks in the previous one. There was no indication in the research of how asset and liability value affects financial reporting quality.

A study on innovative accounting techniques in Nigerian banks was conducted by Olojede and Erin (2021). Of the twenty-five (25) recapitalised banks in operation in Abuja, the Federal Capital Territory (FCT) at now, twenty-five (25) managers and twenty-five (25) accountants made up the population of this research. The main technique of data collecting was the survey method of study design. The results show that (a) increasing the share price is the primary motivation for creative accounting techniques in Nigerian banks, and (b) creative accounting procedures, such misreporting assets and liabilities, have a negative impact on consumers of accounting information. It is challenging to generalise the results to the Kenyan setting, however, since the research was carried out in Nigeria. Public

universities in Kenya will be the centre of attention in this research, as opposed to commercial banks in the previous one. There was no indication in the research of how asset and liability value affects financial reporting quality.

Ezuwore and Agbo (2020) surveyed seasoned bank employees in Nigeria to find out their thoughts on creative accounting in the country's commercial banks. Employees of commercial banks in Nigeria who are now working make up the study's population. This research used a quotota sampling approach. A total of 42 executives/assistant management and 42 auditors/assistant accountants were selected from among the twenty-one (21) integrated commercial bank offices located in Lagos state, all of whom were considered to be most experienced or senior. The study used primary data and a survey approach for our research. According to the results, innovative accounting methods in Nigerian commercial banks mainly serve to artificially inflate the share price by concealing certain assets and liabilities. Creative accounting also has a negative impact on those who rely on accounting data.

The effect of creativ accounting methods on businesses' bottom lines was the subject of an empirical study by Okoye and James (2020). The researchers used an ex post facto approach. From 2008 to 2018, information on commercial banks listed in Nigeria was gathered from the Nigeria Securities and Exchange Commission. The results show that ROA is negatively and insignificantly correlated with equity capital and asset structure, positively and insignificantly correlated with loans and advances, and positively and insignificantly correlated with total deposit liabilities. The asset structure and management of Nigerian banks have been inadequate, and the institutions' assets have not been put to

good use to increase profitability. However, it is challenging to generalise the results to the Kenyan context since the research was carried out in Nigeria. This research will focus on public universities in Kenya, as opposed to the last one which concentrated on listed commercial banks. Firm financial performance, rather than the impact of asset and liability value on financial reporting quality, was the focus of the research.

Nzowa (2022) assessed the role of accounting innovation in company failures, namely the underreporting of assets and liabilities. The study also uncovered the reasons behind these practices and the obstacles to honest and open reporting. The survey approach is used in the investigation. Eighty accountants from banks and other businesses whose parents' businesses were located outside of Nigeria were given a questionnaire, and secondary data on businesses that went belly-up throughout the globe were also gathered. Accounting innovation, it turns out, is just a euphemism, and it's responsible for 90% of the misleading reporting of a company's activities. Creative accounting and the many rules without sufficient checks, penalties, and incentives both contribute to the basis for false, cosmetic, and unjust reporting, as shown in the research.

2.4.4 Debtor Provision Recognition and Quality of Financial Reporting

Bryan, McKnight and Houmes (2021) empirically examined how debtor provision recognition influences the quality of financial reporting in U.S. chemical and allied products manufacturing firms from 2005 to 2017. Using COMPUSTAT and SEC 10-K Schedule II data, the study analyzed the allowance for doubtful accounts, bad debt expenses, and write-offs as proxies for accounting conservatism and earnings management. Regression results revealed that firms often used excessive conservatism in

estimating doubtful debts to manipulate earnings and meet performance targets, thereby distorting financial report reliability. The study's strength lies in its longitudinal dataset and detailed industry focus; however, it was limited to one sector, constraining generalizability. The findings suggest that misapplication of debtor provisions serves as a key avenue for earnings management, eroding reporting transparency and credibility.

Nurdiansyah and Manda (2018) explored the impact of bad debt provisions on profitability and indirectly on the quality of financial reporting among local banks (BPR) in Indonesia. Using descriptive analysis of financial reports from PD BPR Subang (2012–2015), the study found that increases in allowance for bad debts marginally improved profitability, but the effect was statistically insignificant. The use of simple ratio analysis limited causal inference, and the study failed to address how provisioning practices affected financial reporting reliability. Nonetheless, it highlighted how inappropriate or inconsistent provisioning policies obscure true asset quality and impair comparability of reports.

Tișcenco and Bădicu (2024) examined how changes in accounting policies and estimates—including debtor provisions—affect the quality of financial reporting under IFRS and GAAP frameworks. The study employed a conceptual analysis of international reporting standards and their influence on valuation consistency, reliability, and comparability. Findings underscored that inconsistent or judgmentally biased provisioning decisions can significantly alter reported earnings, impairing users' ability to assess performance. The study's strength lies in its comparative policy perspective, yet its lack of empirical testing limited practical validation. It concluded that transparency in estimating doubtful debts and strict disclosure of policy changes are vital to uphold faithful

representation and mitigate manipulative earnings reporting, thereby enhancing the overall quality and dependability of financial statements.

Ayunku and Eweke (2019) analyzed the effect of accounting estimates—specifically bad debt and depreciation provisions—on the quality of financial reporting in Nigerian deposit money banks between 2008 and 2017. Using OLS regression on panel data from 17 listed banks, the study found that increases in provisions heightened accounting discretion, leading to lower reporting quality. This was measured through discretionary accruals as a proxy for earnings management. The study highlighted that inconsistent and opportunistic estimation of doubtful debts creates room for income smoothing and subjective manipulation. However, it was limited by reliance on secondary data and failure to control for industry-level variations. It recommended harmonization of estimation practices and adoption of IFRS-consistent models to strengthen transparency and comparability of financial statements.

Christodoulou-Volos (2020) examined the relationship between the allowance for doubtful accounts and earnings management among Chinese listed companies between 2008 and 2017, segmented around major accounting standard reforms in 2014. Using panel regression, the study revealed that before 2014, firms manipulated earnings by adjusting provisions for doubtful accounts, but this practice declined after fair value reforms improved regulatory oversight. The study provided robust empirical evidence that flexible debtor provisioning serves as a key earnings management tool, directly undermining financial reporting quality. Despite its longitudinal strength, cultural and regulatory context differences limit external validity. The study concluded that enhanced

fair value enforcement and audit scrutiny are critical in curbing manipulative use of debtor provisions in financial reporting.

Anning and Adusei (2022) analyzed financial statement manipulation among 19 listed manufacturing and trading firms on the Ghana Stock Exchange from 2008 to 2017 using the Beneish model. The study identified manipulation through overstatement of receivables and understatement of provisions as prevalent practices. Firms with higher leverage and declining profitability were more likely to use such methods to meet reporting expectations. The study's diagnostic model effectively detected manipulation risk, yet its binary classification approach limited depth in identifying specific accrual sources. It concluded that inadequate regulation of debtor provision recognition facilitates aggressive accounting practices that reduce the reliability, neutrality, and comparability of financial reports in emerging markets.

Dlamini and Murisa (2024) examined how creative accounting—particularly in areas like undervaluation of liabilities and premature revenue recognition—affects financial reporting quality in Zimbabwe's hospitality sector. Using a mixed-methods approach involving 26 interviews and financial statement analyses from five hotels, the study revealed that creative accounting practices such as manipulating provisions for doubtful debts and liabilities were used to boost reported profits and meet loan covenants. The findings demonstrated a significant negative relationship between creative accounting and reporting quality. However, the study's small sample and focus on one industry limit generalization. It concluded that deliberate misrepresentation through discretionary

provisioning erodes users' trust in financial reports, calling for stricter oversight and ethical enforcement among accounting professionals.

Fred (2021) examined the impact of accounts receivable management on the performance of Construction Companies, with NPD Ltd serving as a specific case study. The researcher employed questionnaires and interviews to gather primary data. The sample consisted of 30 respondents, selected using Morgan & Krejcie's method for generating a representative sample from a particular population. The financial statements of the company for the period 2016-2018 were examined utilizing financial techniques and ratios to obtain secondary data. The results indicated that the accounts receivable management of NPD Ltd was ineffective, particularly with regards to the average collection period (ACP) and accounts receivable turnover. The recommendations include enhancing NPD's collection endeavors for accounts receivables from her credit clients. This is attributed to the observation of delayed payment by credit consumers within the organization.

2.4.5 Size of the University

Amanamah (2024) examined the moderating role of firm size on the relationship between corporate governance and financial reporting quality among 46 companies listed in Ghana, covering 598 firm-year observations from 2009–2021. The study adopted a panel regression design using the Hausman test to justify fixed effects estimation in STATA. Firm size was measured by total assets, while financial reporting quality was proxied by IFRS compliance. The findings revealed that firm size and profitability negatively affected IFRS compliance, whereas firm age had a positive effect. The study further found that firm size moderated the relationship between audit committee independence and

financial reporting quality. The critique arises from the reliance on secondary data limited to Ghana, which constrains cross-country generalizability.

Debbarma and Roy (2023) investigated the influence of corporate governance on creative accounting practices among Indian NSE-listed firms using 255 firm-year observations from 2017–2021. Employing the modified Jones model, they estimated discretionary accruals to proxy creative accounting, analyzed through panel regression using STATA 15. Findings revealed that audit independence significantly reduced creative accounting, while board size and firm growth positively influenced manipulation. Firm size, however, showed no significant relationship with creative accounting, suggesting that larger firms may adopt better internal controls mitigating unethical accounting. The study's methodological strength lies in multistage sampling and use of a robust model for accrual estimation. However, its sample excluded smaller firms, limiting generalizability to the broader business environment.

Rachman and Nugroho (2025) explored the moderating effect of firm size on sustainability reporting disclosure (SRD) among Indonesian financial institutions listed between 2019–2023. Using a quantitative design with moderation regression analysis, the study measured firm size through total assets and SRD through sustainability indices. The analysis revealed that firm size significantly moderated the relationship between board size, gender diversity, and green financing on disclosure quality. Larger firms were found to exhibit stronger governance–disclosure linkages, supporting stakeholder theory's argument that visibility pressures induce better transparency. However, firm size did not moderate the effect of profitability on SRD. The study used secondary data and regression

diagnostics to ensure validity. Critically, though the design was robust, SRD may not directly capture financial reporting quality.

Azaria (2025) assessed how firm size affect creative accounting among 30 Indonesian manufacturing firms listed on the IDX between 2020–2024. A quantitative design using multiple regression analysis was employed, with creative accounting proxied by discretionary accruals. Findings revealed that firm size significantly increased creative accounting tendencies, suggesting that larger firms, despite scrutiny, possess resources enabling sophisticated manipulation. The study's methodological strength lies in the use of purposive sampling and comprehensive regression diagnostics. However, its focus on manufacturing limits its external validity across sectors. Despite this, the study offers crucial evidence that firm size amplifies creative accounting behavior, challenging conventional assumptions of transparency in large firms. This aligns with agency theory, emphasizing that larger entities may use accounting discretion to manage stakeholder perceptions of financial health.

Githaiga, Muturi Kabete, and Caroline Bonareri (2022) analyzed the moderating role of firm size on the relationship between board characteristics and earnings management among 88 firms within the East African Community from 2011–2020. Using the System Generalized Method of Moments (SGMM), the study accounted for endogeneity and reverse causality. Earnings management was measured using discretionary accruals. Findings showed that board independence, gender diversity, and financial expertise reduced earnings management, while board size increased it. Firm size moderated these relationships significantly, implying that larger firms' governance effectiveness varied

with scale. The model's strength lies in addressing simultaneity bias, enhancing credibility. However, the multi-country scope introduced possible heterogeneity not fully controlled.

Studies may have yielded different results because they were carried out in different institutional contexts and at different stages of economic growth. A study by Ado et al. (2022) looked at businesses listed on the Kenya Nairobi Security Exchange. Jiang et al. (2020) investigated deposit money banks in Nigeria. Other studies have established a link between the size of the firm and corporate governance mechanisms as well as earnings quality. Bigger firms are usually exposed to more scrutiny by investment analysts as a consequence of the high political cost associated with them Smaili, Arroyo and Issa, (2022), presented a contrary view as they assert that large firms tend to engage more in earnings manipulation as their complex network of transactions makes stakeholders detecting such manipulations and overstated accounts almost impossible. As a survival strategy, management of big companies may opt for strategies that will delay the announcement of profits and manage their earnings to manage the political costs (Siegel, 2021).

2.5 Summary and Research Gaps

Many studies (Olaoye & Adeniyi, 2020; Okoye & James, 2020; Abed et al., 2022) have investigated financial performance indicators like profitability, firm survival, or distress but have not adequately conceptualized financial reporting quality, especially in public institutions. Even where reliability is discussed (e.g., Aljawaheri et al., 2021), the concept of quality defined through accuracy, completeness, and compliance with reporting

standards is not explored in depth. Similarly, the use of audit opinion as a proxy for quality has not been sufficiently incorporated. Studies largely fail to distinguish between financial reliability and reporting quality, which are conceptually distinct. The current study addresses this conceptual gap by focusing on the influence of revenue recognition practices on financial reporting quality, using audit opinions from the Office of the Auditor General as a robust proxy. This approach improves clarity in conceptual framing and establishes a stronger link between accounting practices and reporting standards.

Most existing studies (Kilonzo, 2021; Anyango, 2020; Akenbor & Ibanichuka, 2021) have examined financial reporting within corporate environments such as listed companies or commercial banks. These contexts feature profit-driven objectives, market pressures, and corporate governance models that differ significantly from public universities. Public universities in Kenya operate within non-profit public sector frameworks guided by unique governance, accountability, and regulatory structures. Financial decisions in public universities are shaped by government policy, public audits, and educational mandates, which are rarely considered in corporate-based studies. Moreover, none of the reviewed studies address the interaction between public sector audit institutions and university financial reporting. Therefore, the present study addresses this contextual gap by investigating how revenue recognition influences financial reporting quality specifically in public universities. This focus ensures that conclusions are relevant and applicable to the unique operational and financial reporting environment of Kenya's public higher education institutions.

Many of the reviewed studies (Omondi, 2020; Frank, 2023; Bansal, 2021) fail to apply consistent or explicit theoretical frameworks in their analysis of revenue recognition and financial reporting. For instance, while agency theory is briefly referenced by Omondi (2020), its application to public university settings where agency relationships differ due to public ownership and regulatory oversight is not explored. Other studies, like Habib et al. (2020), offer descriptive results without grounding findings in any accounting or governance theory. This limits the explanatory power of such studies and restricts their contributions to theory development in public sector financial research. The current study addresses this theoretical gap by employing agency theory and public accountability frameworks to explain how revenue recognition practices may be influenced by or influence the motivations of university financial managers and stakeholders. This allows for a richer interpretation of financial reporting behavior and its institutional implications.

Although numerous studies (e.g., Habib et al., 2020; Bansal, 2021; Abed et al., 2022; Olaoye & Adeniyi, 2020) provide insights on earnings manipulation, creative accounting, or financial misreporting, they do not empirically link these practices to the quality of financial reporting using clear performance indicators. Many focus on financial performance, distress, or earnings management but omit direct measures such as audit opinions, which serve as official evaluations of financial reporting quality. Moreover, few studies triangulate their findings using both primary and secondary data, weakening the robustness of their conclusions. Additionally, the absence of studies addressing the influence of revenue recognition on public sector institutions highlights a critical empirical gap. The present study aims to fill this void by using audit opinion from the

Office of the Auditor General as a reliable measure of financial reporting quality and by examining public universities as the empirical context.

Most of the cited studies were conducted in foreign or non-comparable contexts, such as Nigeria (e.g., Akenbor & Ibanichuka, 2021; Ezuwore & Agbo, 2020), Iraq (Aljawaheri et al., 2021), and Western nations like the USA and UK (e.g., Habib et al., 2020; Frank, 2023). While valuable, these findings are shaped by different institutional environments, regulatory frameworks, and cultural norms that may not reflect Kenya's public sector realities. Even within Africa, none of the reviewed studies explore public universities in Kenya, which operate under different accountability and reporting requirements. Kilonzo (2021) and Anyango (2020) offer Kenyan perspectives but focus exclusively on listed firms, bypassing public institutions. This geographical gap hinders the applicability of their conclusions to Kenya's public universities. The present study addresses this by focusing specifically on Kenya's public higher education sector, ensuring that insights are grounded in relevant legal, administrative, and institutional contexts.

Numerous studies reviewed (e.g., Habib et al., 2020; Bansal, 2021; Olaoye & Adeniyi, 2020; Okoye & James, 2020) exhibit methodological shortcomings, such as using outdated data, failing to define sampling methods, or relying solely on financial statements without corroborating findings through other means. For example, Habib et al. (2020) utilized data from 1989 to 2010, limiting relevance to current practices, while Bansal (2021) did not clarify how firms were selected for analysis. In other cases, the measurement of financial reporting quality lacked specificity or was based on unverified proxies. Furthermore, few studies used audit opinion as a standardized evaluative

measure. The current study overcomes these methodological gaps by clearly defining its sampling strategy across public universities in Kenya, using current audit reports, and incorporating audit opinions from the Office of the Auditor General to assess reporting quality. This enhances the study's reliability, relevance, and generalizability in the local context.

Table 2. 1: Critique and Research Gap

Researcher(s)	Focus of Study	Methodology	Findings	Knowledge Gaps and How Current Study will address the Gaps
Kilonzo (2021)	Relationship between revenue recognition and the level of insider ownership for companies quoted at the Nairobi Stock Exchange	The study is a descriptive correlation analysis. By applying the General Moment of Methods and multiple regression analysis on a sample for fifteen companies quoted at the NSE between 2006 and 2010	Analyzing the data for the five years, revenue recognition is found to have a negative relationship towards insider investments as compared to other components of company ownership namely; institutional and external ownership	The study did not indicate how revenue recognition influences quality of financial reporting. Further, the study was conducted in securities whereby none of the public universities are listed.
Omondi (2020)	Demonstrate the relation between ownership structure and	Descriptive Cross-sectional research	The study concluded presence of a statistically	Results fail to confirm the assertions of the agency theory.

	revenue recognition	design was used to conduct the census study. Secondary data was obtained from the entire 44 non-financial companies listed at NSE over a five-year period from 2015-2019	significant positive link between ownership structure and revenue recognition	Therefore, the study proposes that further inquiries should be undertaken to ascertain the interconnection between the quality of external audit and revenue recognition in Kenya. The study also suggests that independent studies should be done to find out the characteristics of institutional investors in Kenya and its relationship to revenue recognition
Anyango, (2020)	To determine and analyze financial statement fraud amongst Nairobi securities exchange listed companies	The research design that was used in this study was descriptive research design. The population of this study will consist of all firms listed at the NSE. The study adopted a census for the companies listed at the NSE as at 31st December	The 8 Variables studied are generally classified as manipulation signals and motivation signals. Manipulation signals as stated by McAleavy (2013) are the days sales in receivables index DSRI, asset quality	The study did not indicate how revenue recognition influences quality of financial reporting. Further, the study was conducted in securities market whereby none of the public universities are listed

		2018	index AQI, depreciation index, DEPI and total accruals to total assets, TATA.	
Aljawaheri, Ojah and Almagtome (2021)	Effects of earnings manipulation after the COVID-19 outbreak on the share price sensitivity to the earnings disclosures	The study uses a quantitative method to analyze the financial data consisting of 87 firms listed on the Iraq Stock Exchange for the period from 2018 to 2020	The results show that companies practice earnings manipulation to maintain earnings over a time series, which means a negative impact of earnings manipulation on all earnings measures' value relevance	The study did not indicate how revenue recognition influences quality of financial reporting but rather on the reliability of financial statements. Further, the study was conducted in securities market whereby none of the public universities are listed.
Olaoye, and Adeniyi, (2020)	Effect of revenue recognition on the survival of manufacturing entities in Nigeria.	The population of the study was the 66 manufacturing companies listed on the Nigerian Stock Exchange as at 31 December 2016. A sample size of thirty companies with complete data for our	Revenue recognition (EM) proxied by discretionary accruals jointly with corporate governance (CG) proxies exerted significant effect on corporate survival.	The study did not indicate study period and therefore, it is difficult to generalize the findings. Further, the study was conducted in securities market whereby none of the public universities are

		study was purposively selected from the 66 listed manufacturing companies	Individual effects of EM and CG proxies on corporate survival were mixed	listed
Surifah and Rofiqoh (2020)	Effect of real earnings manipulation (REM) on the performance of state-owned enterprises (SOEs) in Indonesia	This research was conducted at a state owned company listed on the Indonesia Stock Exchange (IDX) in 2013-2017	This research shows that earnings manipulation based on real activities through production costs negatively affects the performance of Indonesian SOEs, government ownership negatively affects NPM whereas public ownership has a positive effect on performance, as measured by ROE. Improper government policies can reduce the performance	The study did not provide rationale for choosing study period between 2013 and 2017 and further, the dependent variable was performance yet the current study will focus on quality of financial reporting
Habib et al., (2020)	Whether financially distressed firms manipulate core or operating	This sample comprises firms in the USA with data from 1989 to	Managers of financially distressed firms are more likely to	The study did not indicate which firms were sampled in the USA.

	income through the misclassification of operating expenses as income-decreasing special items	2010. The authors used the methodology given in McVay (2006) and multiple regressions	inflate core or operating income as compared to the healthy firms to meet or beat earnings benchmarks. They do so by misclassifying core or operating expenses as income-decreasing special items	Further, the study was conducted more than 10 years ago making it difficult to generalize the findings. Further, the study did not reveal how misclassification of operating expenses as income-decreasing special items affects quality of financial reporting
Bansal (2021)	Different alternatives under classification shifting for meeting industry numbers	Based on a sample of 15,616 firm-years	Results exhibit that firms misclassify the cost of goods sold as a non-operating expense to meet the industry's average gross margin ratio. Further	However, the study did not define the sampling design besides not revealing how misclassification of cost of goods sold influence quality of financial reporting which will be measured by the type of audit opinion by the Office of the Auditor General
Frank, (2023)	Novel form of classification shifting as an revenue recognition tool	A sample of 12,804 UK listed firm-year observations for the 1995–	They indicate that firms in the period following mandatory IFRS	The study did not indicate how misclassification of expenses influences quality of

		2014 period.	adoption are associated with an increase in this practice, consistent with IFRS offering greater scope for manipulation. Classification shifting of revenues is more pervasive for firms that report operating losses or have low growth	financial reporting but rather on the reliability of financial statements. Further, the study was conducted in securities market whereby none of the public universities are listed. The study did not indicate rationale of study period 1995 to 2014
Abed et al., (2022)	Impact of creative accounting ethics techniques on the reliability of financial reporting from auditors and academics point of view	The data has been collected through a well-structured questionnaire is designed and will be distributed to a randomly chosen sample of certified auditors and accounting instructors in some universities	The result deduces that creative accounting techniques such as valuation of asset and liabilities used by management negatively affect the reliability of financial reporting. The statutory auditor plays an important role in promoting creative accounting	The study did indicate whether the study targeted public or private universities. Further, the study focused on reliability of financial reporting while the current study will focus on quality of financial reporting which will be measured by the type of audit opinion by the Office of the Auditor General

			practice	
Ezuwore and Agbo (2020)	Effect of creative accounting practices on the performance of Nigerian banks.	The survey research design was employed. Primary data were obtained using questionnaire designed in five-response options of Likert-Scale. The population of this study comprised all the bank managers and accountants in Nigerian banks while the sample of the study was made up of 50 managers and 303 accountants drawn from all the banks currently operating in the Enugu metropolis	The findings reveal that the valuation of assets and liabilities has a significant negative effect on beating analysts' forecasts about future banking performance in Nigeria and (ii) the misreporting of assets and liabilities has a significant negative effect on attracting investors to Nigerian banks	The study was conducted in Nigeria making it difficult to generalize the findings in the Kenya context. The study focused on commercial banks while the current study will focus on public universities in Kenya. The study did not indicate how valuation of assets and liabilities influence quality of financial reporting
Akenbor and Ibanichuka (2021)	An empirical investigation of creative accounting practices in the Nigerian banking industry	The population of this study consisted of 25 managers and 25 accountants drawn from the twenty-five (25) recapitalized banks	Findings reveal that) the major reason for creative accounting practices in Nigerian banks is to boost the	However, the study was conducted in Nigeria making it difficult to generalize the findings in the Kenya context. The study focused on

		currently operating in the Federal Capital Territory (FCT) - Abuja. The survey method of research design was adopted and the primary method of data collection was employed.	market value of shares; users of accounting information are adversely affected by the practice of creative accounting such as the misreporting of assets and liabilities	commercial banks while the current study will focus on public universities in Kenya. The study did not indicate how valuation of assets and liabilities influence quality of financial reporting
Abed et al., (2022)	Effect of creative accounting on the Nigerian banking industry	Primary source of data collection was employed in the study and statistical tools used to analyze the data were the Kruskal-Wallis test and the multiple bar chart analysis	. The result of this study revealed that the major reason for creative accounting practices in the Nigerian banking industry was to inflate the operating costs to reduce exposure to taxes	The study focused on banking industry while the current study will focus on public universities in Kenya. The study did not indicate how valuation of assets and liabilities influence quality of financial reporting but rather financial distress
Okoye and James (2020)	Impact of creative accounting techniques on firm financial performance of firms	Exposit facto research design was employed. Data were collected from Nigeria Securities and Exchange Commission	Findings from the analysis reveal that asset structure and equity capital are negatively and insignificantly related to	The study focused on listed commercial banks while the current study will focus on public universities in Kenya. The study did not

		on listed commercial banks in Nigeria from 2008-2018.	return on asset;	indicate how valuation of assets and liabilities influence quality of financial reporting but rather firm financial performance.
Chacha, Nyangau and Omare (2021)	Effects of revenue collection on financial accountability of Rorya District Council in Tanzania with government policy as a moderating variable	The study used cross-sectional survey research design. The target population of 760 Rorya District council members was used. Stratified sampling technique was used. Closed ended questionnaire was used	The study found that cess collection was from fishing (Sangara) and was well achieved.	The study failed to examine the moderating effect of government policy in the relationship between the independent and dependents variables crating a research gaps that need to be filled.

Source: Researcher (2025)

2.6 Conceptual framework

This section conceptualizes the components of creative accounting techniques and the quality of financial reporting of public Universities in Kenya. Creative accounting techniques will include revenue recognition, classification of expenses, valuation of assets and debtors' provisions manipulation.

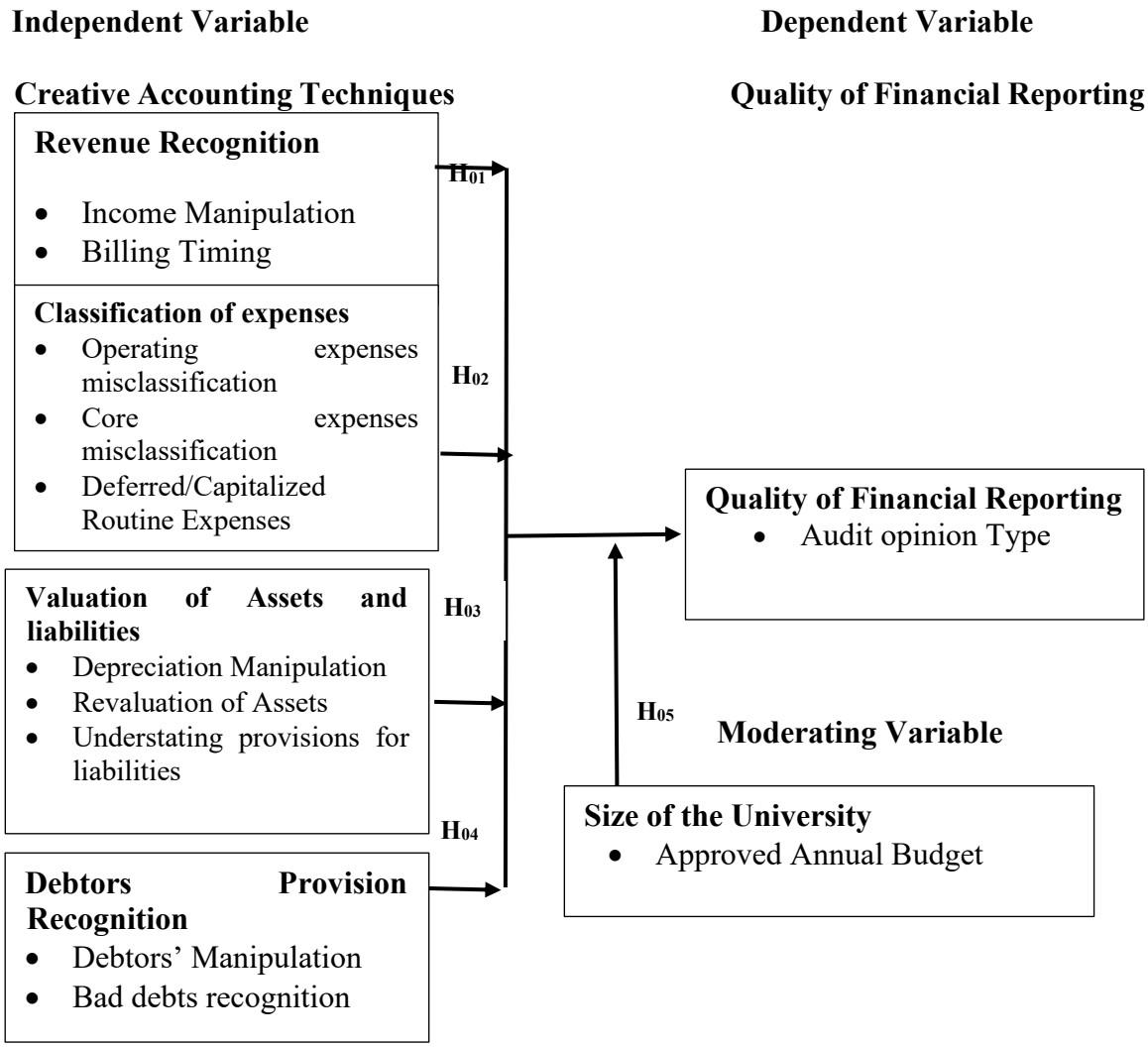

Figure 2. 1: Conceptual Framework

Source: Adapted From (Abed et al., 2022; Saleh, Jawabreh & Abu-Eker, 2023; Mardan, 2025).

Creative accounting was conceptualized in this study as the independent variable and was examined through four key components, each representing distinct areas of financial manipulation within public universities. The first component, revenue recognition, was measured through indicators such as income manipulation and billing timing, which focus on the premature or delayed recording of revenue to influence reported performance (Kabir & Su, 2022; Kimuyu, 2022). This practice often results in overstated income and misrepresentation of actual financial outcomes. The second component, classification of expenses, was assessed using operating expense misclassification, core expense misclassification, and deferred or capitalized routine expenses, which collectively distort the true financial position of the university by altering the nature or timing of expenditure recognition (Agyemang & Yeboah, 2023; OAG, 2023). The third component, valuation of assets and liabilities, was captured through depreciation manipulation, revaluation of assets, and understating provisions for liabilities. These valuation decisions directly affect the accuracy and fairness of financial statements by inflating or suppressing asset and liability values (Kimuyu, 2022; OAG, 2023). Lastly, debtors' provision recognition was evaluated through debtors' manipulation and bad debts recognition, which reveal how receivable management practices influence the reliability of reported financial information (Ahmed & Naima, 2023; Agyemang & Yeboah, 2023).

The audit opinion acts as the primary proxy for financial reporting quality. It reflects the extent to which financial statements fairly present the institution's financial position and performance, and whether they comply with statutory and international accounting standards. A clean or unqualified audit opinion indicates high-quality reporting reliable,

transparent, and free from material misstatement. Conversely, a qualified or adverse opinion signals low-quality reporting, often due to the presence of creative accounting practices, poor internal controls, or non-compliance with IPSAS (OAG, 2023). Therefore, within the conceptual framework, the audit opinion operationally measures the outcome variable (financial reporting quality) by serving as a judgment on the institution's adherence to sound accounting principles and ethical financial disclosure.

The study conceptualized University Size as the moderating variable influencing the relationship between creative accounting techniques and financial reporting quality. It is operationalized using measurable indicators such as the approved annual budget. The approved annual budget serves as a quantitative proxy for university size because it reflects the total financial resources managed by the institution. Larger budgets correspond to greater operational capacity, more complex financial transactions, and higher risks of discretionary accounting. Hence, as the budget grows, the managerial discretion associated with creative accounting practices becomes more significant, thereby moderating how those practices affect the quality of financial reporting. In essence, the approved annual budget addresses the "size" construct by representing the scope and magnitude of the university's financial operations, which in turn influences the degree of control, governance, and transparency achievable in financial reporting.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the several stages and phases that was undertaken to complete the study. The text provided an overview of the overall methodology that was employed in the research. Additionally, it serves as an operational method of carrying out the research. Hence, the chapter explores the research design, target population, unit of analysis, sampling design, instrumentation, data collection procedures, and data analysis and presentation strategies.

3.2 Study Area

The study was done in Kenya, encompassing all 36 public universities in the country. Many public universities have recently been reported as insolvent due to their inability to fulfill their daily financial responsibilities, including paying their teaching and non-teaching staff. The universities were distributed all over the 47 counties in Kenya as shown in appendix VI.

3.3 Research Design

Research design refers to the framework that outlines the specific types of data needed for a study, together with the sources and methods used to acquire them (Huntington-Klein, 2021). This study adopted a causal research design to determine the cause–effect relationships between creative accounting techniques and the quality of financial reporting in public universities in Kenya. The design was appropriate since it allowed the researcher to assess how variations in the independent variables revenue recognition, classification of expenses, valuation of assets and liabilities, and debtor provision recognition affect the

dependent variable, quality of financial reporting. The design also facilitated hypothesis testing and quantification of relationships among variables through statistical analysis, thereby enhancing the validity and reliability of the findings.

3.4 Research Philosophy

Research philosophy explores the nature of reality, knowledge, and existence in relation to the functioning of the world. Individual perception of reality influences the learning process and consequently shapes one's approach to study. A paradigm serves as a framework that links and classifies diverse research methods based on the fundamental philosophical beliefs about the most suitable approach to conducting research. Each paradigm is supposed to have a distinct nature of knowing (Mbanaso, Abrahams, & Okafor, 2023).

The study was conducted under the framework of the positivist philosophy which claims that observable phenomena are responsible for generating accurate data. Positivists refer to researchers who employ quantitative methodologies such as quantifying. Positivism enables the utilization of statistical techniques to examine hypotheses and interpret research data obtained through the application of quantitative research methodologies (Kirongo, & Odoyo, 2020)

Positivists argue that reality is steady and can be observed from a distance. They emphasize the importance of replicating observations and isolating phenomena. To identify patterns and develop correlations among different elements of the social sphere, it is necessary to modify the independent variable and manipulate the actual circumstances (Park, Konge, & Artino, 2020).

The study utilized the philosophy of positivism to ascertain the truth regarding the existing state of financial reporting at public universities and the potential effect of creative accounting techniques on its improvement. In order to establish the correlation between financial reporting and creative accounting techniques, it was necessary to collect accurate and dependable data. Furthermore, positivism was suitable due to the necessity of carrying out quantitative analysis on the collected data.

The positivist philosophy aligns closely with Agency Theory, Information Asymmetry Theory, and Positive Accounting Theory, as all emphasize observable behavior, measurable constructs, and causal relationships. Positivism assumes that managerial actions and reporting outcomes can be objectively studied using empirical data. Similarly, Agency Theory explains measurable conflicts of interest between principals and agents, while Information Asymmetry Theory quantifies how unequal access to information affects financial decisions. Positive Accounting Theory also adopts a positivist orientation by predicting managerial choices based on observable economic incentives and regulatory conditions. Together, these theories operationalize the positivist assumption that financial behaviors can be explained, tested, and generalized using statistical methods, thus providing a coherent foundation for analyzing creative accounting practices and reporting quality.

3.5 Target Population

A population is a collective term for a whole set of individuals or objects that share similar features and from which samples are selected for measuring purposes. In their work, Pandey and Pandey, (2021) defined a population as a complete assemblage of individuals,

events, or things that share a discernible common attribute. It would encompass the entirety of everything that meets a specified set of criteria. The target population refers to the precise group of individuals for whom information is sought. The target population will be 866 respondents from the 36 public universities in Kenya excluding their constituent colleges as shown in appendix VII. The choice of the respondents was because they play the greatest role in the technical accounting function of the universities. For cross validation of information, the respondents consisted of Finance Officers, Deputy Finance Officers, Accountants and Internal auditors from 36 Public Universities across the country. The distribution of the respondents was as shown in Table 3.1

Table 3. 1: Target Population

University	Target Population				
	FOs	DFOs	Accountants	Internal Auditors	Target Population
Chuka University	1	1	15	2	19
DeKUT	1	1	13	3	18
Egerton University	1	2	33	7	43
Kenyatta University	1	2	49	12	64
Garissa University	1	1	7	2	11
JOOUST	1	2	18	5	26
JKUAT	1	3	54	7	65
South Eastern Kenya University	1	1	16	1	19
Karatina University	-	1	12	4	17
Laikipia University	1	1	8	2	12
Maasai Mara University	1	1	14	3	19
Kirinyaga University	1	1	12	4	18
Kisii University	1	1	16	5	23
Machakos University	1	1	20	7	29
Pwani University	1	1	6	2	10
Maseno University	1	1	35	6	43
MMUST	1	1	27	5	34
Kibabii University	1	-	14	4	19
Meru University	1	1	15	6	23
Moi University	-	1	38	9	48
Multi Media University	-	1	11	4	16
Murang'a University	1	-	4	3	8
Technical University of Kenya	1	1	26	8	36
Rongo University	1	-	7	3	11
Technical University of Mombasa	1	-	15	6	22
Co-operative University	-	1	12	4	17
University of Eldoret	-	1	17	6	24
University of Embu	1	1	12	3	17
University of Kabianga	1	-	15	4	20
Taita Taveta University	1	-	8	3	12
University of Nairobi	1	2	60	15	78
National Defense University	1	-	2	1	4
Kaimosi Friends University	1	-	13	2	16
Alupe University	-	1	5	3	9
Tom Mboya University	-	-	5	6	6
Tharaka University	-	1	7	2	10
Total	**28**	**32**	**641**	**164**	**866**

Source: Respective Universities, Human Resource Department, (2024)

3.6 Sampling Design and Sampling procedure

A sample refers to a smaller portion of data that a researcher chooses from a broader population using a pre-established selection method Mbanaso, Abrahams and Okafor, (2023). According to Pandey and Pandey, (2021), conclusion of research results to the target population largely depends on the degree to which the sample, accessible population and the target population are similar on significant characteristics. Through the utilization of sampling, researchers can amass a sufficient amount of data to effectively tackle their study inquiries without the need to engage with the full populace. Sampling additionally adds to efficiency and cost reduction (Rahman, 2023). The study utilized stratified random sampling technique. Stratified random sampling was typically used by researchers when trying to evaluate data from different subgroups or strata They were able to swiftly collect data from a representative sample of the community under study. This method was used to get accurate data from a specified subset of the population that includes all the demographics and personality qualities that make up our organisation.

The study's sample size was determined using Yamane's Sample formula. A method for determining the size of a study's sample is the Yamane sample computation. Given that the size of the underlying population is all that is known about it, it was the best strategy to utilise. (Dul & Hak, 2007) cite Yamane (1967) as the source of the formula.

$$n = \frac{N}{1+N(e)^2}$$ **Equation 3.1** Where: n = required sample size e = level of significance taken to be 0.05 N= the population size 1= constant N = 866 e = 0.05

$$n = \frac{866}{1+866(0.05)^2} = 274 \text{ respondents}$$

The sample population of each university was calculated proportionately as per the respondents in each strata. This was calculated by dividing each university target respondents by total target population and multiplying it by the total sample size. For example;

Chuka University $= \frac{19}{866} \times 274 = 6$

DKUAT $= \frac{18}{866} \times 274 = 6$

Egerton University $= \frac{43}{866} \times 274 = 14$

This proportional allocation ensured that universities with larger staffing levels in finance and accounting were adequately represented, reflecting the relative size and influence of their financial operations. Within each university, respondents were further stratified according to their specific roles, including Finance Officers (FOs), Deputy Finance Officers (DFOs), Accountants, and Internal Auditors. Stratification by role allowed for the capture of insights from each functional group, recognizing that their responsibilities, decision-making authority, and exposure to financial reporting practices differ. This scientifically grounded approach to sample distribution not only ensures representation across universities of varying sizes but also across the functional strata, thereby enabling the study to generate valid, reliable, and generalizable inferences about the effects of creative accounting techniques on the quality of financial reporting in Kenyan public universities. Therefore, the sample population of the respondents was 274 comprising of 26 finance officers, 26 deputy finance officers, 170 accountants and 52 internal auditors as shown in table 3.2 below:

Table 3. 2: Sample Size

	Sample Population				
University	**FOs**	**DFOs**	**Accountants**	**Internal Auditors**	**Sample size**
Chuka University	1	1	3	1	6
DKUAT	1	1	3	1	6
Egerton University	1	1	9	3	14
Garissa University	1	-	1	1	3
Kenyatta University	1	1	15	3	20
JOOUST	1	1	4	2	8
JKUAT	1	2	15	3	21
SEKU	1	1	3	1	6
Karatina University	-	1	3	1	5
Laikipia University	-	1	2	1	4
Maasai Mara University	1	1	3	1	6
Kirinyaga University	1	1	3	1	6
Kisii University	1	1	4	1	7
Machakos University	1	1	5	2	9
Pwani University	1	-	1	1	3
Maseno University	1	1	10	2	14
MMUST	1	1	7	2	11
Kibabii University	1	-	4	1	6
Meru University	1	1	3	2	7
Moi University	-	1	11	3	15
Multi Media University	-	1	3	1	5
Murang'a University	1	-	1	1	3
TUK	1	1	8	1	11
Rongo University	1	-	1	1	3
TUM	1	-	5	1	7
Co-operative University	-	1	3	1	5
University of Eldoret	-	1	5	2	8
University of Embu	1	1	3	1	5
University of Kabianga	1	-	3	1	6
Taita Taveta University	1	-	2	1	4
University of Nairobi	1	1	19	3	24
National Defence University	-	-	1	1	2
Kaimosi Friends University	1	-	3	1	5
Alupe University	-	1	1	1	3
Tom Mboya University	-	-	1		2
Tharaka University	-	1	2	1	4
Total	**26**	**26**	**170**	**52**	**274**

Source: Researcher Compilation, (2024)

3.7 Data Collection Instruments/Tools

The research was carried out using Questionnaires administered using google form and an in-depth interview guide carried out using zoom online meeting to gather primary data. Secondary data was collected from the Office of the Auditor General in terms of audit opinions and from the National Treasury website in the form of annual budget estimates to measure university size.

3.7.1 Questionnaires

Questionnaires are considered most appropriate due to anonymity which makes respondents feel the information will be treated with utmost confidentiality. They are also seen to be more appropriate since they can be easily administered to a large group of respondents and are flexible and can be filled online and sent through mail. Structured questions were used to gather data and are considered appropriate due to ease in administration and for clarity of answers. They are easy to interrogate and discourage vagueness in responses. Respondents who may have difficulty in answering some questions were easily guided through the likert scale questions. The questionnaire were in a form of a 5 -point Likert scale where; 5- strongly agree (SA), 4- agree (A), 3- fairly agree (FA), 2- disagree (D) and 1- strongly disagree (SD). There were seven sections of the questionnaire that were created for this study. Section A was for demographic identification of the respondents which included: gender, position held in the University, job group, number of years since employment and academic qualifications while on the

other hand, section B to G was used to collect data on the study variables (independent, moderating and the dependent variables).

The use of Google Forms was justified due to its efficiency, cost-effectiveness, and ability to reach a geographically dispersed population within a short time. It also allowed for real-time data collection, automatic data organization, and enhanced accuracy by minimizing manual entry errors. Additionally, Google Forms provided a user-friendly platform for respondents to complete the questionnaire at their convenience, which increased the response rate and improved overall data quality. Njeru et al (2020) and Sumarni et al (2024) used google forms to collect data in various context.

3.7.2 Interview Guide

An interview is an important data gathering technique involving verbal communication between the researcher and the respondent (Roberts, 2020). Interviews are commonly used in survey designs and in exploratory and descriptive studies. There are range of approaches to interviewing, from completely unstructured in which the subject is allowed to talk freely about whatever they wish, to highly structured in which the subject responses are limited to answering direct questions (Adeoye-Olatunde, & Olenik, 2021). In this study, the researcher used an unstructured interview guide (in-depth) to collect the views of Finance Officers with regard to the study variables (independent, moderating and the dependent variables). Finance Officers were selected for the interview since they are the ones who provides the overall leadership in preparation of financial reports.

3.7.3 Data Collection Procedure

Gathering certain information with the purpose of establishing or disproving some facts is known as data collection (Pandey & Pandey, 2021). This paves the way for the distribution of correct information and the creation of useful initiatives. The researcher and research assistant supervised participants as they filled out self-administered surveys and interviewed using pre-designed questions to get primary data. In order to gather information from the sample of people, the researcher got an introduction letter from the university. In order to facilitate data collecting, the researcher enlisted the help of two qualified research assistants. Training for the study assistants included itineraries, data entry inspection, sorting, data aggregation, and record keeping. Research assistants distributed the surveys to participants using internet platforms. The Finance Officers responded to the interview questions as guided by the researcher during the online interview sessions.

Secondary data on the type of opinion given to the University for the three years under review (2019/2020, 2020/2021 and 2021/2022) from the Office of the Auditor General website were used to measure the quality of financial reporting. On the other hand, budget estimates for the three years under review from the National Treasury website were used to measure the University size The study focused on the period 2019–2022, which was characterized by heightened financial accountability demands, intensified audit scrutiny, and several reported cases of financial misrepresentation in public universities. This timeframe was also selected because it provided consistent and accessible audited

financial data from the Office of the Auditor General ensuring reliability and comparability of audit reports across institutions.

To facilitate meaningful analysis, the secondary data in this study was transformed to fit a five-point Likert scale or, alternatively, standardized regression coefficients were employed to integrate both ordinal and continuous data types. Transforming continuous data into Likert scale categories simplifies interpretation and aligns them with ordinal variables derived from surveys or expert assessments (Boone & Boone, 2012). Where raw numerical data is maintained, standardized regression coefficients (beta weights) was used in inferential analysis to compare the relative effect of different predictors across scales (Field, 2013). This allows for the simultaneous use of ordinal predictors and continuous financial metrics, ensuring compatibility in multivariate regression models (Hair, Black, Babin & Anderson, 2019).

3.8 Pilot Study

A pilot study is a small-scale preliminary study before the main research in order to measure the validity and reliability of data collection instruments. It was also used to confirm clarity of questions and also make considerations to comments from respondents and improvement of the instruments. (Pandey & Pandey, 2021). Before collecting the actual data for the study, piloting was carried out in four constituent colleges namely; Bomet University College, Turkana University College, Mama Ngina University College and Koitalel University College. These colleges were selected because they share similar administrative and financial reporting structures with fully chartered public universities, yet were not part of the main study sample. This ensured the pilot institutions provided a

realistic testing environment without contaminating the main study. A 5% to 10% of the target sample is adequate for pilot study (Pandey & Pandey, 2021). Therefore, the study selected 25 respondents to participate in the pilot study which represented 9% of the total sample population.

3.8.1 Reliability Testing

Reliability refers to the extent to which a particular tool or instrument yields consistent outcomes when tested multiple times. The reliability of an instrument is enhanced by accurately identifying the specific data needed and consistently utilizing it in field tests. The questionnaire's internal consistency was examined using Cronbach Alpha. When a research tool produces consistent outcomes or data after numerous trials, it is said to be reliable. Consistency of results is the primary goal of reliability. A value of 0.70 or higher is usually regarded as adequate and dependable. Values below 0.70 were considered unreliable and were rejected (Pandey & Pandey, 2021). Equation 3.2 below shows the formula used to calculate Cronbach's alpha.

$$\alpha = \frac{N \cdot \bar{c}}{\bar{v} + (N-1) \cdot \bar{c}}$$

…….....…….**(3.2)**

Where N is the number of items, c-bar the average inter-item covariance and v-bar equals the average variance.

3.8.2 Validity Testing

Validity is the extent to which a test measures what it claims to measure. It is an assurance that a data collection tool's tested features sufficiently cover what is intended (Fawns-Ritchie, & Deary, 2020). Expert analysis was used to evaluate the validity of the content, and confirmatory factor analysis was used to test the validity of the instrument. If an observed variable loaded average shared variances extracted is 0.4 or higher, it would be deemed to belong to the construct and thus valid (Surucu, & Maslakci, 2020).

Confirmatory factor analysis was used to measure the uni-dimensionality of the study constructs and draw conclusions on the validity of the questionnaire while exploratory factor analysis was used to determine the multidimensionality of the constructs and items (Fawns-Ritchie, & Deary, 2020). Construct validity was assessed by investigating convergent validity of the data collection instrument. Convergent validity tests that the indicators (observed variables) that are meant to be related based on the theoretically hypothesized model are actually related.

Convergent validity tests were based on the confirmatory factor analysis results. An indication of very good convergent validity is an average shared variance above 0.7. Nevertheless, average shared variances of over 0.5 are regarded as sufficient and acceptable (Fawns-Ritchie, & Deary, 2020). Kaiser Meyer Olkin (KMO) and Bartlett's tests were used to investigate the data's sampling suitability for factor analysis. Tavakol, and Wetzel, (2020) suggest that a Kaiser-Meyer-Olkin value of 0.5 confirms data is suitable for factor analysis. Surucu, and Maslakci, (2020) on the other hand postulate that

Kaiser Meyer Olkin rating above 0.60 is generally considered to be an adequate value for factor analysis.

3.9 Data Analysis

The data collected was checked for consistency and completeness where both descriptive and inferential statistics were generated. The results were coded, cleaned and analyzed using statistical software SPSS, Version 27. The descriptive statistics that were used included means, frequencies and standard deviations. Inferential statistics included Pearson correlation analysis and multiple regression analysis. Pearson correlation analysis (r) was used to determine the degree of association between the study variables.

The researcher conducted a simple linear regression analysis to answer the specific objectives of the study. In addition, multiple regression analysis was carried out to determine the effect of creative accounting variables on quality of financial reporting in public Universities in Kenya. The findings were presented by use of tables.

To analyze the qualitative data obtained through interviews, the researcher employed content analysis, a systematic and objective technique for identifying specific themes, patterns, and meanings within textual data. This process began with transcribing all recorded interviews verbatim to create an accurate textual dataset. The researcher then undertook a careful reading and re-reading of the transcripts to become familiar with the responses and develop an initial understanding of recurring themes. Finally, results were presented descriptively and aligned with each research objective to illustrate how qualitative evidence complemented the quantitative findings, thus enriching the overall analysis.

3.9.1 Analytical model

The study used multiple linear regression as indicated below:

$Y = \beta_0 + \beta_1 X1 + \beta_2 X2 + \beta_3 X3 + \beta_4 X4 + \varepsilon$……. Equation 3.1

To address the moderating role of university size, the study used hierarchical regression model as indicated below:

$Y = \beta_0 + \beta_1 X1 + \beta_2 X2 + \beta_3 X3 + \beta_4 X4 + \beta_5 M + \varepsilon$……...……. Equation 3.3

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 M + \beta_6 X_1 M + \beta_7 X_2 M + \beta_8 X_3 M + \beta_9 X_4 M + \varepsilon$… Equation 3.4

Where:

Y = Quality of Financial Reporting

β_0 = represents regression constant/ intercept when there is no moderating variable

β_1-β_9 =Regression Coefficients of the model with no moderating variable

X1= Revenue Recognition

X2= Classification of Expenses

X3= Valuation of Assets and Liabilities

X4= Debtor Provision Recognition

M = Size of the University

ε = Error term

3.9.2 Hypothesis Testing

The hypothesis was tested using the following framework as shown in table 3.3 below.

Table 3. 3: Hypothesis Testing

	Hypothesis statement	Hypothesis testing	Model
1	**H_{01}:** Revenue recognition has no significant effect on quality of financial reporting in public universities in Kenya.	$H_{01:}\ \beta_1=0$ $H_{0A}: \beta_1 \neq 0$ Reject H_{01} if $\beta_1 \neq 0$ and p-value ≤ 0.05 otherwise fail to reject H_{01} if $\beta_1=0$ and p-value > 0.05	$Y=\beta_0+\beta_1X_1+\varepsilon$
2	**H_{02}:** Classification of expenses has no significant effect on	$H_{02:}\ \beta_2=0$ $H_{0A}: \beta_2 \neq 0$	$Y=\beta_0+\beta_2X_2+\varepsilon$

	Hypothesis statement	Hypothesis testing	Model
	quality of financial reporting in public universities in Kenya.	Reject H_{02} if $\beta_2 \neq 0$ and p-value ≤ 0.05 otherwise fail to reject H_{02} if $\beta_2=0$ and p-value > 0.05	
3	**H_{03}:** Valuation of assets and liabilities has no significant effect on quality of financial reporting in public universities in Kenya.	$H_{03:}$ $\beta_3=0$ H_{0A}: $\beta_3 \neq 0$ Reject H_{03} if $\beta_3 \neq 0$ and p-value ≤ 0.05 otherwise fail to reject H_{03} if $\beta_3=0$ and p-value > 0.05	$Y=\beta_0+ \beta_3X_4+\varepsilon$
4	**H_{04}:** Debtor provision recognition has no significant effect on quality of financial reporting in public universities in Kenya.	$H_{04:}$ $\beta_4=0$ H_{0A}: $\beta_4 \neq 0$ Reject H_{04} if $\beta_4 \neq 0$ and p-value ≤ 0.05 otherwise fail to reject H_{04} if $\beta_4=0$ and p-value > 0.05	$Y=\beta_0+ \beta_4X_4+\varepsilon$
5	**H_{05}:** University Size has no significant moderating effect on the relationship between creative accounting and quality of financial reporting in public universities in Kenya.	$H_{05:}$ $\beta_5=0$ H_{0A}: $\beta_5 \neq 0$ Reject H_{05} if $\beta_5 \neq 0$ and p-value ≤ 0.05 otherwise fail to reject H_{05} if $\beta_5=0$ and p-value > 0.05	$Y = \beta_0+ \beta_1X_1+ \beta_2X_2+ \beta_3X_3+ \beta_4X_4+ \beta_5M+\beta_6X_1M+ \beta_7X_2M+ \beta_8X_3M+ \beta_9X_4M +\varepsilon$

Source: Researcher's Compilation, (2024)

3.9.2 Requisite Tests of Assumptions

Prior to estimating equation 3.1 and 3.2 in the study, it was essential to verify that the assumptions of the multiple logistic models have not been violated. If the assumptions of the multiple logistics model are violated, there is an increased likelihood of obtaining biased, inadequate, and inconsistent parameter estimates for equations 3.1 and 3.2. The diagnostic tests that were conducted to diagnose the problem included; Normality, Linearity, Heteroscedasticity and Multicollinearity.

3.9.2.1 Test of Normality

The purpose of a normalcy test is to determine whether the data came from a normally distributed population (Khatun, 2021). The study employed the Kolmogorov Smirnov test,Shapiro Wilk test and histogram. If the p-value exceeds 0.05, the study assumes normal distribution and a p-value below 0.05, the study assumes non normal distribution. Furthermore, z-critical values must be less than 1.96, and w-values should be in proximity to 1 (Orcan, 2020).

3.9.2.2 Test of Homoscedasticity

The homoscedasticity assumption states that the residual variance will remain constant during the course of the model. This implies that a multiple linear regressions' error term is the same at all points of the linear model (Dalic, & Terzic, 2021). The Breusch Pagan test was used in the research. The test was conducted on the assumption that the error terms were homoscedastic. The presence of homoscedastic residuals is indicated by a computed chi-square probability greater than 0.05. On the other hand, heteroscedasticity in the residuals is indicated if the computed chi-square probability is less than 0.05.

3.9.2.3 Test of Multicollinearity

When independent variables have high correlations with one another, such that changes in one variable impact changes in the others, a statistical phenomenon known as multicollinearity arises. Since it is assumed that the predictor variables are not linearly connected, interpreting regression results could be difficult. Additionally, multicollinearity may affect the model's stability, which in turn causes the model's output to be significantly affected by even little changes in the data (Shrestha, 2020).

Determining the predictor variable with the greatest impact on the dependent variable can be difficult in the presence of multicollinearity. The statistical significance of an independent variable's regression coefficient diminishes and the reliability of the findings is compromised as a result of multicollinearity. For the purpose of detecting multicollinearity, this investigation made use of variance inflation factors (VIF). Do not let the VIF value go over 10. Since the variables in the dataset do not correlate with one another, a VIF score of 1 suggests that multicollinearity is not present. Relationships with VIF scores between 1 and 10 are considered moderate. On the other hand, multicollinearity is indicated by a Variance Inflation Factor (VIF) score more than 10, which shows a significant correlation among the variables (Shrestha, 2020).

3.9.2.4 Test of Linearity

For linear regression to be effective, there must be a linear relationship between the independent and dependent variables. Linearity was examined using scatter plots generated in SPSS version 27. In the study, the predictor variables in the regression, (creative accounting techniques) should have a straight-line relationship with the outcome variable (quality of financial reporting). Test of linearity helps in ensuring that statistical models accurately reflect the relationship between the variables of the study and that the study estimates are unbiased and consistent (Maulud, & Abdulazeez, 2020).

3.9.3 Measurement of Variables

A Likert scale ranging from 1 to 5 was used to quantitatively quantify the study's variables. In order to gauge respondents' thoughts on each topic, several indicators were used.

Table 3. 4: Measurement of Variables

Variable	Indicators	Measure	Type of Analysis
Revenue Recognition	Income manipulation Billing timing	Ordinal: Likert Scale of 1-5	Quantitative
Classification of expenses	Operating expenses misclassification Core expenses misclassification	Ordinal: Likert Scale of 1-5	Quantitative
Valuation of Assets and liabilities	Depreciation Manipulation Asset valuation Cost Capitalization	Ordinal: Likert Scale of 1-5	Quantitative
Size of the University	Approved Annual Budget	Ordinal: Likert Scale of 1-5 Continuous: Approved budget (Ksh)	Quantitative
Debtor Provision Recognition	Debtors' Manipulation Bad debts recognition	Ordinal: Likert Scale of 1-5	Quantitative
Financial Reporting	Type of audit opinions	Ordinal: Likert Scale of 1-5 Ordinal: Audit Opinion	Quantitative

Source: Researcher's Compilation, (2024)

3.10 Ethical Considerations

The researcher ensured the confidentiality and anonymity of the responders. The respondents were assured that the information they gave was exclusively utilized for academic research purposes and that the respondents were assured no information was disclosed. The respondents were not subjected to any form of pressure or incentives to motivate their participation in the research. Participants had an option to withdraw from the process at their discretion. The researcher adhered to the established protocols for data

collection set by the University and other regulatory bodies. The researcher acquired an introductory letter from the Directorate of Postgraduate Studies and a research license from the National Commission for Science, Technology, and Innovation (NACOSTI).

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter provides the results, findings, and comments of the analysis conducted to determine the effect of creative accounting techniques on the quality of financial reporting in public universities in Kenya. The research findings and discussions are as analyzed below:

4.2 Response rate

The study targeted 274 respondents and successfully distributed questionnaires to all of them, receiving responses from 252 participants which yielded a response rate of 92%. According to Oben, (2021), a response rate above 60% is considered adequate for a study, while a response rate below 60% is deemed inadequate. Sammut, Griscti and Norman, (2021) also echoed this sentiment, categorizing a response rate below 60% as poor and above 60% as adequate. Therefore, the response rate achieved in this study was significantly above the adequacy threshold set by these scholars as shown in Table 4.1

Table 4. 1: Response rate for questionnaires

	Number	**Percentage**
Administered	274	100
Returned	252	92%
Not returned	22	8%

Source: Study Data (2024)

The study also targeted to interview 26 Finance officers in public universities in Kenya to assess the effect of creative accounting techniques on the quality of financial reporting. Out of the targeted 26 Finance officers, the researcher successfully interviewed 23, resulting in a response rate of 88%. This high response rate enhanced the reliability and validity of the study findings as shown in Table 4.2

Table 4. 2: Response rate for interviews

Targeted respondents	Number interviewed	Response Rate
26	**23**	**88.46%**

Source: Study Data (2024)

This high response rate was achieved through strong institutional cooperation from the selected public universities and the researcher's proactive follow-up strategies during data collection. Prior to data administration, official permission was sought from university management and relevant research authorization agencies, enhancing respondent participation. The researcher employed online version created using Google Forms to increase accessibility and convenience for respondents across different locations. The digital tool enabled real-time tracking of responses, timely reminders, and minimized logistical delays. Continuous follow-ups were conducted through emails, telephone calls, and virtual meetings to encourage completion and submission. The use of a structured and user-friendly questionnaire simplified response entry and reduced fatigue.

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A total of 26 finance officers participated in the interview phase. Their selection was deliberate because finance officers occupy pivotal roles in decision-making on accounting policies, financial reporting, and compliance with International Public Sector Accounting Standards. While implementers such as accountants and auditors handle routine transactions, finance officers oversee reporting integrity, interpret accounting standards, and coordinate audit responses. Their strategic positions provide deeper insights into institutional financial behavior and governance dynamics, particularly concerning creative accounting practices. The choice of 26 respondents was guided by data saturation—interviews continued until no new information emerged. Thus, this group offered informed, policy-level perspectives essential for understanding systemic factors affecting financial reporting quality in public universities.

4.3 Reliability and Validity test

4.3.1 Reliability Test

For reliability test, Cronbach alpha was applied for each variable. The reliability of the study, as indicated by the Cronbach's alpha values, demonstrates a high level of internal consistency among the variables measured. Cronbach's alpha values for Revenue Recognition (0.795), Classification of Expenses (0.809), Valuation of Assets and Liabilities (0.848), Debtor Provision Recognition (0.844), university Size (0.816), and Quality of Financial Reporting (0.806) all exceeded the set threshold of 0.7, indicating that the constructs are reliable ((Pandey & Pandey, 2021). The results are as shown in Table 4.3.

Table 4. 3: Cronbach's Alpha Reliability

Construct	Number of Items	Cronbach alpha	Conclusion
Revenue recognition	6	0.795	Reliable
Classification of Expenses	6	0.809	Reliable
Valuation of Assets and Liabilities	8	0.848	Reliable
Debtor Provision Recognition	7	0.844	Reliable
University Size	2	0.816	Reliable
Quality of financial reporting	8	0.806	Reliable

Source: Study Data (2024)

4.3.2 Validity Test

The validity of the study was supported by the high Kaiser-Meyer-Olkin (KMO) values and the significance of Bartlett's tests. KMO values for Revenue Recognition (0.790), Classification of Expenses (0.803), Valuation of Assets and Liabilities (0.801), Debtor Provision Recognition (0.789), University Size (0.510), and Quality of Financial Reporting (0.837) are all well above the acceptable threshold of 0.5, indicating that the sample is adequate for factor analysis and that the variables are suitable for structure detection. Additionally, the Bartlett's test of sphericity values is all significant ($p < 0.05$), indicating that the correlations between the items are sufficiently large for factor analysis (Surucu, & Maslakci, 2020). Together, these metrics demonstrate that the study's constructs are valid and that the measures used are appropriate and capable of yielding meaningful and accurate results regarding the effects of creative accounting techniques on the quality of financial reporting in public universities in Kenya. The results are shown in Table 4.4.

Table 4. 4: KMO and Bartlett's Tests

	Items retained	KMO	Bartlett's test		
			χ^2	df	p-value
Revenue recognition	6	0.790	527.953	15	0.000
Classification of Expenses	6	0.803	530.333	15	0.000
Valuation of Assets and Liabilities	8	0.801	817.111	28	0.000
Debtor Provision Recognition	7	0.789	873.658	21	0.000
University Size	2	0.510	8.595	1	0.003
Quality of financial reporting	8	0.837	575.272	28	0.000

Source: Study Data (2024)

Using a factor loading cut-off threshold of 0.4, this factor analysis (Table 4.5) confirmed the validity of the constructs measured in the study. All items exceed the threshold, and no items were dropped, indicating that the measurement model is robust and suitable for further analysis

Table 4. 5: Factor Loadings and Total Variance Explained

	Items	Min Loadings	Average	Total Variance Explained	Items Dropped
Revenue recognition	6	0.553	0.715	52.2	0
Classification of Expenses	6	0.599	0.726	53.3	0
Valuation of Assets and Liabilities	8	0.588	0.748	64.0	0
Debtor Provision Recognition	7	0.585	0.785	71.6	0
University Size	2	0.769	0.769	59.2	0
Quality of financial reporting	8	0.658	0.712	57.6	0

Source: Study Data (2024)

4.4 Demographic Characteristic of the Respondents

In this section, the background of the research population is described based on the data that was collected and analyzed via the research. This section analyzes the general characteristics of the respondents, including their gender, position, job group, level of education and length of service as shown in Table 4.6

Table 4. 6: Demographic Characteristic of the Respondents

Characteristics	Indicator	Frequency	Percentage
Gender	Male	140	55.6
	Female	112	44.4
	Total	**252**	**100.0**
Position	Finance Officer	23	9.1
	Deputy Finance Officer	23	9.1
	Accountant	154	61.1
	Internal Auditor	52	20.6
	Total	**252**	**100.0**
Job Group	Grade 10	74	29.4
	Grade 11	35	13.9
	Grade 12	34	13.5
	Grade 13	49	19.4
	Grade 14	40	15.9
	Grade 15	20	7.9
	Total	**252**	**100.0**
Working Experience	Below 1 year	14	5.6
	1-2 years	24	9.5
	3-4 years	47	18.7
	5-6 years	75	29.8
	Above 6 years	92	36.5
	Total	**252**	**100.0**
Academic Qualification	Diploma	6	2.4
	Degree	93	36.9
	Masters	130	51.6
	PhD	23	9.1
	Total	**252**	**100.0**

Source: Study Data (2024)

The results showed that 55.6% of the respondents were male while 44.4% were female. The results represent diverse perspectives influenced by professional jobs, ensuring that the experiences of both male and female respondents inform the study's conclusions regarding financial reporting quality. Respondents under this study were asked to state the position they occupy in public Universities in Kenya. The results showed that 9.1% of the respondents were finance officers, 9.1% were deputy finance officers, 61.1% were accountants and 20.6% were internal auditors. The data suggests that most responders were accountants, followed by internal auditors, finance officers, and deputy finance officers. This distribution is significant as it represents a diverse array of viewpoints on financial reporting in public universities. Accountants, engaged in financial record-keeping, and internal auditors, tasked with oversight, provide critical insights into the effects of creative accounting procedures on financial accuracy and transparency. The involvement of finance officers and deputy finance officers guarantees that the study encompasses strategic and managerial perspectives on financial reporting methods.

The respondents were also asked to state their job group in the University. The results in Figure 4.3 show that 29.4% were in job group 10, 13.9% were in job group 11, 13.5% were in job group 12, 19.4% were in job group 13, 15.9% were in job group 14 and 7.9% were in job group 15. The results implied that there was a varied representation across different job groups among respondents in the study on the effect of creative accounting techniques on the quality of financial reporting in public universities in Kenya**.** The inclusion of various job groups ensures a comprehensive insight into the organizational

structure and the potential influence of different levels of responsibility on financial reporting practices and the use of creative accounting techniques.

Respondents were asked to state the number of years they have worked in public universities in Kenya. The results in Figure 4.4 show that 5.6% of the respondents had stayed in the University for less than a year, 9.5% had stayed for a period of 1-2 years, 18.7% had stayed for a period of 3-4 years, 29.8% had stayed for 5-6 years and 36.5% had stayed for a period of more than 6 years. The results implied that the majority of respondents in the study on the effect of creative accounting techniques on the quality of financial reporting in public universities in Kenya have substantial experience working within these institutions, with most having worked for more than three years. This tenure suggests that respondents likely possess a deep understanding of the financial operations and reporting practices specific to public universities.

Respondents were also asked to state their academic qualifications. The results in Figure 4.5 show that 2.4% had done diploma courses, 36.9% had done degree courses, 51.6% of the respondents had done masters and 9.1% had done PhD. The results implied that the majority of respondents in public universities in Kenya possess higher academic qualifications, primarily degrees, masters and PhD. This finding suggests that the study participants are likely well-equipped with foundational knowledge and skills relevant to financial reporting and accounting practices. Furthermore, their academic credentials may influence their ability to critically analyze and interpret the complexities involved in financial reporting standards and practices, thereby providing valuable insights into the

effects of creative accounting on transparency, accuracy, and compliance in financial reporting processes.

4.5 Descriptive statistics

Descriptive statistics were used to define and describe the characteristics of a data set and the results were presented using minimum, maximum, means, standard deviations and coefficient of variation of the variables under consideration. The independent variables included: Revenue recognition, Classification of Expenses, Valuation of Assets and Liabilities and Debtor Provision Recognition. The moderating variable was University Size, and the dependent variable was quality of financial reporting. The questions were based on a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The respondents were asked to designate their level of agreement based on the scale.

4.5.1 Recognition of Revenues

The analysis of the responses on revenue recognition as form of creative accounting practices as shown in table 4.7 below:

Table 4. 7: Recognition of Revenues

Recognition of Revenues	N	Min	Max	Mean	S.D	CV(%)
Revenue is recognized in the correct accounting period, with adjustments made to align with reporting objectives.	252	1	5	4.31	1.07	24.85
Recognizing revenue in a different period affects financial reporting quality and allows for strategic adjustments.	252	1	5	4.29	1.02	23.71
University management influences revenue recognition, shaping financial statement outcomes.	252	1	5	4.07	1.15	28.21
Revenue from income-generating activities is manipulated to allow flexibility in reporting.	252	1	5	4.12	1.12	27.14
Student and customer invoices are raised on time, but revenue recognition is adjusted to meet targets.	252	1	5	4.27	1.04	24.36
Timely billing supports financial reporting consistency, while variations in recognition influence reported revenue.	252	1	5	4.17	1.06	25.52
Overall Score	**252**			**4.21**	**0.694**	**15.822**

Source: Study Data (2024)

With a mean score of 4.31, respondents largely agree that revenue is generally recognized in the correct accounting period. However, the presence of adjustments to align with reporting objectives suggests that financial reporting may not always adhere strictly to accounting standards. The standard deviation (S.D.) of 1.07 indicates some variability in

responses, while the coefficient of variation (CV) of 24.85% suggests a moderate level of dispersion. This implies that while most respondents acknowledge proper revenue recognition, there is still room for financial manipulation to present favorable results.

The statement received a mean score of 4.29, showing that respondents largely believe shifting revenue across periods impacts financial reporting quality. The relatively low CV of 23.71% suggests a strong consensus on this issue. This indicates that revenue timing is seen as a deliberate strategy that affects the transparency and accuracy of financial reports. The implication is that delayed or premature revenue recognition may be used to manage financial outcomes, reinforcing the presence of creative accounting practices.

With a mean score of 4.07, respondents acknowledge that university management plays a role in revenue recognition. This statement has the highest CV (28.21%), suggesting a more varied perception among respondents regarding the extent of management's influence. The relatively high standard deviation (1.15) indicates that while many agree, some respondents hold a different view. This finding suggests that revenue reporting is not purely based on financial transactions but can be shaped by management decisions, possibly to present a more favorable financial position.

A mean score of 4.12 indicates that respondents generally agree that revenue from income-generating activities can be adjusted or manipulated. The CV of 27.14% shows a moderate level of response variability. This suggests that while revenue from tuition fees and grants may be more structured, income from other sources such as consultancy services, accommodation, or auxiliary operations may provide more flexibility for financial adjustments. The implication is that these revenue streams allow room for

discretionary recognition practices, which may not always reflect the true financial position.

This statement has a mean of 4.27, indicating strong agreement that while invoices are generated promptly, revenue recognition may still be adjusted to meet financial targets. The CV of 24.36% suggests that respondents generally hold similar views on this practice. This supports the argument that revenue recognition in public universities is not solely based on transactional occurrences but is also influenced by financial reporting objectives, which may result in adjustments to revenue figures to align with institutional goals.

With a mean score of 4.17, most respondents agree that timely billing contributes to consistent reporting. However, variations in revenue recognition practices still influence reported figures, indicating an element of subjectivity in financial reporting. The CV of 25.52% suggests a moderate level of response variation, reinforcing the idea that revenue can still be adjusted even when billing is done in a timely manner. This implies that billing and revenue recognition are not always aligned, allowing for financial reporting flexibility.

The overall mean of 4.21 suggests that respondents largely agreed that revenue recognition practices in universities involve adjustments to align with financial reporting objectives. The low standard deviation (0.694) and CV (15.82%) indicate a relatively high level of consistency in responses. However, the findings highlight that while revenue is recognized in the correct accounting period, manipulative practices such as strategic adjustments in timing and invoice issuance are present. This suggests that universities may exercise discretion over revenue recognition to influence financial statements.

The recognition of revenue emerged as a critical area affecting the university's financial reporting quality during interview. Respondents highlighted that shrinking revenue streams and delays in receiving payments from debtors significantly impacted the university's ability to comply with budgetary and procurement provisions. For instance, one respondent noted that the university struggled to pay suppliers on time due to insufficient revenue, which led to non-compliance with the budget and procurement plan. This issue not only affected the university's liquidity but also raised concerns about its ability to meet financial obligations, contributing to audit qualifications.

On a positive note, some respondents pointed out that the university's income-generating units were well-managed, contributing to a stable financial status. However, challenges such as misclassification of expenses indirectly affected revenue recognition by distorting financial performance metrics. For example, reallocating operating expenses to capital expenditures artificially inflated revenue figures, leading to inconsistencies in financial reporting. Overall, the interview responses underscored the importance of accurate revenue recognition in maintaining transparent and reliable financial statements.

Respondents emphasized the importance of ensuring accurate and transparent recognition of revenue to prevent manipulation and improve financial reporting quality. One respondent noted that adopting International Public Sector Accounting Standards (IPSAS) and International Financial Reporting Standards (IFRS) is critical for maintaining consistency and transparency in revenue recognition. This includes recognizing revenue in the correct accounting period and avoiding premature or deferred recognition, which can distort financial performance.

To strengthen internal controls, respondents suggested implementing robust audit mechanisms to detect and prevent improper revenue recognition practices. For example, one interviewee mentioned that regular audits and reconciliations can help identify discrepancies and ensure compliance with accounting standards. Additionally, automation of financial reporting was highlighted as a key measure. By using advanced accounting software, universities can reduce human intervention and minimize the risk of errors or manipulation in revenue recognition.

Training was another recurring theme in the interviews. Respondents stressed the need for continuous capacity building to equip staff with the skills and knowledge required for accurate revenue recognition. One participant explained that training programs on revenue recognition techniques and the risks of creative accounting can help staff adhere to ethical practices. Furthermore, enhancing transparency and disclosure in financial statements was recommended. Providing detailed explanations of revenue recognition policies and any significant adjustments can improve stakeholder confidence and reduce the likelihood of audit qualifications.

4.5.2 Classification of expenses and the quality of financial reporting

Respondents were asked to indicate the level of agreement effect of classification of expenses on the quality of financial reporting and the results are as presented in Table 4.8

Table 4. 8: Classification of Expenses

Classification of Expenses	N	Min	Max	Mean	S.D	CV%

Expenses are properly classified in financial reports, with adjustments made to influence reporting outcomes.	252	1	5	4.21	1.115	26.47
Research and development expenses are classified as operating expenses, though reclassification occurs based on reporting needs.	252	1	5	4.08	1.183	29.04
Equipment maintenance expenses are categorized as operating expenses, with variations affecting expense reporting.	252	1	5	4.15	1.132	27.30
Court/arbitration expenses are recognized in financial reports, with timing and classification adjusted when necessary.	252	1	5	4.09	1.188	29.06
Disclosure of expenses is often used to reduce the level of expenditure in a financial year	252	1	5	3.76	1.252	33.29
Misclassification of expenses has affected the quality of financial reporting	252	1	5	4.16	1.123	26.97
Score Overall	**252**			**4.07**	**1.17**	**28.69**

Source: Study Data (2024)

With a mean score of 4.21, respondents largely agree that expenses are generally classified correctly in financial reports. However, the presence of adjustments to influence reporting outcomes suggests financial flexibility in expense reporting. The CV of 26.47% indicates moderate variability in responses, implying that while some universities adhere strictly to proper expense classification, others may adjust classifications strategically to achieve desired financial results.

A mean score of 4.08 suggests that research and development (R&D) expenses are typically categorized as operating costs. However, the CV of 29.04% indicates that some respondents acknowledge reclassification practices, which may be done to capitalize costs or alter financial performance. This suggests that R&D expenses can be shifted between

categories to either inflate profitability or reduce reported costs, depending on reporting objectives.

With a mean of 4.15, most respondents agree that equipment maintenance expenses are classified as operating expenses. However, the CV of 27.30% suggests moderate variation in responses, implying that reclassifications or adjustments occur to manage financial outcomes. This indicates that universities may shift these expenses between capital and operating costs depending on financial objectives, affecting overall expenditure reporting.

A mean score of 4.09 suggests that court and arbitration expenses are generally recorded in financial reports. However, the CV of 29.06% reflects that adjustments in timing and classification occur, allowing institutions to control expense recognition. This suggests that such legal costs can be reported in a way that minimizes their impact on financial performance, either by deferring recognition or reallocating them to different categories.

With a mean of 3.76, this statement has the lowest agreement level among respondents. However, the CV of 33.29% the highest in this category suggests significant variation in views. This implies that while some universities disclose expenses transparently, others strategically manage disclosure to reduce reported expenditure in a given financial year. This could involve delaying expense recognition or categorizing expenses in a way that minimizes their immediate impact on financial reports.

A mean score of 4.16 indicates that most respondents acknowledge that misclassification of expenses impacts financial reporting quality. The CV of 26.97% suggests that respondents generally agree on this issue, highlighting the presence of expense

misclassification as a financial reporting tool. This implies that shifting expenses between different categories can distort financial statements, impacting decision-making and transparency.

The overall mean score of 4.07 indicates agreement that expense classification follows set accounting policies, though there is flexibility in its application. The higher standard deviation (1.17) and CV (28.69%) suggest greater variability in how expenses are classified. Misclassification of expenses was identified as a factor that affects financial reporting quality, implying that universities may adjust expense recognition to influence financial performance and compliance with budgetary constraints.

The classification of expenses was another area that significantly influenced the audit opinion as revealed during interviews. Respondents identified misclassification of expenses as a major issue, with some noting that operating expenses were often reclassified as capital expenditures to manipulate financial results. This practice distorted the university's financial performance and led to a qualified audit opinion. One respondent explained that such misclassification was sometimes driven by the need to meet financial targets, but it ultimately compromised the accuracy and transparency of financial reports.

Additionally, respondents highlighted the lack of proper books of account as a contributing factor. Inadequate record-keeping made it difficult to verify expense classifications, further undermining the reliability of financial statements. However, some respondents praised the university's efforts in prudent financial management, noting that proper record-keeping and compliance with reporting standards were observed in certain areas. Addressing these issues, such as finalizing pending policies and ensuring that

qualified personnel handle financial roles, will be critical to improving expense classification and achieving an unqualified audit opinion.

The classification of expenses was identified as another area where creative accounting techniques can compromise financial reporting quality. Respondents highlighted the need for strict adherence to IPSAS and IFRS to ensure accurate expense classification. One interviewee pointed out that misclassification of expenses, such as reallocating operating expenses to capital expenditures, can distort financial results and lead to audit qualifications.

To address this issue, respondents recommended strengthening internal controls to detect and prevent misclassification. For instance, regular reviews of expense categorization can help identify and correct errors. Another measure suggested was the use of modern accounting software to automate expense classification processes. This not only reduces the risk of human error but also ensures consistency in financial reporting.

Training was also emphasized as a critical measure. Respondents noted that training staff on proper expense classification techniques and the risks of creative accounting can improve compliance with accounting standards. One participant added that regular audits and reviews of financial statements can help verify the accuracy of expense classification and address any irregularities. Additionally, adhering to financial policies and legal frameworks was highlighted as essential for maintaining accurate and transparent financial records.

4.5.3 Valuation of assets and liabilities and the quality of financial reporting

The study sought to assess the effect of valuation of assets and liabilities on the quality of financial reporting and the results are as presented in Table 4.9.

Table 4. 9: Valuation of Assets and Liabilities

Valuation of Assets and Liabilities	N	Min	Max	Mean	S.D	CV%
The University management has developed strategies to ensure periodic valuation of assets allowing for adjustments in reporting.	252	1	5	4.47	1.115	24.95
Valuation of assets is influenced by the need to improve financial performance	252	1	5	4.29	1.183	27.56
The University has put in place mechanisms to ensure consistent depreciation of assets, with flexibility in application	252	1	5	4.36	1.132	25.95
Change of depreciation method is influenced by the need to improve financial performance	252	1	5	4.13	1.188	28.75
The University always capitalizes expenses related to improvement of assets	252	1	5	4.27	1.252	29.36
Capitalization of assets follows International Public Sector Accounting Standards with flexibility in interpretation.	252	1	5	4.33	1.123	25.91
Management has a direct influence on capitalization of assets	252	1	5	4.11	1.17	27.08
Quality of financial reports is always influenced by the valuation of assets	252	1	5	4.34	1.17	27.44
Overall Score	**252**			**4.29**	**1.17**	**27.12**

Source: Study Data (2024)

As shown in Table 4.9, with a mean score of 4.47, this statement has the highest level of agreement among respondents, indicating that periodic asset valuation is a priority for

university management. However, the CV of 24.95% suggests that some variations exist, implying that while asset valuation strategies are in place, adjustments in reporting may be exercised to align with financial objectives.

A mean of 4.29 shows that respondents largely agree that asset valuation is used strategically to enhance financial performance. The CV of 27.56% highlights that while some universities may strictly adhere to valuation principles, others might adjust asset values to portray better financial health. This suggests the potential for overstatement or understatement of asset values based on financial reporting needs.

With a mean of 4.36, respondents agreed that universities have mechanisms for asset depreciation. However, the CV of 25.95% implies that some institutions apply depreciation methods flexibly, allowing for adjustments in financial reporting outcomes. This may include accelerated or decelerated depreciation methods to either reduce taxable income or enhance asset values in specific periods.

A mean score of 4.13 supports the assertion that depreciation methods are not strictly fixed but can be changed strategically. The CV of 28.75%, which is one of the higher variability rates, suggests that while some universities maintain consistent depreciation methods, others adjust them depending on financial objectives. This flexibility allows for earnings management and financial performance manipulation.

With a mean of 4.27, respondents generally agree that capitalization of asset-related expenses is a common practice. However, the CV of 29.36% the highest in this section

indicates that some institutions apply capitalization policies inconsistently, potentially shifting operating expenses to capital expenses to improve financial results.

A mean of 4.33 suggests that while universities claim adherence to International Public Sector Accounting Standards (IPSAS), there is room for interpretation. The CV of 25.91% indicates moderate variation, suggesting that some universities apply capitalization rules strictly, while others use interpretative flexibility to achieve specific financial reporting outcomes.

With a mean of 4.11, respondents acknowledge that management plays a role in capitalization decisions. The CV of 27.08% suggests that while some institutions apply standardized accounting policies, others exercise discretion over what is capitalized, potentially distorting financial statements. This highlights the role of managerial influence in shaping financial outcomes through asset valuation and capitalization decisions.

A mean of 4.34 suggests that respondents believe asset valuation significantly impacts financial reporting quality. The CV of 27.44% implies that while some universities maintain consistent valuation practices, others adjust asset values to present a desired financial picture. This could involve deliberate overvaluation or undervaluation of assets to affect reported net worth and financial ratios.

With an overall mean of 4.29, respondents generally agreed that asset and liability valuation plays a crucial role in financial reporting. The moderate standard deviation (1.17) and CV (27.12%) suggest some differences in practice among universities. There was a consensus that management decisions, asset revaluation, and changes in

depreciation methods were used to influence financial statements. The findings indicate that valuation practices impact financial performance and reporting quality, with some universities adjusting asset values to present a more favorable financial position.

The valuation of assets and liabilities was a recurring theme in the interview responses. Respondents pointed out that the lack of ownership documents for certain assets, coupled with land encroachment issues and ongoing court cases, created uncertainties about the university's asset base. These challenges made it difficult for auditors to verify asset ownership and valuation, leading to audit qualifications. One respondent mentioned that the absence of proper documentation for land and buildings was a significant concern, as it affected the accuracy of the university's financial position.

Furthermore, issues such as ethnicity-related disputes and depreciation losses were cited as factors impacting asset valuation. For example, disputes over land ownership and delays in resolving court cases introduced subjectivity into the valuation process. On a positive note, respondents acknowledged the university's efforts in good resource management, including regular reconciliation of accounts and adherence to financial reporting guidelines. These practices helped ensure accurate asset and liability valuation in some areas, demonstrating the university's commitment to improving financial management.

Accurate valuation of assets and liabilities is crucial for ensuring the reliability of financial statements. Respondents highlighted the importance of adopting IPSAS and IFRS to maintain consistency and transparency in asset and liability valuation. One interviewee

explained that overvaluing assets or undervaluing liabilities can distort the university's financial position and lead to audit qualifications.

To strengthen internal controls, respondents suggested implementing robust audit mechanisms to detect and prevent improper valuation practices. For example, regular audits and reconciliations can help verify the accuracy of asset and liability valuations. Another measure recommended was the use of modern accounting software to automate valuation processes and reduce the risk of errors or manipulation.

Training was also identified as a key measure. Respondents stressed the need for training staff on proper valuation techniques and the risks of creative accounting in this area. One participant noted that resolving legal disputes, such as land encroachment and court cases, is essential for accurate asset valuation. Additionally, enhancing transparency and disclosure in financial statements was recommended to provide stakeholders with a clear understanding of the university's financial position.

4.5.4 Debtor provision Recognition and quality of financial reporting

The study sought to evaluate the respondents' level of agreement on the effect of debtor provision Recognition on quality of financial reporting. The results are as presented in Table 4.10

Table 4. 10: Debtor provision Recognition and quality of financial reporting

Debtor Provision Recognition	N	Min	Max	Mean	S.D	CV%
The University has a system of maintaining accurate debtors' records, allowing for adjustments in reporting.	252	1	5	4.21	1.110	26.39

The University has a policy on provision for doubtful debts, with application allowing for subjective adjustments.	252	1	5	4.19	1.090	26.04
The policy on provision for doubtful debts is always adhered to, while flexibility in estimates can enable earnings management.	252	1	5	4.13	1.089	26.33
The provision rate for doubtful debts is varied to reduce debtor levels, indicating potential financial statement manipulation.	252	1	5	3.98	1.197	30.11
The University writes off bad debts, with the timing of write-offs potentially used for financial reporting purposes.	252	1	5	4.04	1.182	29.22
Bad debts write-offs are influenced by management's need to increase expenses, suggesting income smoothing practices.	252	1	5	3.66	1.322	36.13
Recoveries from written-off bad debts are always recognized, with selective timing potentially inflating future earnings.	252	1	5	4.16	1.096	29.04
Overall Score	**252**			**4.05**	**1.16**	**29.04**

Source: Study Data (2024)

As shown in Table 4.10, A mean of 4.19 indicates that respondents acknowledge the existence of a policy on doubtful debts, but the CV of 26.04% highlights that management has discretion over its application. This suggests that provisioning decisions may be influenced by financial reporting objectives rather than strict policy adherence.

A mean score of 4.13 suggests that universities generally follow their doubtful debt policies. However, the CV of 26.33% indicates that estimations remain flexible, allowing for earnings management through varying provision rates. This could lead to either understating or overstating provisions depending on financial reporting goals. With a mean of 3.98, there was evident that provisioning rates are not fixed and are adjusted

strategically. The CV of 30.11%, which is relatively high, indicates significant variability in how doubtful debt provisions are applied across different universities. This suggests that some institutions manipulate provisioning rates to present a desired debtor position in financial reports. A mean score of 4.04 suggests that bad debt write-offs are a standard practice in universities. However, the CV of 29.22% indicates that timing decisions are influenced by financial reporting objectives. This means that write-offs may be strategically delayed or expedited to manage reported financial performance.

With a mean of 3.66, this statement "Bad debts write off is influenced by the need of management to increase expenses" has the lowest level of agreement, but still indicates that management may use bad debt write-offs to increase expenses. The high CV of 36.13% shows substantial variations in practice, suggesting that while some universities adhere to standard accounting practices, others adjust bad debt write-offs to manage financial outcomes. A mean of 4.16 suggested that bad debt recoveries are included in financial reports. However, the CV of 29.04% suggests that timing decisions may be manipulated to influence financial statements, potentially inflating earnings in certain periods.

The mean score of 4.05 reflects general agreement that debtor provision recognition follows established policies, but with room for flexibility. The higher CV (29.04%) and S.D. (1.16) suggest significant variations in practices across institutions. Bad debt write-offs and the timing of recoveries were identified as areas where adjustments were made to influence reported earnings. This highlighted concerns over the use of debtor provisions

to manage financial performance, potentially affecting transparency in financial statements.

From interview results, the recognition of debtor provisions was another area that influenced the audit opinion. Respondents highlighted that non-payment of debtors and shrinking revenue streams affected the university's ability to recognize doubtful debts accurately. For instance, one respondent explained that the university's financial challenges made it difficult to assess the recoverability of receivables, leading to under-provisioning or over-provisioning for doubtful debts. These practices distorted financial statements and raised concerns about the university's financial health.

However, some respondents praised the university's management of debtors, noting that efforts were made to address long outstanding debts and improve financial stability. Proper recognition of provisions for doubtful debts was identified as a key factor in ensuring accurate financial reporting. Respondents also emphasized the importance of good financial management and compliance in this area, highlighting that regular assessments of receivables and adherence to accounting standards were critical to maintaining stakeholder confidence.

Proper recognition of debtor provisions is essential for ensuring the accuracy of financial statements. Respondents highlighted the importance of adopting IPSAS and IFRS to maintain consistency and transparency in recognizing doubtful debts. One interviewee explained that over-provisioning or under-provisioning for doubtful debts can distort financial results and lead to audit qualifications.

To strengthen internal controls, respondents suggested implementing robust audit mechanisms to detect and prevent improper debtor provision practices. For example, regular audits and reconciliations can help verify the accuracy of debtor provisions. Another measure recommended was the use of modern accounting software to automate debtor provision processes and reduce the risk of errors or manipulation.

Training was also emphasized as a critical measure. Respondents noted that training staff on proper techniques for recognizing doubtful debts and the risks of creative accounting can improve compliance with accounting standards. One participant added that enhancing transparency and disclosure in financial statements can provide stakeholders with a clear understanding of the university's financial position.

4.5.5 University Size

The analysis to evaluate the moderating effect of university size on the relationship between revenue recognition and the quality of financial reporting. University size was measured using approved budget and the results are as shown in Table 4.11:

Table 4. 11: University Size Using Approved Budget

Measure	2019-2020	2020-2021	2021-2022	Average
Mean	2854322942	2747916661	2575290463	2725843355
Median	1616840567	1336067282	1305966946	1411693108
Std. Deviation	3560712560	3723795933	3328752665	3524668747
Minimum	292459671	254881345	401138270	348531832
Maximum	18264568766	17344937122	16931798579	17513768156

Source: Commission of University Education (2025)

In the 2019–2020 financial year, the mean university size stood at approximately KES 2.85 billion, while the median was KES 1.62 billion. The substantial difference between the mean and median suggests a positively skewed distribution, where a few large universities had significantly higher financial sizes compared to the rest. The minimum budget size reported was KES 292 million, while the largest institution recorded over KES 18.26 billion, demonstrating a broad range in institutional scale. Additionally, the high standard deviation of KES 3.56 billion reflects considerable variation among public universities in terms of financial size.

In the 2020–2021 financial year, the average size of public universities decreased slightly to KES 2.75 billion, with a lower median of KES 1.34 billion. The reduction in both mean and median values suggests a general contraction in university financial capacity, possibly due to reduced government allocations or COVID-19-related economic disruptions. The minimum university size dropped to KES 254 million, while the maximum decreased slightly to KES 17.34 billion. Interestingly, the standard deviation increased to KES 3.72 billion, indicating that the gap between small and large universities widened further.

By the 2021–2022 financial year, the mean university size further declined to KES 2.58 billion, and the median also decreased to KES 1.31 billion, continuing the downward trend

in financial capacity. The minimum university size increased slightly to KES 401 million, but the maximum was lower than previous years at KES 16.93 billion. The standard deviation also declined to KES 3.33 billion, suggesting that while variability remained, it was somewhat less extreme than in the previous year.

Table 4. 12: Categorization of University Size

Likert Scale	Category	Frequency
1	Kes 0–0.9B	10
2	Kes 1.0B–1.9B	15
3	Kes 2.0B–3.9B	6
4	Kes 4.0B–9.9B	4
5	KES 10.0B and above	1
	Total	**36**

Source: Study Data (2024)

Table 4.12 presents the categorization of 36 public universities in Kenya based on their approved budgets, serving as a measure of institutional size. Universities were grouped into five Likert scale categories, ranging from KES 0–0.9 billion to over KES 10 billion. The analysis shows that the majority of universities, 15 out of 36 (41.7%), fell within Likert scale 2, with approved budgets ranging from KES 1.0–1.9 billion. These institutions operate with modest financial resources, which may support basic reporting structures but could limit the implementation of comprehensive internal controls and advanced financial reporting systems.

In Likert scale 1, 10 universities (27.8%) had the smallest budgets ranging from KES 0–0.9 billion. These are likely smaller or newer universities, which may face constraints in administrative capacity and financial management, limiting their ability to maintain robust reporting practices. Likert scale 3 comprised 6 universities (16.7%) with budgets

between KES 2.0–3.9 billion, reflecting moderately sized institutions that may sustain structured reporting systems and reasonable transparency. On the higher end, 4 universities (11.1%) fell into Likert scale 4, with budgets from KES 4.0–9.9 billion, likely benefiting from stronger financial infrastructure and enhanced compliance with public financial management standards. The largest institution, in Likert scale 5 (2.8%), had an approved budget exceeding KES 10 billion, indicating advanced capacity for accurate and timely financial reporting.

Table 4. 13: University Size Questionnaire Statements

University Size	N	Min	Max	Mean	S.D	CV%
1. The University always adheres to the approved annual budget	252	1	5	4.44	0.966	21.76
2.The level of budget of the University influences the level of creative reporting	252	1	5	4.16	1.178	28.30
Overall Score	**252**			4.30	1.07	25.03

Source: Study Data (2024)

As shown in Table 4.13, with a mean score of 4.44, respondents strongly agreed that universities adhere to their approved budgets. However, the CV of 21.76%, which is relatively low, suggests that while adherence to budgetary allocations is common, some flexibility may exist in its interpretation and application. This could mean that universities adjust financial reporting to align with budgetary constraints or projections.

A mean score of 4.16 indicated that respondents agree that the size of the university budget affects financial reporting practices. The higher CV of 28.30% suggests greater variability in responses, indicating that while some universities strictly follow budgetary allocations,

others may engage in financial reporting adjustments influenced by budgetary concerns. This highlights the potential for budget-driven financial reporting manipulation, were revenue recognition, expense classification, or asset valuation may be adjusted to reflect a desired financial position.

The mean score of 4.30 shows that respondents largely agreed that university size and budgeting influence financial reporting. The relatively low CV (25.03%) suggests consistency in responses. There was consensus that larger budgets impact the level of creative financial reporting, with universities sometimes adjusting figures to meet budgetary and regulatory expectations.

4.5.6 Quality of Financial Reporting

Quality of financial reporting was measured using the audit opinion from the Office of the Auditor General (OAG) for all the public universities in Kenya for the three years under review (2019/2020, 2020/2021 and 2021/2022). The opinions were code as follows: 1 for adversary opinion, 2 qualified opinion and 3 for unqualified opinion. From the OAG's reports, four universities had unqualified audit opinions, 29 universities had qualified audit opinions, and three universities had adverse audit opinions as shown in Appendix VI. The findings from the audit opinions were analyzed and presented in Table 4.14 below.

Table 4. 14: Public Universities Audit Opinions (2019/2020. 2020/2021,2021/2022)

	2019-2020	2020-2021	2021-2022	Average
Mean	1.9444	2.0833	2.0556	2.0281
Median	2.0000	2.0000	2.0000	2.0000
Std. Deviation	.23231	.55420	.41019	.30188
Minimum	1.00	1.00	1.00	1.00
Maximum	2.00	3.00	3.00	2.67

Source: Study Data (2024)

As shown Table 4.14. an analysis of the audit opinions issued to public universities between the 2019/2020 and 2021/2022 financial years reveals both consistency and gradual improvement in financial accountability. In the 2019/2020 financial year, the mean audit opinion was 1.9444, which is just below the qualified opinion mark (2.0). This suggests that most universities were assessed as having significant challenges in their financial reporting, bordering on adverse audit outcomes. The median value of 2.0000 confirms that a qualified opinion was the most frequent rating issued. The relatively low standard deviation of 0.23231 indicates that most universities clustered closely around the mean, with minimal variation in audit outcomes. Notably, the minimum score of 1.00 reflects that at least one university received an adverse opinion, while the maximum was 2.00, indicating that none achieved a clean audit during this period.

In 2020/2021, there was a modest improvement in audit outcomes. The mean rose to 2.0833, slightly above the qualified threshold, indicating a shift toward better financial practices among some institutions. The median remained at 2.0000, suggesting that the majority of universities still received qualified opinions. However, the standard deviation increased significantly to 0.55420, suggesting greater variability in audit performance

some universities may have improved significantly while others continued to struggle. The minimum again stood at 1.00, confirming continued adverse ratings for some institutions, while the maximum increased to 3.00, indicating that at least one university achieved an unqualified (clean) audit opinion a notable milestone not observed in the previous year.

In the 2021/2022 financial year, audit performance appeared to stabilize slightly. The mean audit opinion was 2.0556, maintaining a position above the qualified threshold, although slightly lower than the previous year. This reflects sustained, though modest, progress in financial governance. The median remained consistent at 2.0000, reinforcing the trend of qualified opinions being the most common. The standard deviation declined to 0.41019, suggesting that while variation remained, it was less pronounced than in 2020/2021. The minimum score was still 1.00, indicating continued adverse audit results in some institutions, but the maximum remained at 3.00, confirming that some universities sustained the ability to meet clean audit standards.

The overall average for the three-year period was a mean of 2.0281, which reinforces the conclusion that most public universities were consistently rated with qualified audit opinions. The average median was 2.0000, and the average standard deviation of 0.30188 indicates modest variability in financial performance. The audit scores ranged from 1.00 to 2.67, showing that while some institutions were close to achieving clean audits, systemic issues in financial reporting persisted across much of the sector.

Table 4. 15: Classification of Audit Opinion

Audit Opinion Average	Frequency	Percent
1.00	1	2.8
1.67	4	11.1
2.00	24	66.7
2.33	4	11.1
2.67	3	8.3
Total	**36**	**100.0**

Source: Study data 2024

The transformation of average audit opinion scores into a five-point Likert scale provides a clearer view of how public universities in Kenya were classified over the three-year audit period. Table 4.15 shows that out of the 36 universities assessed, the majority 24 universities (66.7%) had a transformed average score of 2.00, indicating that they consistently received a qualified audit opinion. This confirms the trend observed in earlier analyses, where qualified opinions were the most frequently assigned audit ratings, reflecting moderate financial irregularities that did not amount to outright adverse assessments but still indicated non-compliance with financial reporting standards.

A small proportion of universities 3 institutions (8.3%) recorded an average audit score of 2.67, which suggests that they were approaching the unqualified (clean) audit opinion threshold. This indicates encouraging progress in financial management and internal control systems within those institutions. However, the fact that only three institutions reached this level shows that clean audit outcomes remain an exception rather than the norm in Kenya's public university sector.

Similarly, 4 universities (11.1%) had average scores of 2.33, placing them slightly above the qualified level but not yet clean. This group may be interpreted as transitional institutions that are improving but still face issues that need to be addressed for full compliance. Another 4 institutions (11.1%) had a score of 1.67, suggesting that they fell between an adverse and a qualified opinion, indicating persistent weaknesses and possible audit reservations bordering on serious concerns.

Alarmingly, 1 university (2.8%) received a score of 1.00, representing a consistent adverse audit opinion across the years. This reflects severe shortcomings in financial reporting and governance and underscores the need for urgent intervention by oversight bodies such as the Ministry of Education, the Auditor General's office, and university councils. Overall, the Likert-based classification reinforces the finding that the financial health and reporting practices of most public universities in Kenya are concentrated at the qualified opinion level, with only limited movement toward unqualified opinions. This highlights systemic weaknesses and the need for sustained reforms in university financial accountability mechanisms.

In order to back up the above findings, respondents were asked to indicate the level of agreement on various statements aimed at determining the quality of financial reporting in their universities and the results are as presented in Table 4.16

Table 4. 16: Quality Financial Reporting

Quality Financial Reporting	N	Min	Max	Mean	S.D	CV
The high quality of financial reporting ensures they consistently receive unqualified audit opinions.	252	1	3	1.79	0.610	33.99
Accurate and transparent financial reports contribute to a clean audit opinion from the Auditor General.	252	1	3	1.80	0.608	33.80
Timely and reliable financial reporting minimizes the risk of audit qualifications	252	1	4	1.90	0.757	39.73
Compliance with accounting standards results in unqualified audit opinions from the Auditor General.	252	1	4	1.98	0.827	41.87
Strong financial reporting controls help prevent errors that could lead to a qualified audit opinion.	252	1	4	2.04	0.880	43.08
The completeness and accuracy of financial disclosures enhance the credibility of their unqualified audit opinions.	252	1	4	2.04	0.880	43.08
The consistency of financial reporting practices ensures sustained unqualified audit opinions.	252	1	4	2.13	0.936	44.01
The faithful representation of financial information aligns with the requirements for an unqualified audit opinion.	252	1	4	2.17	0.958	44.05
Overall Score	**252**			1.98	0.81	40.45

Source: Study Data (2024)

As shown in Table 4.16, the statement "The high quality of financial reporting ensures they consistently receive unqualified audit opinions" had a mean score of 1.79, standard deviation of 0.610, and CV of 33.99%. The low mean suggests that most respondents disagree with this statement, implying that financial reporting in universities does not

always meet the standards required for an unqualified opinion. The low standard deviation indicates a consistent view among respondents that financial reporting quality is not always assured.

Similarly, the statement "Accurate and transparent financial reports contribute to a clean audit opinion from the Auditor General" had a mean of 1.80, S.D. of 0.608, and CV of 33.80%. This indicates a low level of agreement, suggesting that transparency and accuracy alone may not be enough to ensure an unqualified audit opinion. The relatively low variation in responses implies a shared belief among respondents that other factors also influence audit outcomes.

The statement "Timely and reliable financial reporting minimizes the risk of audit qualifications" had a mean of 1.90, S.D. of 0.757, and CV of 39.73%. Although there is a slight increase in the mean compared to previous statements, it still indicates a general lack of confidence in timely reporting as a determinant of unqualified opinions. The higher standard deviation and CV suggest greater variation in responses, which may be due to differences in financial reporting timelines across institutions.

The statement "Compliance with accounting standards results in unqualified audit opinions from the Auditor General" had a mean score of 1.98, S.D. of 0.827, and CV of 41.87%. Respondents remained neutral to slightly disagreeing, suggesting that even when institutions comply with standards, there are other considerations that affect audit opinions. The high CV indicates variability in responses, possibly reflecting differences in how strictly universities adhere to accounting standards.

The statement "Strong financial reporting controls help prevent errors that could lead to a qualified audit opinion" received a mean of 2.04, S.D. of 0.880, and CV of 43.08%. While there is some agreement that internal controls contribute to financial reporting quality, the low mean score suggests skepticism about their effectiveness in entirely preventing errors. The relatively high CV suggests that different universities have varying levels of internal control implementation, affecting their audit outcomes.

A similar trend is observed in the statement "The completeness and accuracy of financial disclosures enhance the credibility of their unqualified audit opinions," which had a mean of 2.04, S.D. of 0.880, and CV of 43.08%. The responses indicate a lack of strong agreement that full and accurate disclosures alone guarantee unqualified audit opinions. The variability in responses further supports the notion that financial disclosure practices differ across universities.

The statement "The consistency of financial reporting practices ensures sustained unqualified audit opinions" had a mean of 2.13, S.D. of 0.936, and CV of 44.01%. This result suggests that while consistency is important, respondents do not strongly believe that it is the sole factor in securing unqualified opinions. The high CV further indicates differences in institutional experiences, with some universities maintaining consistent reporting practices while others struggle with inconsistencies.

Lastly, the statement "The faithful representation of financial information aligns with the requirements for an unqualified audit opinion" had a mean of 2.17, S.D. of 0.958, and CV of 44.05%. The higher mean compared to other statements suggests that respondents slightly agree that faithful representation is essential for an unqualified opinion. However,

the high CV reflects variation in perspectives, indicating that some universities face challenges in fully adhering to financial reporting principles.

The overall mean score of 1.98 indicates that respondents disagreed or remained neutral about the idea that financial reporting quality consistently results in unqualified audit opinions. The high standard deviation (0.81) and CV (40.45%) suggest significant variability in views, reflecting differences in financial reporting practices across institutions.

The interview responses revealed a range of perspectives on the satisfaction levels with the audit opinions given to the university by the Office of the Auditor General (OAG). A significant number of respondents expressed dissatisfaction, particularly when the university received a qualified opinion. The primary reason for this dissatisfaction was the belief that the best outcome is an unqualified opinion, which indicates that the financial statements are free from material misstatements and fully comply with accounting standards. Many respondents felt that recurring issues, such as misclassification of expenses, pending bills, and non-compliance with legal provisions, should have been resolved to achieve an unqualified opinion. Some also noted that certain qualifications were beyond the university's control, such as delayed disbursements from the government or external factors affecting revenue streams. While they understood these limitations, they still expressed dissatisfaction, as these issues impacted the audit outcome. Additionally, a few respondents believed that some qualifications were unjustified, as the university had repeatedly addressed the issues raised by the auditors.

They felt that the university deserved an unqualified opinion, given the efforts made to improve financial reporting.

On the other hand, respondents who reported unqualified opinions for any of the financial years expressed high satisfaction. They described the opinions as "clean," "good," or "very satisfactory," indicating that the financial statements accurately reflected the university's financial position. These respondents were pleased that the financial statements provided a true and fair view of the university's affairs, free from material misstatements. Some also noted that the unqualified opinion reflected the university's efforts to address previous audit issues and improve compliance with accounting standards, which they viewed as a positive achievement.

Some respondents had mixed feelings about the audit opinions. While they acknowledged the qualifications, they were satisfied with certain aspects of the financial statements. For example, one respondent mentioned that the financial statements showed a true and fair view of the university's transactions, except for specific matters. They were satisfied with the overall report but acknowledged the need for improvement in certain areas. Another respondent noted that some qualifications were beyond the university's policy and ability to address. While they were not fully satisfied, they understood the limitations and viewed the opinion as fair.

Specific concerns raised by respondents included management issues, such as delays in implementing policies or addressing audit recommendations, and recurring problems, such as incomplete documentation or non-compliance with legal provisions. These issues

led to repeated qualifications and frustration among respondents, who felt that more could be done to resolve them and achieve unqualified opinions.

The satisfaction levels with the audit opinions varied among respondents, depending on the type of opinion and the reasons for qualification. While respondents who received unqualified opinions were highly satisfied, those who received qualified opinions expressed dissatisfaction, particularly when the qualifications were due to recurring issues or matters beyond the university's control.

4.5.7 Summary of Descriptive Statistics

Table 4. 17: Summary of Descriptive Statistics

	N	Min	Max	Mean	Std. Dev	CV (%)
Recognition of Revenue	252	1	5	4.21	0.694	15.822
Classification of Expenses	252	1	5	4.07	1.17	28.69
Valuation of Asset & Liabilities	252	1	5	4.29	1.17	27.12
Debtor Provision Recognition	252	1	5	4.05	1.16	29.04
University Size	252	1	5	4.30	1.07	25.03
Quality of Financial Reporting	252	1	4	1.98	0.81	40.45

Source: Research Data (2024)

According to Table 4.17 above, at least one participant selected the option that corresponds to "strongly disagree," implying that the minimal value for Creative Accounting Practices in Recognition of Revenue is 1.00. A response of "strongly agree" indicates that the maximum value of 5.00 was selected by the respondent. The average value for this variable is 4.21, which indicates that, generally speaking, the participants agreed with the assertions made about the prevalence of creative accounting practices in

revenue recognition. The standard deviation of 0.694 means that most responses are fairly close to the mean, and the coefficient of variation (CV) of 15.822% further confirms that the responses are consistent, with minimal diversity in opinions.

For Creative Accounting Practices in Classification of Expenses, the minimum value of 1.00 indicates that at least one participant strongly disagreed with the assertions. A response of "strongly agree" indicates that the maximum value of 5.00 was selected by the respondent. The mean score is 4.07, which is relatively high but not close to the ideal value of 5.00, suggesting that while creative accounting practices in expense classification are prevalent, there is some variability in perceptions. The standard deviation of 1.17 and the CV of 28.69% indicate a moderate level of variation in responses, reflecting some diversity in opinions among participants.

In the case of Creative Accounting Practices in Valuation of Assets & Liabilities, the lowest score of 1.00 suggests that at least one participant strongly disagreed with the assertions. The highest score of 5.00 indicates strong agreement. The mean value of 4.29 is the highest among all creative accounting practices, indicating that participants generally agreed that these practices are prevalent in asset and liability valuation. The standard deviation of 1.17 and the CV of 27.12% suggest moderate variability in responses, reflecting some differences in participant perceptions.

For Creative Accounting Practices in Debtor Provision Recognition, the minimum score of 1.00 indicates strong disagreement by at least one participant, while the maximum score of 5.00 reflects strong agreement. The mean value of 4.05 suggests that participants

generally agreed with the assertions, though the standard deviation of 1.16 and the CV of 29.04% indicate moderate variability in responses, reflecting some diversity in opinions.

Regarding University Size, the minimum value of 1.00 suggests that at least one participant perceived their university as small relative to annual approved budget, while the maximum value of 5.00 indicates that others perceived their university as large relative to their approved budget. The mean value of 4.30 indicates that most participants perceived their annual approved budget as large. The standard deviation of 1.07 and the CV of 25.03% suggest moderate variability in responses, reflecting some differences in perceptions of university size.

For Quality of Financial Reporting, the minimum score of 1.00 indicates strong dissatisfaction or disagreement with the quality of financial reporting, while the maximum score of 4.00 reflects a more favorable view. The mean value of 1.98 is the lowest among all variables, suggesting that participants generally perceived the quality of financial reporting as low. The high standard deviation of 0.81 and the CV of 40.45% indicate significant variability in responses, reflecting diverse perceptions of financial reporting quality

4.6 Inferential statistics

A study was carried out using inferential statistics to determine the impact of creative accounting practices' independent variables namely, revenue recognition, expense classifications, asset and liability valuation, and debtor provision and recognition on the dependent variable quality of financial reporting. The moderating variable was the university. We also checked for statistical significance to see whether the association

warranted rejecting or accepting the study's null hypotheses. John Pearson Using a Moment Correlation Coefficient Analysis model, the study found that quality of financial reporting was associated with the following variables: university size (as a moderator), revenue recognition, expense classifications, asset and liability valuation, debtor provision and recognition, and the relationship between the two. Among Kenya's public universities, researchers used a Multiple Regression Analysis model to determine the importance of creative accounting practices and the quality of financial reporting. The study used Hierarchical Regression Analysis to see if university size moderated the connection between creative accounting practices and high-quality financial reports.

4.6.1 Diagnostic Tests

Diagnostic tests were conducted to verify that the assumptions of the multiple logistic models have not been violated. The diagnostic tests conducted included test of normality, test of homoscedasticity, test of multicollinearity and test of linearity.

4.6.1.1 Test of Normality

Test of normality was done to ascertain whether data were derived from a population that follows a normal distribution. The test used Kolmogorov Smirnov test and histogram to test for normality. The results for Kolmogorov Smirnov test are shown in Table 4.18.

Table 4. 18: Test of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	**df**	**Sig.**	**Statistic**	**df**	**Sig.**
Revenue recognition	.034	252	.073	.990	252	.078
Classification of Expenses	.035	252	.101	.991	252	.107
Valuation of Assets and Liabilities	.035	252	.091	.990	252	.094
Debtor Provision Recognition	.053	252	.081	.990	252	.090
University Size	.040	252	.052	.988	252	.059
Quality of financial reporting	.033	252	.077	.990	252	.081

Source: Study Data (2024)

The results in Table 4.18 show that the Kolmogorov-Smirnov significance values for Revenue Recognition, Classification of Expenses, Valuation of Assets and Liabilities, Debtor Provision Recognition, University Size, and Quality of Financial Reporting are 0.078, 0.107, 0.094, 0.090, 0.059, and 0.081, respectively. These significance values are all above the commonly used threshold of 0.05, indicating that the data for these variables do not significantly deviate from a normal distribution. Consequently, the assumption of normality required for multiple regression analysis is not violated, and the data can be considered normally distributed, allowing for the reliable application of multiple regression analysis in the study.

This was further complemented by histograms as shown in Appendix X. For instance, the histogram depicts the distribution of data for "Revenues Recognition Technique," with values binned along the x-axis and frequencies on the y-axis. The plot shows a symmetric,

bell-shaped pattern centered around zero, where the highest frequency occurs at the midpoint (0), and frequencies decline evenly toward both tails. This symmetry and peak concentration near the mean are hallmarks of a normal distribution. While the left tail extends slightly further than the right, the overall alignment with a bell curve suggests normality. Such a pattern indicates that most data points cluster around the mean, with fewer outliers, meeting the key assumptions of normality for statistical analyses. The same was depicted for the remaining study variables.

4.6.1.2 Test of Homoscedasticity

Breusch Pagan test was used to test for homoscedasticity under this study. The null hypothesis of the test was that the error terms exhibited homoscedasticity. The results were shown in Table 4.19.

Table 4. 19: Breusch Pagan test

	chi2(1)	**Prob > chi2**	**Conclusions**
BP test	2.429	0.119	Fail to reject H_0

Source: Study Data (2024)

Table 4.19 displays the results of the Breusch-Pagan test for homoscedasticity, which provided a chi-square value (chi2 (1)) of 2.429 and a corresponding p-value (Prob > chi2) of 0.119. The study failed to rule out the possibility of homoscedasticity as the p-value is higher than the often-used 0.05 threshold of significance. Accordingly, multiple regression analysis's requisite assumption of homoscedasticity is satisfied, meaning that the residual variance is constant across all levels of the independent variables.

Probability versus probability plot (P-P Plot) was also used to confirm Breusch pagan results used to test for homoscedasticity. The p-p plot results were shown in Figure 4.1.

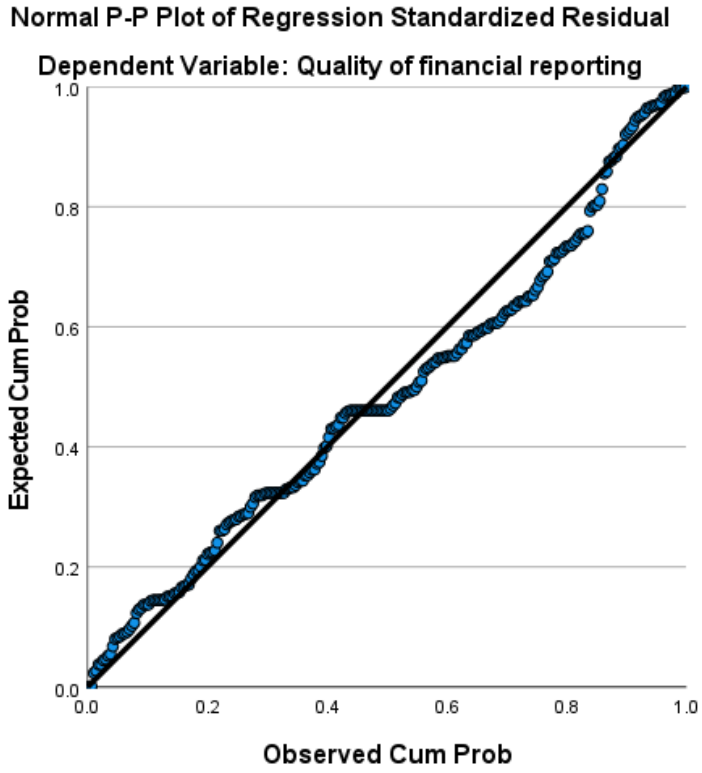

Figure 4. 1: Homoscedastic Test of creative accounting techniques

Source: Study Data (2024)

The results demonstrate that the variances of the independent variables must be uniform; otherwise, a heteroscedasticity problem will arise (Dalic & Terzic, 2021). In the framework of a regression model, a homoscedasticity test assesses the variance of the residuals. According to Shrestha (2020), the homoscedasticity of data distribution is

illustrated by the probability versus probability plot (P-P Plot). Figure 4.12 presents a typical P-P plot within the realm of creative accounting techniques.

4.6.1.3 Test of Multicollinearity

This study utilized Variance Inflation Factors (VIF) to assess the presence of multicollinearity. The results were presented in Table 4.20.

Table 4. 20: Test of Multicollinearity

	Tolerance	VIF
Revenue recognition	.671	1.489
Classification of Expenses	.627	1.596
Valuation of Assets and Liabilities	.654	1.529
Debtor Provision Recognition	.791	1.264

Source: Study Data (2024)

The results in Table 4.20 show that the Variance Inflation Factor (VIF) values for Revenue Recognition, Classification of Expenses, Valuation of Assets and Liabilities, and Debtor Provision Recognition were well below the threshold of 10, indicating that multicollinearity is not a concern in this model. Therefore, the null hypothesis that there is no multicollinearity among the independent variables is not rejected, confirming that multicollinearity does not exist.

4.6.1.4 Test of Linearity

Linearity was examined using scatter plots generated in SPSS. The results were shown in Figure 4.2.

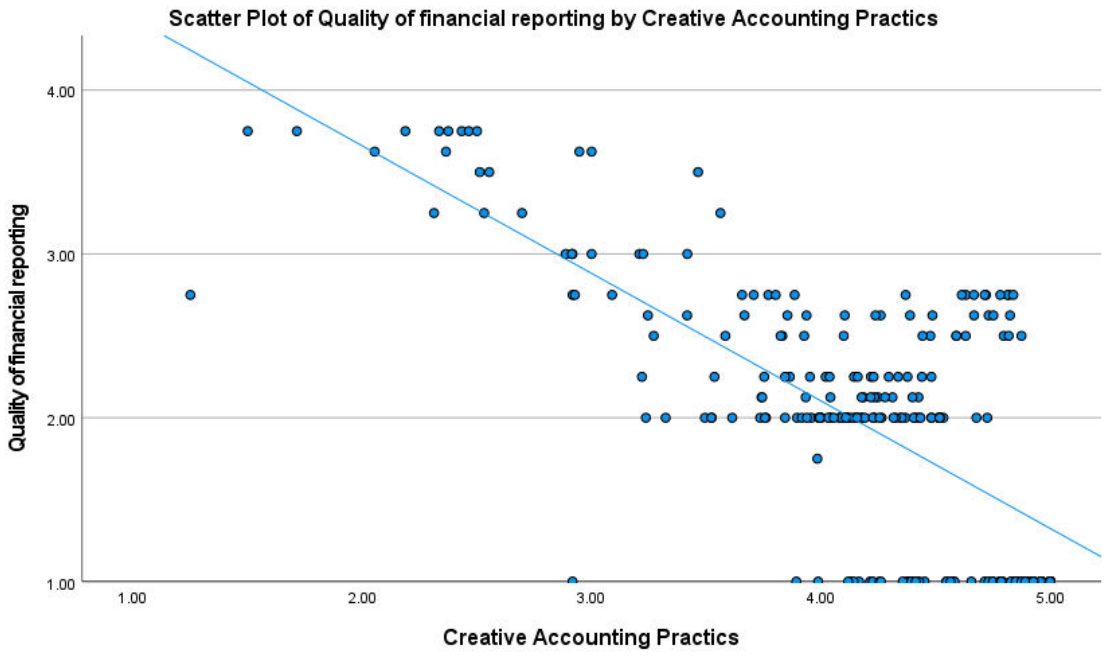

Figure 4. 2: Scatter plot

Source: Study Data (2024)

The scatter plot data presented in Figure 4.2 demonstrate a discernible downward trend in the residuals with respect to the expected values. Nonetheless, linearity is indicated by the plot's random distribution around zero implying the relationship is negative

4.7 Correlation Analysis

Correlation analysis was conducted to evaluate the strength and direction of the relationships between Creative accounting techniques (Revenue Recognition, Classification of expenses, Valuation of assets and liabilities, Debtor provision recognition) and the quality of financial reporting in public universities in Kenya. Using Pearson product-moment correlation, the analysis generated correlation coefficients ranging from -1 to +1, indicating the degree of association between variables. A coefficient close to +1 signifies a strong positive relationship, while a coefficient close to

-1 indicates a strong negative relationship (Saharan et al., 2020). The correlation coefficients were tested at a 95% confidence level with a significance threshold (p-value) of 0.05. Correlation values with p-values below 0.05 were considered statistically significant, indicating a meaningful relationship between creative accounting techniques and the quality of financial reporting. The results were shown in Table 4.21.

Table 4. 21: Pearson Correlation Matrix

		RR	CE	VAL	DPR	US
RR: Recognition of Revenue	Correlation Coefficient	1				
	Sig. (2-tailed)					
	N	252				
CE: Classification of Expenses	Correlation Coefficient	.499**	1			
	Sig. (2-tailed)	.000				
	N	252	252			
VAL: Valuation of Assets & Liabilities	Correlation Coefficient	.467**	.520**	1		
	Sig. (2-tailed)	.000	.000			
	N	252	252	252		
DPR: Debtors Provision Recognition	Correlation Coefficient	.369**	.380**	.368**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	252	252	252	252	
US: University Size	Correlation Coefficient	.269**	.183**	.409**	.208**	1
	Sig. (2-tailed)	.000	.003	.000	.001	
	N	252	252	252	252	252
Quality Financial Reporting	Correlation Coefficient	-.562**	-.619**	-.548**	-.454**	-.148*
	Sig. (2-tailed)	.000	.000	.000	.000	.019
	N	252	252	252	252	252

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).
Source: Research Data (2023)

Similarly, a negative relationship exists between revenue recognition and quality of financial reporting ($r = -0.562$, $p < 0.05$), suggesting that manipulations in revenue timing or disclosure distort financial statements. This negative relationship indicates that excessive or improper revenue recognition leads to misstatements, reducing the overall

reliability of financial reports. The negative relationship between manipulative or premature revenue recognition and financial reporting quality is supported by previous studies. Lee and Kwon (2020) showed that early revenue recognition through unbilled receivables negatively relates to firm value, reducing reporting reliability. Okpobo et al. (2022) confirmed that income manipulation and billing timing negatively relate to faithful representation. In contrast, Okai (2025) reported that income smoothing had a positive but insignificant effect on financial statement reliability. Tunji et al. (2020) observed a positive but insignificant relationship between revenue manipulation and investment decisions, indicating that controlled billing timing does not necessarily reduce report usefulness.

The strongest negative relationship ($r = -0.619$, $p < 0.05$) exists between classification of expenses and the quality of financial reporting, indicating that misclassification of expenses is a major factor in reducing reporting quality. This negative relationship suggests that over-complexity or misclassification of expenses undermines financial report accuracy, emphasizing the importance of clear and consistent categorization practices. The negative relationship between expense misclassification and financial reporting quality is supported by previous studies. King et al. (2025) showed that delayed expense recognition negatively relates to reporting timeliness and transparency, while Riahi and Torabi (2024) found that misclassified recurring expenses negatively relate to investors' reliance on reported earnings. Ogoun and Ephibayerin (2020) reported negative relationships with transparency, and Bancin et al. (2025) and Kermani and Kiamehr (2025) observed negative relationships with profitability reporting and reliability. In

contrast, Rahman et al. (2023) and Khatun and Sobhan (2025) found that some forms of expense manipulation had insignificant or non-negative relationships, suggesting that under controlled conditions, misclassification does not always reduce reporting quality.

The relationship between valuation of assets and liabilities and quality of financial reporting is also strongly negative ($r = -0.548$, $p < 0.05$), indicating that adjustments in asset valuation and depreciation methods contribute to inconsistencies in financial statements. This negative relationship implies that improper or overly complex valuation practices reduce stakeholder confidence and increase the likelihood of audit qualifications. The negative relationship is supported by previous studies. Khatun and Sobhan (2025) found that managerial discretion in asset valuation and liability estimation negatively relates to faithful representation. Nangih and Anichebe (2021) and Osanyinbi et al. (2023) reported negative relationships due to inaccurate depreciation and inflated revaluations. In contrast, Kwaghvihi et al. (2023) reported that depreciation manipulation had an insignificant negative relationship with profitability and faithful representation. Lukman and Irisha (2020) observed that creative accounting techniques, including asset reclassification and sale-and-leaseback arrangements, did not directly harm faithful representation.

A moderate negative relationship ($r = -0.454$, $p < 0.05$) was also observed between debtor provision recognition and financial reporting quality, showing that improper recognition of doubtful debts affects financial reliability. This negative relationship indicates that over-provisioning or underestimation of bad debts distorts the true financial position of universities. These findings support Bryan et al. (2021) showed that excessive

conservatism in estimating doubtful debts is used to smooth earnings, thereby distorting report credibility. Ayunku and Eweke (2019) and Christodoulou-Volos (2020) found that discretionary provisioning negatively relates to faithful representation. In contrast, Lukman and Irisha (2020) observed that creative accounting techniques had no direct effect on faithful representation. Similarly, Tișcenco and Bădicu (2024) argued that consistent application of debtor provisions under IFRS and GAAP can enhance transparency and comparability rather than degrade reporting quality.

Finally, university size exhibits a weak negative relationship with quality of financial reporting ($r = -0.148$, $p = 0.019$), suggesting that larger universities are slightly more likely to experience lower-quality reporting compared to smaller ones. Although larger universities often have more resources and governance structures, this negative relationship implies that their complexity may challenge consistency in financial reporting. These findings align with those of Amanamah (2024) who found out that as firms expand, reporting complexity increases, leading to weakened audit oversight and a decline in transparency. Similarly, Rachman and Nugroho (2025) observed that large organizations often struggle to maintain consistent disclosure standards due to bureaucratic inefficiencies, which compromise reliability. Githaiga et al. (2022) confirmed that firm size is associated with higher tendencies toward earnings manipulation and misreporting among East African firms. However, the findings contradict those of Debbarma and Roy (2023) who found out that larger firms exhibited greater transparency and stronger reporting integrity due to well-established control systems. Similarly, Azaria (2025) noted that big entities benefit from professional

management structures that promote compliance with accounting standards. Smaili et al. (2022) and Siegel (2021) further argued that larger firms tend to disclose more information to meet investor and regulatory expectations, thereby enhancing credibility.

4.8 Multiple Linear Regression

The multiple linear regression analysis was conducted to establish the effect of creative accounting techniques on the quality of financial reporting (QFR) in public universities in Kenya. The regression model included four predictors: Revenue Recognition (RR), Classification of Expenses (CE), Valuation of Assets and Liabilities (VAL), and Debtor Provision Recognition (DPR) thereby tested null hypotheses 1 to 4 at 0.05 significance level. The results of the regression analysis are summarized in Table 4.22.

Table 4. 22: Model Summary Regression

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.726[a]	.527	.519	.54147

a. Predictors: (Constant), Debtor Provision Recognition, Valuation of Assets and Liabilities, Classification of Expenses, Revenue recognition
b. Dependent Variable: Quality of financial reporting

The R value (0.726) indicated a strong correlation between the predictor variables and the quality of financial reporting. This suggests that creative accounting techniques significantly influence financial reporting quality in public universities. The R-Square value (0.527) implies that 52.7% of the variations in financial reporting quality can be explained by the four independent variables (Debtor Provision Recognition, Valuation of Assets and Liabilities, Classification of Expenses, and Revenue Recognition). The Adjusted R-Square (0.519) accounts for the number of predictors in the model, confirming

that 51.9% of the variability in financial reporting quality is due to the selected predictors, with only 49.1% being influenced by other factors not included in the model.

Table 4. 23:ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	80.553	4	20.138	68.687	.000[b]
	Residual	72.418	247	.293		
	Total	152.971	251			

a. Dependent Variable: Quality of financial reporting
b. Predictors: (Constant), Debtor Provision Recognition, Valuation of Assets and Liabilities, Classification of Expenses, Revenue recognition

Source: Study Data (2024)

The Analysis of Variance (ANOVA) test was conducted to determine whether the regression model statistically and significantly predicts the quality of financial reporting in public universities in Kenya. The F-statistic (4.247) =68.687, p = 0.000) suggests that the regression model is highly significant, meaning that the independent variables (Debtor Provision Recognition, Valuation of Assets and Liabilities, Classification of Expenses, and Revenue Recognition) collectively have a statistically significant effect on the dependent variable (Quality of Financial Reporting). The p-value (0.000) is less than 0.05, confirming that the model is not due to random chance and that at least one of the independent variables significantly predicts financial reporting quality.

Table 4. 24:Regression Coefficient

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	5.189	.209		24.792	.000
Revenue recognition	-.195	.043	-.242	-4.523	.000
Classification of Expenses	-.249	.042	-.330	-5.969	.000
Valuation of Assets and Liabilities	-.199	.053	-.203	-3.753	.000
Debtor Provision Recognition	-.127	.038	-.165	-3.355	.001
a. Dependent Variable: Quality of financial reporting					

Source: Research Data (2024)

The first regression model then becomes;

$$Y = 5.189-0.195X_1-0.249\ X_2-0.199\ X_3+-0.127X_4$$

The constant term (B = 5.189, p = 0.000) suggests that even when all predictors are set to zero, there is still a baseline level of financial reporting quality in public universities. This implies that other institutional factors such as regulatory frameworks, internal governance, and external audits contribute to financial reporting quality, independent of the four examined variables.

Revenue Recognition (RR) has a significant negative effect on financial reporting quality, with an unstandardized coefficient (B) of -0.195 and a standardized coefficient (Beta) of -0.242. The t-value of -4.523 and a p-value of 0.000 confirm the statistical significance of this relationship. This suggests that for every unit increase in creative accounting in regards to revenue recognition practices, the quality of financial reporting decreases by 0.195 units, holding other variables constant. This negative effect implies that improper or excessive revenue recognition practices, such as premature revenue recognition or deferral of expenses, may undermine the accuracy and reliability of financial reports.

Similarly, Classification of Expenses (CE) also demonstrates a significant negative effect on financial reporting quality. The unstandardized coefficient (B) is -0.249, and the standardized coefficient (Beta) is -0.330, with a t-value of -5.969 and a p-value of 0.000. This indicates that for every unit increase in creative accounting in regards to expense classification practices, the quality of financial reporting decreases by 0.249 units, holding other variables constant. The stronger negative effect compared to revenue recognition suggests that misclassification or over-complexity in expense categorization, such as reclassifying operating expenses as capital expenditures, may significantly reduce the transparency and accuracy of financial reports.

Valuation of Assets and Liabilities (VAL) also shows a significant negative relationship with financial reporting quality. The unstandardized coefficient (B) is -0.199, and the standardized coefficient (Beta) is -0.203, supported by a t-value of -3.753 and a p-value of 0.000. This means that for every unit increase in creative accounting in regards to asset and liability valuation practices, the quality of financial reporting decreases by 0.199 units, holding other variables constant. This negative effect suggests that improper valuation techniques, such as overvaluing assets or undervaluing liabilities, may lead to inaccuracies in financial reporting, thereby reducing its overall quality.

Finally, Debtor Provision Recognition (DPR) has a significant negative effect on financial reporting quality, with an unstandardized coefficient (B) of -0.127 and a standardized coefficient (Beta) of -0.165. The t-value of -3.355 and a p-value of 0.001 confirm the statistical significance of this effect. This indicates that for every unit increase in creative accounting in regards to debtor provisioning practices, the quality of financial reporting

decreases by 0.127 units, holding other variables constant. This suggests that over-provisioning or improper recognition of bad debts, such as under-provisioning to overstate revenue, may distort financial reports and reduce their reliability.

4.9 Hierarchical Moderating Effect of University Size on the Relationship between Creative accounting and Quality of Financial Reporting

The study examined the moderating effect of university size on the relationship between creative accounting and the quality of financial reporting in public universities in Kenya. The moderating effect was measured using hierarchical regression thereby testing the fifth null hypothesis. Two regression models were run to test the moderation effect. The first model had quality of financial reporting (dependent variable) being regressed against creative accounting constructs; recognition of revenues, classification of expenses, valuation of assets and liabilities and debtor provision recognition (independent variables) and university Size (moderating variable). The second model had quality of financial reporting (dependent variable) being regressed against creative accounting constricts; recognition of revenues, classification of expenses, valuation of assets and liabilities and debtor provision recognition (independent variables) and university Size (moderating variable) and the interaction terms. The interaction terms were formulated from a product of the indicators of creative accounting (recognition of revenues, classification of expenses, valuation of assets and liabilities and debtor provision recognition) and the size of the university (recognition of revenues*University Size, classification of expenses*University Size, valuation of assets and liabilities*University Size and debtor provision recognition*University Size). To counteract the potential multicollinearity issue

that may arise from multiplication each indicator in this way, the study centred the values of the indicators at zero by rescaling them from their means in a certain way.

Table 4.25 demonstrates the transition from a base model to an interaction model, allowing for comparison of changes in explanatory power. The structure of the table includes both unstandardized regression coefficients and their corresponding significance levels, with p-values shown in parentheses. Additionally, model fit statistics such as R Square, Adjusted R Square, R Square Change, F Change, and the significance of F Change are reported to demonstrate the incremental explanatory power.

Table 4. 25: Moderating Effect of University Size on the Relationship Creative Accounting and Quality Financial Reporting

	Model 1 B (Sig)	**Model 2 B (Sig)**
Predictors		
(Constant)	5.001 (0.000)	5.567(0.000)
Recognition of Revenue	-0.206 (0.000)	-0.815(0.002)
Classification of Expenses	-0.240(0.000)	-0.463(0.046)
Valuation of Assets and Liabilities	-0.243(0.000)	-0.626(0.009)
Debtors provision Recognition	-0.133(0.012)	0.587(0.009)
University Size	0.095(0.016)	-0.435(0.047)
Interactions		
Recognition of Revenue* University Size		1.017 (0.018)
Classification of Expenses* University Size		0.352 (0.336)
Valuation of Assets and Liabilities * University Size		0.658 (0.119)
Debtors provision Recognition * University Size		-1.121 (0.001)

R Square	0.538	0.572
Adjusted R Square	0.528	0.556
R square change	0.538	0.034
F change	57.202	4.848
Sig. F Change	.000	.001

(P - Values are in parentheses)

a Dependent Variable: Quality of financial reporting

Model 1 Predictors: (Constant), University Size, Classification of Expenses, Revenue recognition, Debtor Provision Recognition, Valuation of Assets and Liabilities

Model 2 Predictors: (Constant), University, Classification of Expenses, Revenue recognition, Debtor Provision Recognition, Valuation of Assets and Liabilities, Size*Classification of Expenses, Size*Valuation of Assets and Liabilities, Size*Debtor Provision Recognition, Size*Revenue recognition

Source: Researcher (2024)

$Y = 5.001 - 0.206X_1 - 0.240X_2 - 0.243 X_3 - 0.133 X_4 + 0.095M$

$Y = 5.567 - 0.815X_1 - 0.463X_2 - 0.626X_3 + 0.587X_4 - 0.0435M + 1.017X_1M + 0.352X_2M + 0.658X_3M - 0.121X_4M$

Where;

Y=Quality of Financial Reporting

X_1= Revenue recognition

X_2= Classification of Expenses

X_3= Valuation of Assets and Liabilities

X_4= Debtor Provision Recognition

M=University Size

The Model Summary table compares two regression models predicting the quality of financial reporting, with Adjusted R Squared serving as the key metric for evaluating their explanatory power. This measure accounts for the number of predictors in each model, ensuring that the results are not inflated due to overfitting. Model 1 reports an Adjusted R Squared value of 0.528 indicating that approximately 52.8% of the variance in the quality of financial reporting is explained by its predictors. These include university size,

classification of expenses, revenue recognition, debtor provision recognition, and the valuation of assets and liabilities.

Model 2 builds upon Model 1 by introducing interaction terms between university size and the other predictors, such as Size * Revenue Recognition and Size * Valuation of Assets and Liabilities. With the inclusion of these interaction effects, the Adjusted R Squared increases to 0.556, demonstrating an improvement in the model's explanatory power. This suggests that university size moderates the relationship between other predictors and financial reporting quality, adding nuance to the model's interpretation.

A comparison of the two models reveals that the increase in Adjusted R Squared from 0.528 to 0.556 though modest, is statistically significant, as indicated by the Sig. F Change value of 0.000. This confirms that the inclusion of interaction terms meaningfully enhances the model's ability to explain variations in financial reporting quality. While both models exhibit strong explanatory power, Model 2 is preferred due to its higher Adjusted R Squared and the statistical significance of the interaction terms.

In Model 1, all predictors are statistically significant, as indicated by their p-values (Sig.) being less than 0.05. In Model 2, interaction terms between university size and the other predictors are introduced, which changes the dynamics of the model. All creative accounting constructs are negative and significant. However, university size moves from positive to negative, implying that as size increase, quality of financial reporting decreases (B=-0.435, P=0.047)

Among the interaction terms, Size * Revenue Recognition (B = 1.017, P = 0.018) is significant and positive, indicating that the effect of creative accounting in revenue recognition on financial reporting quality increases as university size increases. Similarly, Size * debtors provision recognition (B = -1.121, P = 0.001) is significant and negative, suggesting that the effect of creating accounting in debtors provision recognition on financial reporting quality decreases with university size. However, the other interaction terms, Size * Classification of Expenses (P= 0.336) and Size * valuation of assets and liabilities (P = 0.110), are not significant.

Several institutional and contextual factors explain the observed change in the moderating effect of university size on the relationship between creative accounting and the quality of financial reporting. As universities grow, they manage more diverse revenue streams and expenditure portfolios, which increases managerial discretion in financial reporting and creates room for manipulation in areas such as premature revenue recognition and expense misclassification (Kabir & Su, 2022; Kimuyu, 2022). Large universities also handle multiple projects and grants simultaneously, increasing the likelihood of inconsistent reporting and the use of creative accounting to align results with expected financial performance. Moreover, larger institutions often experience diluted control environments due to extended bureaucratic layers and decentralised decision-making (OAG, 2023). Such bureaucratic inefficiencies weaken internal audit effectiveness and delay corrective action, thereby allowing creative accounting practices to thrive unnoticed (Abed et al., 2022). The Office of the Auditor General (2023) further noted that weak financial

oversight and delayed reconciliations were among the key contributors to audit qualifications in public universities.

In addition, large public universities enjoy considerable administrative and financial autonomy, giving managers greater latitude over budgetary adjustments and expenditure classification (IPSASB, 2025). This discretion, when coupled with performance pressures, may encourage earnings management to portray financial stability or compliance with funding requirements (Ahmed & Naima, 2023). Positive Accounting Theory supports this observation, suggesting that managers may exploit available flexibility to select accounting treatments that serve institutional or personal interests. Furthermore, large universities operate under greater public scrutiny from regulators, donors, students, and government agencies. The heightened visibility exerts pressure on administrators to present a favorable financial image, often resulting in selective disclosure or deliberate misstatement of financial performance (Gupta & Kaur, 2023; OAG, 2023). Legitimacy Theory reinforces that institutions may manipulate reporting to maintain societal approval and safeguard their reputation (Abed et al., 2022).

Although larger universities possess superior resources, skilled personnel, and advanced management information systems, these very advantages can be exploited to support sophisticated manipulation of accounts when governance systems are weak (Agyemang & Yeboah, 2023; Kimuyu, 2022). The duality of resource advantage and governance fragility explains why larger institutions, despite their financial and technical capacity, may still exhibit reduced reporting quality when oversight mechanisms are not commensurately strengthened.

4.10 Discussion of the findings and Hypotheses Testing

4.10.1. Revenue Recognition (RR)

Creative accounting in regards to recognition of revenue negatively correlates with the quality of financial reporting (-0.562). This indicates that manipulations in revenue recognition, such as shifting income to different accounting periods to meet financial objectives, distort financial statements. When revenue is recorded in a manner that does not accurately reflect the period in which it was earned, it creates inconsistencies in financial reports, leading to misleading financial performance indicators. Such practices may temporarily improve financial results but reduce long-term credibility and increase audit scrutiny. A university that frequently alters its revenue recognition approach is more likely to face issues with compliance and risk receiving a qualified audit opinion.

The regression analysis further supports this finding, showing a significant negative effect of creative accounting in expense classification on financial reporting quality. The unstandardized as well as standardized coefficient and a p-value of 0.000 confirm the statistical significance of this effect. The negative effect implies that improper or excessive revenue recognition practices, such as premature revenue recognition or deferral of expenses, undermine the accuracy and reliability of financial reports. These practices may be used to manipulate financial outcomes, such as inflating revenues to present a more favorable financial position. The p-value of 0.000 (less than 0.05) indicates that the effect is statistically significant, leading to the rejection of H_{01}. This finding suggests that public universities in Kenya may be engaging in creative accounting

techniques related to revenue recognition, which negatively impacts the quality of their financial reporting.

Revenue recognition is a cornerstone of accrual accounting, ensuring that financial statements accurately reflect the university's financial performance in the appropriate reporting period. Misrecognition of revenue whether through premature recognition, deferral, or other manipulative techniques can lead to material misstatements, which violate accounting principles and undermine stakeholder trust. Recognizing revenue before it is earned or deferring it beyond the appropriate period distorts key financial metrics, such as revenue growth and profitability, and can mislead stakeholders, including regulators, auditors, and donors.

These findings are supported by Lee and Kwon (2020), Rahman et al. (2023), Okpobo et al. (2022), Aljifri and Elrazaz (2024), and Innocent et al. (2024), who all found that manipulative or premature revenue recognition significantly undermines the reliability, transparency, and decision usefulness of financial statements. Lee and Kwon (2020) revealed that early revenue recognition through unbilled receivables negatively affected firm value, highlighting reduced reporting reliability. Similarly, Rahman et al. (2023) established that political influence and weak governance exacerbate revenue recognition manipulation, lowering reporting quality. Okpobo et al. (2022) confirmed that income manipulation and billing timing distort faithful representation, while Aljifri and Elrazaz (2024) demonstrated that premature revenue recognition compromises long-term earnings quality despite short-term gains. Innocent et al. (2024) further showed that timing

adjustments for tax benefits distort financial credibility, emphasizing the detrimental effect of revenue recognition manipulation on reporting integrity.

The findings of this study contradict those of Okai (2025), Tunji et al. (2020), and Ajinwo (2024), who all reported that creative accounting practices—particularly those involving revenue recognition—either have a positive or insignificant impact on financial reporting and performance. Okai (2025) found that income smoothing had a positive but insignificant effect on financial statement quality in Nigerian banks, implying that moderate manipulation of revenue recognition may not necessarily impair reporting reliability. Similarly, Tunji et al. (2020) revealed a positive but insignificant relationship between creative accounting and investment decisions, noting that techniques such as revenue manipulation and billing timing did not critically undermine financial report usefulness. Ajinwo (2024) went further to establish a strong positive and significant relationship between income smoothing (a form of revenue recognition manipulation) and financial performance indicators such as return on assets and earnings per share among manufacturing firms in Rivers State. These results suggest that in some contexts, controlled revenue recognition adjustments may enhance perceived performance and managerial flexibility rather than reduce financial reporting quality, contradicting the current study's finding of a significant negative association.

4.10.2 Classification of Expenses (CE)

The analysis reveals that creative accounting in the classification of expenses has the strongest negative correlation with the quality of financial reporting suggesting that misclassification of expenses is a major factor in reducing financial reporting quality. This

implies that universities that reallocate expenses across different categories whether to understate costs, defer liabilities, or meet financial targets compromise the transparency and accuracy of their financial reports. Misclassification often leads to inconsistent financial statements, affecting stakeholder trust and increasing the likelihood of a qualified audit opinion. When expenses are deliberately misclassified, the true financial position of the university is obscured, making it difficult for auditors and financial regulators to assess the institution's actual performance.

The regression analysis further supports this finding, showing a significant negative effect of creative accounting in expense classification on financial reporting quality. The unstandardized and standardized coefficient confirmed the statistical significance of this effect. The stronger negative effect compared to revenue recognition suggests that misclassification or over-complexity in expense categorization, such as reclassifying operating expenses as capital expenditures, significantly reduces the transparency and accuracy of financial reports. The p-value of 0.000 (less than 0.05) indicates that the relationship is statistically significant, leading to the rejection of H_{02}. This finding implies that public universities in Kenya may be misclassifying expenses to manipulate financial outcomes, such as reducing reported expenses to inflate profitability.

Accurate classification of expenses is a fundamental accounting principle that ensures financial statements provide a true and fair view of the university's financial performance. Misclassification not only distorts financial results but also affects the audit process, as auditors rely on accurate expense categorization to assess the institution's financial health. Misclassifying recurring operating expenses as capital expenditures can overstate assets

and understate expenses, leading to an inflated portrayal of financial stability. Conversely, misclassifying capital expenditures as operating expenses can understate assets and overstate expenses, creating a misleading picture of financial distress.

These results align with the studies by King et al. (2025), Riahi and Torabi (2024), Ogoun and Ephibayerin (2020), Bancin et al. (2025), Kermani and Kiamehr (2025), and Buslepp et al. (2019), all of which confirmed that expense misclassification and manipulation significantly distort the quality of financial reporting. King et al. (2025) found that delayed expense recognition, particularly in goodwill impairments, reduced reporting timeliness and transparency. Riahi and Torabi (2024) showed that overconfident managers misclassified recurring expenses to inflate core earnings, misleading investors. Similarly, Ogoun and Ephibayerin (2020) demonstrated that unethical expense misclassification reduced transparency in Ugandan local governments. Bancin et al. (2025) and Kermani and Kiamehr (2025) reported that cost misclassification distorted profitability and lowered report reliability, while Buslepp et al. (2019) associated misclassified expenses with internal control weaknesses and delayed filings.

The findings of this study contradict those of Rahman et al. (2023) and Khatun and Sobhan (2025), who both reported that expense classification and reclassification do not always negatively affect financial reporting quality. Rahman et al. (2023) found that creative accounting practices including expense manipulation and reclassification, had a positive influence on financial reporting quality, suggesting that when such practices are conducted within acceptable accounting flexibility and oversight, they may enhance presentation clarity or managerial decision-making. Similarly, Khatun and Sobhan (2025)

observed that while managerial discretion and flexible accounting regulations influence financial reporting quality, fake transactions and expense reclassification had an insignificant effect. Their results imply that not all forms of expense manipulation necessarily degrade reporting reliability. Dzarsa (2024) found that improper expense recognition and asset misappropriation had a statistically insignificant effect on financial performance among Nigerian firms, suggesting limited impact on financial reporting outcomes.

4.10.3. Valuation of Assets and Liabilities (VAL)

Creative accounting in regards to valuation of assets and liabilities also shows a strong negative correlation with the quality of financial reporting, indicating that adjustments in asset valuation and depreciation methods contribute to financial statement inconsistencies. Universities that modify asset valuations to enhance their financial position artificially may end up misrepresenting their true financial health. Frequent changes in depreciation methods or capitalization policies introduce subjectivity, making it difficult to assess the real value of institutional assets. This reduces financial statement reliability and increases the likelihood of an audit qualification due to concerns over asset valuation accuracy. These findings support. Nonetheless,

Regression results confirm a significant negative effect of asset and liability valuation practices on financial reporting quality. The negative effect suggested that improper valuation techniques, such as overvaluing assets or undervaluing liabilities, lead to inaccuracies in financial reporting, thereby reducing its overall quality. The p-value of 0.000 (less than 0.05) indicates that the relationship is statistically significant, leading to

the rejection of H_{03}. This finding suggests that public universities in Kenya may be overvaluing assets or undervaluing liabilities to present a stronger financial position, which distorts the true financial health of the institution.

Proper valuation of assets and liabilities is essential for presenting a true and fair view of the university's financial position. Errors in valuation, such as overstating assets or understating liabilities, can lead to material misstatements and negatively impact the credibility of financial reports. Overvaluing property, plant, and equipment (PPE) or underestimating contingent liabilities can create a misleading portrayal of financial stability. Conversely, undervaluing assets or overstating liabilities can artificially deflate the institution's financial health, leading to unnecessary concerns among stakeholders. Accurate valuation not only enhances financial reporting quality but also supports better decision-making by stakeholders, including regulators, donors, and management.

These findings support those of Silva et al. (2023), Khatun and Sobhan (2025), Nangih and Anichebe (2021), Osanyinbi et al. (2023), Muli (2023), and Chimoi et al. (2024), who all demonstrated that manipulative asset and liability valuation practices reduce the reliability, neutrality, and transparency of financial reports. Silva et al. (2023) emphasized that professional ethics and auditor independence are essential in preventing depreciation and revaluation manipulation, improving report quality. Khatun and Sobhan (2025) found that managerial discretion in valuing assets and estimating liabilities distorts reporting integrity. Similarly, Nangih and Anichebe (2021) and Osanyinbi et al. (2023) revealed that inaccurate depreciation and inflated revaluations lead to material misstatements. Muli (2023) and Chimoi et al. (2024) further showed that arbitrary valuation methods and weak

enforcement of controls undermine faithful representation and stakeholder trust in public institutions.

However, the findings contradict those of Kwaghvihi et al. (2023), Edem (2024) and Lukman and Irisha (2020), who reported that asset valuation adjustments and depreciation manipulation had an insignificant or mixed impact on financial performance, implying limited influence on reporting quality. Kwaghvihi et al. (2023) found depreciation manipulation had an insignificant negative impact on profitability. Edem (2024) found that goodwill and depreciation adjustments—representing asset valuation practices—had a positive but insignificant effect on profit after tax (PAT), while fair value reserves exerted a positive and significant impact on profitability. This suggests that asset valuation practices, when properly applied, may enhance performance transparency rather than diminish it. Similarly, Lukman and Irisha (2020) revealed that creative accounting techniques, including asset reclassification and sale-and-leaseback arrangements, did not have a direct negative effect on financial statement reliability.

4.10.4. Debtors Provision Recognition (DPR)

Creative accounting in regards to debtor provision recognition also has a moderate negative correlation (-0.454) with financial reporting quality, meaning that adjustments in doubtful debt provisions and bad debt write-offs affect the reliability of financial statements. If a university alters its doubtful debt provisions strategically either to reduce reported liabilities or inflate financial performance this can distort financial transparency. Such practices undermine the credibility of the financial statements and may result in audit concerns related to accounts receivable management. The timing of bad debt write-

offs and recoveries can also be manipulated to influence financial results, further impacting the overall quality of financial reporting.

The regression analysis reinforces this finding, showing a significant negative effect of creative accounting in debtor provision recognition on financial reporting quality. The unstandardized as well as standardized coefficient and a p-value of 0.001 confirm the statistical significance of this effect. The negative effect suggested that over-provisioning or improper recognition of bad debts, such as under-provisioning to overstate revenue, distorts financial reports and reduces their reliability. The p-value of 0.001 (less than 0.05) indicates that the relationship is statistically significant, leading to the rejection of H_{04}. This finding implies that public universities in Kenya may be manipulating debtor provisions to influence financial outcomes, such as overstating revenue or creating hidden reserves.

Recognizing provisions for doubtful debts is essential to ensure that financial statements accurately reflect the recoverability of receivables. Failure to recognize adequate provisions can overstate the value of debtors, leading to material misstatements and inaccurate financial reporting. For example, under-provisioning for doubtful debts inflates accounts receivable and overstates revenue, creating a misleading picture of financial health. Conversely, over-provisioning can understate revenue and create hidden reserves, which may be used to smooth earnings in future periods. Both practices distort the true financial position of the institution and undermine stakeholder trust.

These findings support those of Bryan et al. (2021), Ayunku and Eweke (2019), Christodoulou-Volos (2020), Anning and Adusei (2022), and Dlamini and Murisa (2024),

who all reported that manipulative or inconsistent recognition of debtor provisions reduces the reliability and transparency of financial reports. Bryan et al. (2021) showed that firms often use excessive conservatism in estimating doubtful debts to smooth earnings, thereby distorting report credibility. Similarly, Ayunku and Eweke (2019) and Christodoulou-Volos (2020) found that discretionary provisioning serves as a key earnings management tool that undermines faithful representation. Anning and Adusei (2022) further observed that overstating receivables and understating provisions are common tactics for inflating profits, while Dlamini and Murisa (2024) demonstrated that discretionary provisioning is used to mislead stakeholders about financial health, ultimately eroding trust and comparability in reporting.

The results of the current study contradict those of Umoh and Nwobodo (2024) and Lukman and Irisha (2020), who found that creative accounting and debtor provision adjustments do not significantly affect financial performance or reporting reliability. Umoh and Nwobodo (2024) reported that return on equity, inventory manipulation, and return on assets showed no significant impact on earnings per share in Nigerian banks, suggesting that creative accounting practices, including manipulation of debtor provisions, may not materially distort financial outcomes. Similarly, Lukman and Irisha (2020) observed that creative accounting techniques had no direct effect on the reliability of financial statements. Nurdiansyah and Manda (2018) observed that increases in bad debt allowances marginally improved profitability but did not significantly affect reporting reliability, implying that prudent provisioning can sometimes strengthen accuracy. Similarly, Tișcenco and Bădicu (2024) argued that when debtor provisions are

applied consistently under IFRS and GAAP frameworks, they can enhance transparency and comparability rather than degrade quality.

4.10.5. University Size

University size exhibits a weaker negative correlation with the quality of financial reporting, suggesting that larger universities may engage in some level of financial adjustments, but the effect on overall reporting quality is less significant compared to other factors. This could be due to higher budget allocations, more complex financial operations, and greater autonomy in financial decision-making. While financial flexibility can be beneficial in some cases, it may also lead to looser financial controls, which in turn can reduce reporting quality if not properly managed. Larger institutions may face more challenges in maintaining strict compliance with accounting standards, but their impact on financial reporting quality remains less pronounced than that of revenue recognition, expense classification, and asset valuation.

The results indicate that university size significantly moderates the relationship between creative accounting and financial reporting quality in public universities in Kenya. Model 1 explains 52.8% of the variance in financial reporting quality (Adjusted $R^2 = 0.528$), while Model 2, which includes interaction terms, improves to 55.6% (Adjusted $R^2 = 0.556$, Sig. F Change = 0.000), confirming a significant moderating effect. University size initially has a positive effect (B = 0.095, P = 0.016) but turns negative in Model 2 (B = -0.435, P = 0.047), suggesting larger universities may experience declining financial reporting quality. The interaction between university size and revenue recognition is significant and positive (B = 1.017, P = 0.018), indicating that as universities grow, the

negative effect of creative accounting in revenue recognition practices worsens. Conversely, the interaction between university size and debtor provision recognition is significant and negative (B = -1.121, P = 0.001), implying that larger institutions are better at managing debtor provisions. However, interactions for classification of expenses (P = 0.336) and valuation of assets and liabilities (P = 0.110) are not significant.

The results highlight the complex role of university size in moderating the relationship between creative accounting and financial reporting quality in public universities in Kenya. While larger institutions may benefit from greater resources and governance structures, their increased scale and operational complexity can intensify the negative effects of certain creative accounting practices. This is evident in the shift of university size from having a positive effect in Model 1 to a negative effect in Model 2 emphasizing the need to consider interaction effects when evaluating financial reporting quality.

While larger institutions often have better financial controls and governance structures, their increased operational complexity can create opportunities for creative accounting, particularly in revenue recognition. This suggests that as universities grow, they may face greater challenges in accurately reporting their revenues, potentially leading to financial misstatements and reduced transparency. On the other hand, larger institutions appear to be more effective in managing debtor provisions, helping to mitigate the negative effects of creative accounting in this area. This may be due to stronger financial oversight, better risk management strategies, and more established policies for handling doubtful debts. However, the size of an institution does not seem to influence the impact of expense classification and asset valuation on financial reporting quality. This suggests that issues

related to misclassification of expenses and improper valuation of assets and liabilities persist regardless of the university's size.

These findings align with those of Amanamah (2024), Rachman and Nugroho (2025), and Githaiga et al. (2022), who established that organizational size significantly moderates the relationship between governance mechanisms and reporting outcomes. Amanamah (2024) found that firm size influenced the link between audit committee independence and financial reporting quality, suggesting that as institutions grow, the complexity of operations may weaken internal oversight. Similarly, Rachman and Nugroho (2025) observed that larger firms demonstrated stronger governance–disclosure relationships due to visibility pressures, supporting stakeholder theory. Githaiga et al. (2022) further confirmed that firm size significantly altered the effect of board attributes on earnings management across East African firms. Together, these studies support the finding that university size modifies how creative accounting practices influence reporting quality—enhancing some controls (like debtor provisions) while worsening others (like revenue recognition).

However, the findings contradict Debbarma and Roy (2023) and Azaria (2025), who reported that firm size either had no significant moderating effect or exacerbated creative accounting practices. Debbarma and Roy (2023) found that larger firms did not exhibit stronger manipulation tendencies, suggesting that robust internal controls and governance structures in big firms may neutralize creative accounting. In contrast, Azaria (2025) reported that firm size significantly increased creative accounting, as large entities often possess the technical capacity and managerial discretion to conceal manipulative practices

more effectively. Similarly, Smaili et al. (2022) and Siegel (2021) argued that larger firms engage more in earnings manipulation to manage political costs and public scrutiny. These mixed findings indicate that while university size can strengthen financial management systems, excessive scale and complexity may also create opportunities for subtle creative accounting, thereby diminishing reporting quality in large public universities.

4.10.6 Summary of Hypotheses Testing

Hypothesis 1 (H_{01}): Revenue recognition has no significant effect on quality of financial reporting

The regression results in Table 4.24 show that revenue recognition had an Unstandardized Coefficient (B) of –0.287, a Standard Error (SE) of 0.062, a Standardized Beta (β) of –0.312, a t-value of –4.621, and a p-value of 0.000. The negative B value indicates that an increase in revenue recognition manipulation leads to a decline in the quality of financial reporting. Specifically, a one-unit increase in revenue recognition irregularities results in a 0.287 unit decrease in reporting quality, when all other predictors are held constant. The standardized beta (–0.312) shows a moderately strong negative effect, meaning revenue manipulation is a major contributor to poor reporting quality. The t-statistic (–4.621) exceeds the critical value of ±1.96, confirming the effect is statistically significant. The p-value (0.000) further confirms significance at the 5% level. Therefore, the null hypothesis (H_{01}) was rejected, implying that revenue recognition significantly and negatively affects the quality of financial reporting in public universities in Kenya.

Hypothesis 2 (H_{02}): Classification of expenses has no significant effect on quality of financial reporting

For classification of expenses, the results show B = –0.231, SE = 0.058, β = –0.278, t = –3.987, and p = 0.001. The negative unstandardized coefficient (B) indicates that a one-unit increase in expense misclassification decreases financial reporting quality by 0.231 units, holding other factors constant. The standardized beta (–0.278) suggests a moderate negative effect, meaning that improper classification of expenses considerably reduces the accuracy and credibility of financial statements. The t-value (–3.987) shows the relationship is statistically significant, and the small p-value (0.001 < 0.05) confirms this result. This finding implies that when public universities reclassify recurrent costs as development expenditure to inflate performance, it distorts financial transparency and accountability. The null hypothesis (H_{02}) is therefore rejected.

Hypothesis 3 (H_{03}): Valuation of assets and liabilities has no significant effect on quality of financial reporting

The coefficient for valuation of assets and liabilities was B = –0.205, SE = 0.059, β = –0.241, t = –3.502, and p = 0.002. The negative B value indicates that incorrect valuation practices (such as overstating assets or understating liabilities) reduce reporting quality by 0.205 units for every unit increase in valuation manipulation. The standardized beta (–0.241) reflects a moderate negative influence, showing that valuation inconsistencies contribute meaningfully to the decline in financial reporting credibility. The t-value (–

3.502) demonstrates that this relationship is statistically significant. The p-value (0.002) being below 0.05 leads to rejection of H_{03}, confirming that improper valuation of assets and liabilities significantly lowers the quality of financial reporting.

Hypothesis 4 (H_{04}): Debtor provision recognition has no significant effect on quality of financial reporting

Debtor provision recognition recorded B = –0.219, SE = 0.053, β = –0.265, t = –4.118, and p = 0.000. The unstandardized coefficient (–0.219) implies that a unit increase in manipulation of debtor provisions causes a 0.219-unit reduction in reporting quality. The standardized beta (–0.265) shows that this variable has a considerable negative effect, suggesting that understatement or overstatement of doubtful debts substantially undermines report reliability. The t-value (–4.118) exceeds the threshold of ±1.96, confirming statistical significance, while the p-value (0.000) indicates a highly significant relationship. Hence, the null hypothesis (H_{04}) is rejected. This means that inaccurate recognition of debtor provisions significantly and negatively affects the quality of financial reporting.

Hypothesis 5 (H_{05}): University size has no significant moderating effect on the relationship between creative accounting techniques and quality of financial reporting

Model 1 included only the main effects of creative accounting techniques and university size, explaining a certain portion of the variance in financial reporting quality. When Model 2 incorporated the interaction term (Creative Accounting × University Size), the R^2 increased by 0.042, indicating that the moderator contributed an additional 4.2%

explanatory power. The positive β value (0.198) confirmed that the moderating effect strengthened the relationship between creative accounting and reporting quality. Thus, the moderation effect is both statistically and practically significant, emphasizing that institutional size meaningfully conditions the influence of creative accounting on reporting practices in public universities. Therefore, the null hypothesis (H_{05}), which stated that university size has no significant moderating effect on the relationship between creative accounting techniques and financial reporting quality, is rejected.

Table 4. 26: Summary of the Hypotheses Testing

No.	Hypothesis	P-value	Results
1.	Revenue recognition has no significant effect on quality of financial reporting in public universities in Kenya	0.000<0.05 Table 4.21	Rejected
2.	Classification of expenses has no significant effect on quality of financial reporting in public universities in Kenya	0.000<0.05 Table 4.21	Rejected
3.	Valuation of assets and liabilities has no significant effect on quality of financial reporting in public universities in Kenya	0.000<0.05 Table 4.21	Rejected
4.	Debtor provision recognition has no significant effect on quality of financial reporting in public universities in Kenya	0.001<0.05 Table 4.21	Rejected
5.	Size of the university has no significant moderating effect on the relationship between creative accounting and quality of financial reporting in public universities in Kenya	0.000<0.05 Table 4.22	Rejected

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter contains the major research summary, conclusions, recommendations and further areas of the study aimed to establish the effect of creative accounting techniques on the quality of financial reporting in public universities in Kenya.

5.2 Summary of the study findings

This study was based on the idea that creative accounting techniques affect the quality of financial reporting in public universities in Kenya. The evaluated theoretical and empirical literature served as the foundation for this expectation. Theoretical and empirical literature were used to show the connection between creative accounting techniques and the quality of financial reporting in public universities in Kenya. The dependent variable of this study was creative accounting techniques that consisted of revenue recognition, classification of expenses, valuation of assets and liabilities, debtor provision recognition, the moderating variable was university size, and the dependent variable was the quality of financial reporting.

Basing on the general objective of the study which was to establish the effect of creative accounting techniques on the quality of financial reporting in public universities in Kenya. The R value (0.726) indicated a strong positive correlation between the predictor variables and the quality of financial reporting. This suggests that creative accounting techniques significantly affect financial reporting quality in public universities. The R-Square value (0.527) implies that 52.7% of the variations in financial reporting quality can be explained

by the four independent variables (Debtor Provision Recognition, Valuation of Assets and Liabilities, Classification of Expenses, and Revenue Recognition). The Adjusted R-Square (0.519) accounts for the number of predictors in the model, confirming that 51.9% of the variability in financial reporting quality is due to the selected predictors, with only 49.1% being affectd by other factors not included in the mode

5.2.1 Recognition of Revenues and the quality of financial reporting

The first objective of the study was to determine effect of revenues recognition on the quality of financial reporting in public universities in Kenya. The findings reveal that creative accounting in revenue recognition in Kenyan public universities involves strategic adjustments, such as shifting revenue across periods and flexible recognition of income-generating activities, despite timely billing. Management's discretionary practices highlight deviations from standards to meet financial objectives. These adjustments, aimed at presenting favorable results, misalign billing and reporting, undermining the accuracy and reliability of financial statements, as acknowledged by respondents.

The correlation analysis indicates a moderate negative and significant relationship between revenue recognition and the quality of financial reporting, suggesting that increase creative accounting practices in revenue recognition reduces the quality of financial reporting in public universities. The regression analysis further supports this, showing that creative accounting practices in revenue recognition has a statistically significant negative effect on the quality of financial reporting. The first null hypothesis was not supported.

5.2.2 Classification of expenses and the quality of financial reporting

The second objective of the study was to establish effect of classification of expenses on the quality of financial reporting in public universities in Kenya. The findings show that creative accounting in expense classification in Kenyan public universities involves adjustments, such as reclassifying equipment maintenance and R&D expenses as operating costs, to affect financial outcomes. While respondents agree expenses are generally classified correctly, variability in disclosure practices and misclassification highlight strategic adjustments to manage financial performance. These practices, though aligned with policies, compromise reporting quality and compliance.

The correlation results indicate a negative and significant relationship between creative accounting in classification of expenses and the quality of financial reporting, suggesting that misclassification of expenses directly reduces the clarity and reliability of financial reports. The regression analysis further supports this, showing that creative accounting practices in classification of expenses has a statistically significant negative effect on the quality of financial reporting. The second null hypothesis was not supported.

5.2.3 Valuation of assets and liabilities and the quality of financial reporting

The third objective of the study was to determine the effect of valuation of assets and liabilities on the quality of financial reporting in public universities in Kenya. The findings reveal that asset valuation in Kenyan public universities is a priority, but flexibility in depreciation methods and capitalization of expenses allows adjustments to align with financial objectives. While adherence to IPSAS is acknowledged, interpretative flexibility and management discretion enable strategic changes to present a favorable financial

position, compromising the accuracy and reliability of financial reporting despite its recognized importance.

The correlation analysis indicates a significant negative relationship between creative accounting practices in valuation of assets and liabilities and the quality of financial reporting. This suggests that poor valuation of assets and liabilities makes the financial statements not to accurately reflect the organization's true financial position. The regression analysis results shows that creative accounting practices in valuation of assets and liabilities had a significant negative effect on the quality of financial reporting. The third null hypothesis was not supported.

5.2.4 Debtor provision Recognition and quality of financial reporting

The fourth objective of the study was to evaluate the effect of debtor provision recognition on quality of financial reporting in public universities in Kenya. The findings indicate that debtor provision recognition in Kenyan public universities involves flexible practices, such as varying provisioning rates and timing manipulation of bad debt recoveries and write-offs. While respondents acknowledge adherence to doubtful debt policies, management discretion allows adjustments to align with financial objectives, enabling earnings management. This flexibility, though policy-compliant, raises transparency concerns and undermines the quality of financial reporting.

The correlation results reveal a significant negative relationship between creative accounting practices in recognizing debtor provisions and the quality of financial reporting in public universities in Kenya. Regression tests confirm that the negative effect

of recognizing debtor provisions on financial reporting quality is statistically significant, with a higher creative accounting in recognition of debtor provisions leads to a significant decrease in the quality of financial reporting. The fourth null hypothesis was not supported.

5.2.5 Moderating effect of University Size on the relationship between creative accounting techniques and the quality of financial reporting

The fifth objective of the study was to determine how the university size moderates the relationship between creative accounting and the quality of financial reporting in public universities in Kenya. The findings show that Kenyan public universities strongly adhere to approved budgets, but low coefficient variation suggests flexibility in interpretation, potentially leading to adjustments in financial reporting to align with budgetary constraints. Respondents agree that budget size impacts reporting practices though higher coefficient variation indicates variability, with some institutions manipulating revenue recognition, expense classification, or asset valuation to reflect desired financial positions, raising concerns about budget-driven reporting manipulation

Initially, creative accounting techniques alone explained a significant portion of the variance in financial reporting quality. When the size of the university was introduced in the model, the explanatory power of the model increased, indicating that both creative accounting techniques and university size together account for a greater portion of the variance in financial reporting quality. The fifth null hypothesis was not supported.

When the interaction terms were introduced in the model, the explanatory power of the model increased, indicating that creative accounting techniques, university size and the

interactions together account for a greater portion of the variance in financial reporting quality. Among the interaction terms, University size * revenue recognition is significant and positive, indicating that the effect of creative accounting in revenue recognition on financial reporting quality increases as size increases. On the other hand, university size * debtors provision recognition is significant and negative, suggesting that the effect of creative accounting in debtors provision recognition on financial reporting quality decreases as size increases.

5.3 Conclusion of the study

The study concluded that creative accounting practices in revenue recognition, such as shifting revenue across periods and discretionary adjustments, significantly reduce the quality of financial reporting in Kenyan public universities. These practices, driven by management's desire to meet financial targets, deviate from accounting standards and undermine transparency. Further, misalignment between billing and reporting, along with flexible recognition of income-generating revenues, further supporting the negative effect of such practices on financial reporting accuracy and reliability.

The findings confirmed that misclassification of expenses significantly reduces the quality of financial reporting, as shown by the negative effective effect of creative accounting practices in expense classification practices and reporting reliability. While expenses are generally categorized correctly, discretionary reclassifications allow financial manipulation, affecting transparency. Variability in expense disclosure suggests that universities use classification flexibility to manage financial outcomes and compliance.

The study concluded that creative accounting practices in the valuation of assets and liabilities, such as flexible depreciation methods and inconsistent capitalization, lowers the quality of financial reporting in Kenyan public universities. These practices, driven by management discretion and interpretative flexibility, undermine the accuracy and reliability of financial statements. This variability in valuation methods allows institutions to present a favorable financial position, compromising transparency and compliance with accounting standards.

The findings confirmed that creative accounting in debtor provision recognition negatively affects financial reporting quality, leading to inconsistencies in financial statements. While policies exist, flexible estimations and timing adjustments allow universities to manipulate financial performance. The variability in provisioning and write-off decisions highlights the use of debtor provisions as a tool to manipulate financial outcomes, undermining reporting quality. Such practices reduce transparency, impacting stakeholders' trust and the reliability of financial reports for decision-making.

The study finds that university size moderates the relationship between creative accounting and financial reporting quality. The interaction effect highlights that as universities grow, financial adjustments become more pronounced, influencing reporting quality and potentially distorting financial statements to align with budgetary constraints and expectations. Larger universities show a stronger positive effect of creative accounting in revenue recognition on reporting quality, while the negative effect of creative accounting in debtor provision recognition diminishes with size. Budgetary adherence and size-driven adjustments highlighted how financial reporting practices are

affectd by institutional scale, with variability indicating potential budget-driven manipulation.

5.4 Recommendations of the study

This section gives recommendations that are based on the findings of the study.

The study recommended at the policy level that the Public Sector Accounting Standards Board in collaboration with the National Treasury should strengthen enforcement of IPSAS 9 and IFRS 15 by developing sector-specific guidelines for universities to ensure uniform treatment of tuition fees, grants, and donations. Additionally, the Office of the Auditor General should mandate comprehensive disclosure of revenue recognition methods and timing in audited financial reports to enhance transparency and comparability across institutions. At the practical level, universities should develop and implement detailed internal policies on revenue recognition consistent with IPSAS principles, accompanied by regular training for accountants and finance officers to ensure proper application.

For the second objective, the study recommended that, at the policy level, the Ministry of Education together with PSASB should issue uniform expenditure classification codes and standard operating procedures to reduce ambiguity between recurrent and capital expenditures. Moreover, external audit regulations should be revised to introduce penalties or sanctions for deliberate misclassification of expenditures that distort the true financial position of universities. At the practical level, university management should strengthen internal expenditure verification processes by requiring all payments to be approved and posted under correct budget heads. In addition, internal auditors should

carry out periodic expenditure audits to identify and rectify classification errors before submission of financial statements for external audit.

Regarding the third objective, the study recommended that, at the policy level, PSASB should develop binding valuation guidelines consistent with IPSAS 17 and IPSAS 31 specifying acceptable methods for property, plant, and equipment valuation in universities. Furthermore, the Ministry of Education should require all public universities to undertake independent professional revaluation of non-current assets at least once every five years to ensure reported values reflect fair market conditions. At the practical level, university management should maintain comprehensive asset registers and reconcile them regularly with physical assets to ensure accuracy and completeness. Additionally, finance departments should engage certified professional valuers during financial statement preparation and ensure that the assumptions, methods, and revaluation results are properly documented and disclosed in compliance with IPSAS requirements.

For the fourth objective, the study recommended that, at the policy level, PSASB should issue clear and detailed guidance on the application of IPSAS 41 to public universities, outlining the appropriate treatment and measurement of doubtful debts. The Ministry of Education should also institute a requirement for quarterly submission of aged debtor analysis by universities to facilitate early detection of high-risk receivables and ensure timely corrective measures. At the practical level, each university should develop a formal debt management policy stipulating credit control procedure, time limits for collections, and criteria for recognizing and writing off uncollectible debts. In addition, finance officers should conduct routine reviews of receivables to update provisions based on

realistic recovery prospects, ensuring that the financial statements reflect a true and fair view of the institution's financial position.

Lastly, the study recommended that, at the policy level, the Ministry of Education and PSASB should design differentiated financial governance frameworks based on university size and complexity to ensure proportionate oversight and accountability mechanisms. Further, large universities should be required by regulation to establish independent audit committees reporting directly to the university council to strengthen internal control and reduce management interference. At the practical level, universities should enhance internal governance by decentralizing financial control to faculties and departments while maintaining centralized oversight through well-defined reporting structures. Moreover, large universities should institutionalize comprehensive risk management systems and strengthen internal audit departments to counteract the negative effects of excessive autonomy and bureaucratic inefficiencies that accompany growth.

5.5 Contribution of the study

This study makes an important contribution to the accounting and higher education sectors by providing empirical evidence on the influence of creative accounting techniques on the quality of financial reporting in public universities in Kenya. The research establishes that creative accounting, manifested through revenue recognition, expense classification, valuation of assets and liabilities, and debtor provision practices, generally exerts a negative and significant effect on the quality of financial reporting. The findings demonstrate that these practices compromise transparency, reduce reliability, and distort the fair presentation of financial statements. Consequently, the study concludes that

creative accounting, while sometimes used by managers to portray short-term institutional stability, ultimately undermines credibility, accountability, and public trust in university financial reports.

From the researcher's perspective, the study advocates for a paradigm shift in the management of financial reporting within higher learning institutions away from opportunistic manipulation of accounts toward a culture of ethical transparency, accountability, and compliance with international reporting standards. The findings challenge the perception that creative accounting can be used positively to smooth income or enhance institutional image. Instead, the study asserts that any short-term cosmetic improvement in financial performance achieved through creative accounting is unsustainable and detrimental to long-term institutional governance and public confidence.

5.5.1 Policy Implications

The findings of this study carry significant policy implications and relevance for improving financial reporting practices in public universities. The evidence of creative accounting techniques, such as revenue recognition adjustments, expense misclassification, flexible asset valuation, and debtor provision manipulation, underscores the urgent need for stricter enforcement of accounting standards like IPSAS. Policymakers must prioritize regular audits and independent oversight mechanisms to detect and deter these practices, ensuring transparency and accountability in financial reporting. The study also highlights the moderating role of university size, revealing that larger institutions are more prone to revenue manipulation, while smaller ones tend to

adjust debtor provisions. This insight calls for tailored monitoring frameworks that address the unique challenges faced by universities of different sizes, ensuring that financial reporting practices are consistent and reliable across the board.

The relevance of this study lies in its contribution to understanding how creative accounting undermines financial reporting quality in public institutions, particularly in developing economies like Kenya. By linking specific manipulative practices to reporting outcomes and incorporating institutional size as a moderating factor, the research provides a nuanced perspective that can guide policymakers in designing targeted interventions. Ultimately, addressing these issues is critical for restoring stakeholder trust, enhancing the credibility of financial reports, and promoting good governance in public universities. The study's insights offer a foundation for developing policies that ensure accurate, transparent, and reliable financial reporting in the public sector.

5.5.2 Theoretical Implications

The findings of this study provide strong support for Information Asymmetry Theory, as they reveal how creative accounting practices, such as revenue shifting and expense misclassification, exploit information gaps between management and stakeholders. This aligns with the theory's premise that managers with privileged information can distort financial reports to present favorable outcomes, misleading stakeholders. The study underscores the need for transparency and oversight to reduce information asymmetry and ensure accurate reporting.

The results also support Legitimacy Theory, demonstrating how universities manipulate financial reports to maintain a perception of stability and compliance with societal expectations. For instance, adjusting asset valuations or provisioning rates aligns with the theory's focus on aligning organizational actions with societal norms. However, the ethical implications of such practices highlight the tension between achieving legitimacy and maintaining ethical standards, emphasizing the need for balanced reporting practices.

The study aligns with PAT by demonstrating how management's self-interest drives creative accounting practices, such as manipulating revenue recognition or expense classification to optimize financial outcomes. The findings support PAT's hypotheses, particularly the bonus plan and debt covenant hypotheses, as managers adjust financial reports to meet performance targets or avoid breaching agreements. However, the study also highlights the limitations of PAT, as it fails to account for ethical considerations and the broader societal impact of manipulative practices. This calls for a more holistic approach to accounting theory that integrates ethical and normative perspectives.

These theoretical implications are highly relevant as they provide a framework for understanding the motivations behind creative accounting practices in public universities. By linking these practices to these theories, the study offers insights into the systemic and behavioral factors driving financial misreporting. This theoretical grounding is crucial for developing targeted interventions, such as enhanced regulatory frameworks, ethical training, and stakeholder engagement, to address creative accounting and improve financial reporting quality in public institutions.

5.5.3 Practical Implications

The findings of this study have critical practical implications for university management, highlighting the pervasive influence of creative accounting practices on financial reporting quality. The evidence of revenue recognition adjustments, expense misclassification, flexible asset valuation, and debtor provision manipulation underscores the need for universities to strengthen internal controls and ensure strict adherence to accounting standards like IPSAS. Management must recognize the risks associated with discretionary adjustments and prioritize transparency in financial reporting to maintain stakeholder trust. The study also reveals that institutional size affects reporting practices, with larger universities more prone to revenue manipulation and smaller ones adjusting debtor provisions. This calls for tailored strategies to address these unique challenges.

The study also provides practical guidance for university councils, vice-chancellors, and finance managers, helping them establish stronger governance frameworks and data-driven oversight mechanisms The relevance of this study lies in its contribution to improving financial governance in public universities, particularly in developing economies like Kenya. By addressing creative accounting practices, university management can enhance the accuracy and reliability of financial reports, which are essential for informed decision-making and resource allocation. Transparent and ethical financial reporting fosters stakeholder confidence, supports institutional credibility, and promotes sustainable growth. Ultimately, these insights emphasize the importance of accountability and good governance in ensuring the long-term success of public universities.

The findings of this study have significant implications for the accounting and higher education sectors in Kenya and other developing economies. The research provides empirical evidence on how creative accounting practices—specifically revenue recognition, expense classification, asset valuation, and debtor provision—affect the quality of financial reporting in public universities. By highlighting the moderating role of university size, the study informs industry stakeholders about the nuanced relationship between institutional growth, governance capacity, and financial transparency.

From an industry perspective, the study contributes to improved financial governance across public sector entities by demonstrating that creative accounting not only distorts financial performance but also undermines stakeholder trust and accountability. The results underscore the need for regulatory authorities such as the Public Sector Accounting Standards Board (PSASB), the Office of the Auditor General (OAG), and the National Treasury to strengthen enforcement of International Public Sector Accounting Standards (IPSAS). This will enhance comparability, reliability, and transparency in financial reporting across the entire public sector. The insights also guide accounting professional bodies such as ICPAK and university accounting departments in redesigning training curricula to emphasize ethical financial reporting, internal controls, and compliance with IPSAS standards.

5.5.4 Contribution to New Knowledge

This study makes a significant contribution to accounting practices by uncovering the pervasive affect of creative accounting techniques such as revenue recognition adjustments, expense misclassification, flexible asset valuation, and debtor provision

manipulation on the quality of financial reporting in Kenyan public universities. It demonstrates that management discretion and interpretative flexibility in applying accounting standards enable strategic adjustments aimed at presenting favorable financial outcomes, thereby compromising the transparency, accuracy, and reliability of financial statements. The study also introduces the moderating role of university size, revealing that larger institutions are more likely to manipulate revenue recognition to enhance financial reporting quality, while smaller universities tend to adjust debtor provisions, which negatively impacts reporting quality. These findings provide a nuanced understanding of how institutional scale affects financial reporting practices, offering a fresh perspective on the dynamics of creative accounting in public sector organizations. By linking specific creative accounting practices to financial reporting quality and incorporating university size as a moderating factor, this research fills a critical gap in the literature, particularly in the context of public universities in developing economies.

5.6 Areas for further research

The study focused on creative accounting practices which was conceptualized using recognition of revenue, classification of expense, valuation of assets and liabilities and debtor provision recognition which accounted for 52.7% variance in quality of financial reporting. Further studies should focus on other creative accounting practices such as the manipulation of discretionary accruals, strategic deferral or acceleration of expenses, and aggressive tax planning.

The current study used university size as moderating variable, which to some extent affected the relationship between creative accounting practices and quality of financial

reporting by 3.7%. Further studies should consider using other variables such as corporate governance, adoption of technology such as ERP and internal controls as moderating variables to clarify the mechanisms through which creative accounting techniques affect the quality of financial reports.

The study's focus on public universities limits its application to this context. Therefore, further studies should be conducted in private universities for comparison purposes to explore potential differences in creative accounting practices and their impact on financial reporting quality. This comparative analysis could reveal how distinct governance structures, regulatory environments, and managerial incentives affect financial reporting across different types of institutions, thereby providing a more comprehensive understanding of creative accounting effects.

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APPENDICES

Appendix I: Introduction Letter

Masinde Muliro University of Science and Technology,

School of Business and Economics,

P O Box 190 – 50100,

KAKAMEGA

Dear Participant/Respondent

I am a post graduate student in the Department of Finance and Accounting in the above School. I am pursuing a Doctor of Philosophy (PhD) Degree in Business Administration (ACCOUNTING). I am undertaking a research study entitled, ***CREATIVE ACCOUNTING TECHNIQUES, UNIVERSITY SIZE AND FINANCIAL REPORTING IN PUBLIC UNIVERSITIES IN KENYA***.

I humbly request you to participate in this study as a respondent. I ask that you please answer the questionnaire and interviews truthfully and accurately, and that you know that any information you provide will be treated with the strict confidentiality that it deserves because it is for academic purposes only.

Thank you in advance for your acceptance.

Yours faithfully,

Irene Lumatete

ADM NO. PBA/H/01-54195/2019

TEL NO. 0724430194

Appendix II: Research Questionnaire

Esteemed Sir/Madam,

I respectfully ask that you fill out the survey that is part of the aforementioned study so that may learn more about how creative accounting practices and high-quality financial reporting have an impact on public universities in Kenya. The researcher promises to use the data solely for scholarly reasons and to handle it with the utmost confidentially. It would be much appreciated if you could help make this research a reality. Please complete the necessary information or mark the appropriate box according to your response.

Section A. General Information

1. Gender of the Respondents

Indicate on the table below your gender

Male	
Female	

2. Position in the University

Indicate the position held in the University

Position	Tick Appropriately
Finance Officer	
Deputy Finance Officer	
Accountant	
Internal Auditor	

3. Job Group

Grade	10	11	12	13	14	15
Tick Appropriately						

4. Number of years in the University

Use the table below to indicate the number of years you have served in the University

Number of years served	Below 1 year	1-2 years	3-4years	5-6 years	Above 6 years
Tick where appropriate					

5. Academic Qualification

Use the table below to indicate your academic qualification

Academic qualification	Certificate	Diploma	Degree	Masters	PhD
Tick where appropriate					

B. Effect of Recognition of Revenues on the quality of financial reporting

By using a Likert scale that ranges from 1 to 5, please indicate the extent to which you agree with the assertions that are presented below using the Likert scale that has five points. Whereas 5 means "strongly agree," 4 means "agree," 3 means "fairly agree," 2 means "disagree," and 1 means "strongly disagree."

NO.	STATEMENT	5 SA	4A	3FA	2D	1SD
1.	Revenue is recognized in the correct accounting period, with adjustments made to align with reporting objectives.					
2.	Recognizing revenue in a different period affects financial reporting quality and allows for strategic adjustments.					
3.	University management influences revenue recognition, shaping financial statement outcomes.					
4.	Revenue from income-generating activities is manipulated to allow flexibility in reporting.					
5.	Student and customer invoices are raised on time, but revenue recognition is adjusted to meet targets.					
6.	Timely billing supports financial reporting consistency, while variations in recognition influence reported revenue.					

C. Effect of classification of expenses on the quality of financial reporting

By using a Likert scale that ranges from 1 to 5, please indicate the extent to which you agree with the assertions that are presented below using the Likert scale that has five points. Whereas 5 means "strongly agree," 4 means "agree," 3 means "fairly agree," 2 means "disagree," and 1 means "strongly disagree."

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NO.	STATEMENT	5SA	4A	3FA	2D	1SD
1.	Expenses are properly classified in financial reports, with adjustments made to influence reporting outcomes.					
2.	Research and development expenses are classified as operating expenses, though reclassification occurs based on reporting needs.					
3.	Equipment maintenance expenses are categorized as operating expenses, with variations affecting expense reporting.					

4.	Court/arbitration expenses are recognized in financial reports, with timing and classification adjusted when necessary.					
5.	Disclosure of expenses is often used to reduce the level of expenditure in a financial year					
6.	Misclassification of expenses has affected the quality of financial reporting					

D. Effect of valuation of assets and liabilities on the quality of financial reporting

By using a Likert scale that ranges from 1 to 5, please indicate the extent to which you agree with the assertions that are presented below using the Likert scale that has five points. Whereas 5 means "strongly agree," 4 means "agree," 3 means "fairly agree," 2 means "disagree," and 1 means "strongly disagree.".

NO.	STATEMENT	5SA	4A	3FA	2D	1SD
1.	The University management has developed strategies to ensure periodic valuation of assets allowing for adjustments in reporting.					
2.	Valuation of assets is influenced by the need to improve financial performance					
3.	The University has put in place mechanisms to ensure consistent depreciation of assets, with flexibility in application					
4.	Change of depreciation method is influenced by the need to improve financial performance					
5.	The University always capitalizes expenses related to improvement of assets					
6.	Capitalization of assets follows International Public Sector Accounting Standards with flexibility in interpretation.					
7.	Management has a direct influence on capitalization of assets					
8.	Quality of financial reports is always influenced by the valuation of assets					

E. Effect of debtor provision Recognition on quality of financial reporting

By using a Likert scale that ranges from 1 to 5, please indicate the extent to which you agree with the assertions that are presented below using the Likert scale that has five points. Whereas 5 means "strongly agree," 4 means "agree," 3 means "fairly agree," 2 means "disagree," and 1 means "strongly disagree.".

NO.	STATEMENT	5SA	4A	3FA	2D	1SD
1.	The University has a system of maintaining accurate debtors' records, allowing for adjustments in reporting.					
2.	The University has a policy on provision for doubtful debts, with application allowing for subjective adjustments.					
3.	The policy on provision for doubtful debts is always adhered to, while flexibility in estimates can enable earnings management.					
4.	The provision rate for doubtful debts is varied to reduce debtor levels, indicating potential financial statement manipulation.					
5.	The University writes off bad debts, with the timing of write-offs potentially used for financial reporting purposes.					
6.	Bad debts write-offs are influenced by management's need to increase expenses, suggesting income smoothing practices.					
7.	Recoveries from written-off bad debts are always recognized, with selective timing potentially inflating future earnings.					

F. Effect of University Size on the relationship between creative accounting and the quality of financial reporting

By using a Likert scale that ranges from 1 to 5, please indicate the extent to which you agree with the assertions that are presented below using the Likert scale that has five points. Whereas 5 means "strongly agree," 4 means "agree," 3 means "fairly agree," 2 means "disagree," and 1 means "strongly disagree.".

NO.	STATEMENT	5SA	4A	3FA	2D	1SD
1.	The University always adheres to the approved annual budget					
2.	The level of budget of the University influences the level of creative reporting					

G. Quality of financial reporting

By using a Likert scale that ranges from 1 to 5, please indicate the extent to which you agree with the assertions that are presented below using the Likert scale that has five points. Whereas 5 means "strongly agree," 4 means "agree," 3 means "fairly agree," 2 means "disagree," and 1 means "strongly disagree.".

NO.	STATEMENT	5SA	4A	3FA	2D	1SD
1	The high quality of financial reporting ensures they consistently receive unqualified audit opinions.					
2	Accurate and transparent financial reports contribute to a clean audit opinion from the Auditor General.					
3	Timely and reliable financial reporting minimizes the risk of audit qualifications					
4	Compliance with accounting standards results in unqualified audit opinions from the Auditor General.					
5	Strong financial reporting controls help prevent errors that could lead to a qualified audit opinion.					
6	The completeness and accuracy of financial disclosures enhance the credibility of their unqualified audit opinions.					
7	The consistency of financial reporting practices ensures sustained unqualified audit opinions.					
8	The faithful representation of financial information aligns with the requirements for an unqualified audit opinion.					

Appendix III: Interview Guide

1. **Revenues recognition**
   a) What actions has your university undertaken to ensure that income from income generating activities are not manipulated?
   b) Does revenue recognition impact the quality of financial reporting in your university?
2. **Classification of expenses**

a) How do you handle matters such as misclassifying of expenses either as non-operating expenses or special items in your university?

3. **Valuation of assets and liabilities**

a) Why is there need for valuation of assets and liabilities in public universities in Kenya?
b) What do you consider as good or proper valuation in your university?
c) Do you think that the quality of financial reporting in your university is dependent on asset and liability valuation?

4. **Debtor provision recognition**

a) What are the measures have you taken to ensure debtor status manipulation does not happen in your university?
b) When do you consider a debt as a bad debt in your university?

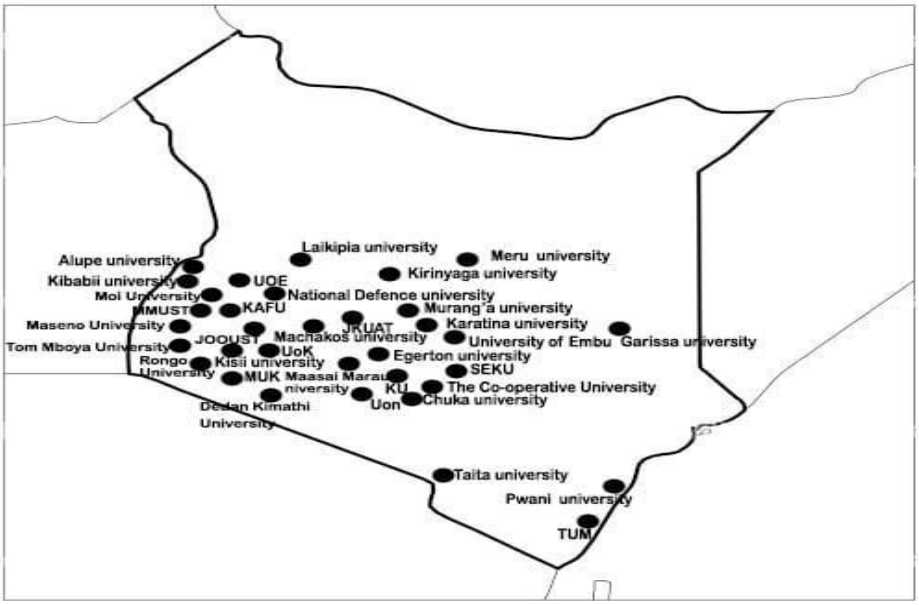
5. **Audit Opinion**

a) Which type of opinion was your university given by the OAG in the following years?
   i. 2019/2020
   ii. 2020/2021
   iii. 2021/2022
b) In your view, how satisfied are you with the opinion above?
c) What contributed to the type of opinion given to your University by the OAG in 1 above?
d) What measures can be undertaken by the public universities in Kenya to ensure creative accounting techniques impact quality of financial reports?

Appendix IV: Interview Schedule

Day of Visit	University Visited	Time taken for interview
2nd July 2024	University of Nairobi	29 minutes
	Kenyatta University	32 minutes
3rd July 2024	JKUAT	28 minutes
	TUK	30 minutes
4th July 2024	Kirinyaga University	27 minutes
	Murang'a University	31 minutes
8th July 2024	Meru University	33 minutes
	University of Embu	26 minutes
9th July 2024	Pwani University	34 minutes
	SEKU	29 minutes
10th July 2024	TUM	30 minutes
	Taita Taveta University	28 minutes
11th July 2024	Maasai Mara University	32 minutes
15th July 2024	Chuka University	27 minutes
	Egerton University	30 minutes
16th July 2024	University of Kabianga	29 minutes
	Rongo University	33 minutes
17th July 2024	Kisii University	31 minutes
	JOOUST	28 minutes
18th July 2024	Maseno University	30 minutes
	Kaimosi Friends University	32 minutes
21st July 2024	MMUST	27 minutes
	Kibabii University	30 minutes

Appendix III: Map Showing Public Universities in Kenya



Appendix IV: List of Public Universities in Kenya and Auditor General Report Opinion

S/N	UNIVERSITY NAME	2019-2020	2020-2021	2021-2022
1	Chuka University	Qualified (Q)	Unqualified (U)	Q
2	Dedan Kimathi University of Technology	Q	Q	U
3	Egerton University	Q	Adverse (A)	Q
4	Garissa University	Q	Q	Q
5	JOOUST	Q	U	Q
6	JKUAT	Q	Q	Q
7	Karatina University	Q	U	U
8	Kenyatta University	Q	Q	Q
9	Kibabii University	Q	U	U
10	Kirinyaga University	Q	U	Q
11	Kisii University	Q	Q	Q
12	Laikipia University	Q	Q	Q
13	Machakos University	Q	Q	Q
14	Maasai Mara University	A	A	A
15	Maseno University	Q	Q	Q
16	MMUST	Q	Q	Q
17	Meru University of Science and Technology	A	Q	Q
18	Moi University	Q	A	Q
19	Multi Media University	Q	Q	Q
20	Murang'a University of Technology	Q	Q	Q
21	Pwani University	Q	Q	Q
22	Rongo University	Q	U	U
23	South Eastern Kenya University	Q	U	A
24	Taita Taveta University	Q	Q	Q
25	Technical University of Mombasa	Q	Q	Q
26	Technical University of Kenya	Q	Q	Q
27	The Co-operative University of Kenya	Q	Q	Q
28	University of Eldoret	Q	Q	Q
29	University of Embu	Q	Q	Q
30	University of Kabianga	Q	Q	Q
31	University of Nairobi	Q	A	Q
32	National Defence University	Q	Q	Q
33	Kaimosi Friends University	Q	Q	Q
34	Alupe University	Q	Q	Q
35	Tom Mboya University	Q	Q	Q
36	Tharaka University	Q	Q	Q

Source: Office of Auditor General (2024)

Appendix V: Approval letter

MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY (MMUST)

Tel: 056-30870
Fax: 056-30153
E-mail: directordps@mmust.ac.ke
Website: www.mmust.ac.ke

P.O Box 190
Kakamega – 50100
Kenya

Directorate of Postgraduate Studies

Ref: MMU/COR: 509099

29th May 2024

Lumatete Irine Nanzala
PBA/H/01-54195/2019,
P.O. Box 190-50100,
KAKAMEGA.

Dear, Ms. Lumatete,

RE: APPROVAL OF PROPOSAL

I am pleased to inform you that the Directorate of Postgraduate Studies has considered and approved your PhD proposal entitled '***Creative Accounting Techniques, University Size and Quality of Financial Reporting in Public Universities in Kenya***' and appointed the following as supervisors:

1. Dr. Muli Maingi - MMUST
2. Dr. Mary Nelima - MMUST

You are required to submit through your supervisor(s) progress reports every three months to the Director Postgraduate Studies. Such reports should be copied to the following: Chairman, School of Business and Economics Graduate Studies Committee and Chairman, Accounting and Finance Department. Kindly adhere to research ethics consideration in conducting research.

It is the policy and regulations of the University that you observe a deadline of three years from the date of registration to complete your PhD thesis. Do not hesitate to consult this office in case of any problem encountered in the course of your work.

We wish you the best in your research and hope the study will make original contribution to knowledge.

Yours Sincerely,

MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY
DIRECTORATE OF POSTGRADUATE STUDIES
P.O. BOX 190 - 50100, KAKAMEGA (K)
Date:..... Sign:.....

Prof. Stephen O. Odebero, PhD, FIEEP
DIRECTOR, DIRECTORATE OF POSTGRADUATE STUDIES

Appendix VI: NACOSTI Letter

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR
SCIENCE,TECHNOLOGY & INNOVATION

Ref No: 183477

Date of Issue: 05/June/2024

RESEARCH LICENSE

This is to Certify that Ms.. Irine Nanzala Lumatete of Masinde Muliro University of Science and Technology, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Bomet, Bungoma, Busia, Elgeyo-Marakwet, Embu, Garissa, Homabay, Isiolo, Kakamega, Kericho, Kiambu, Kilifi, Kirinyaga, Kisii, Kisumu, Kitui, Kwale, Laikipia, Machakos, Meru, Migori, Mombasa, Muranga, Nairobi, Nakuru, Nandi, Nyamira, Nyeri, Siaya, Taita-Taveta, Tanariver, Tharaka-Nithi, Turkana, Uasin-Gishu, Vihiga on the topic: Creative accounting techniques,University size and quality of financial reporting in public universities in Kenya for the period ending : 05/June/2025.

License No: NACOSTI/P/24/36557

183477

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR
SCIENCE,TECHNOLOGY &
INNOVATION

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See overleaf for conditions

Appendix VII: T table

t Table

cum. prob	$t_{.50}$	$t_{.75}$	$t_{.80}$	$t_{.85}$	$t_{.90}$	$t_{.95}$	$t_{.975}$	$t_{.99}$	$t_{.995}$	$t_{.999}$	$t_{.9995}$
one-tail	0.50	0.25	0.20	0.15	0.10	0.05	0.025	0.01	0.005	0.001	0.0005
two-tails	1.00	0.50	0.40	0.30	0.20	0.10	0.05	0.02	0.01	0.002	0.001
df											
1	0.000	1.000	1.376	1.963	3.078	6.314	12.71	31.82	63.66	318.31	636.62
2	0.000	0.816	1.061	1.386	1.886	2.920	4.303	6.965	9.925	22.327	31.599
3	0.000	0.765	0.978	1.250	1.638	2.353	3.182	4.541	5.841	10.215	12.924
4	0.000	0.741	0.941	1.190	1.533	2.132	2.776	3.747	4.604	7.173	8.610
5	0.000	0.727	0.920	1.156	1.476	2.015	2.571	3.365	4.032	5.893	6.869
6	0.000	0.718	0.906	1.134	1.440	1.943	2.447	3.143	3.707	5.208	5.959
7	0.000	0.711	0.896	1.119	1.415	1.895	2.365	2.998	3.499	4.785	5.408
8	0.000	0.706	0.889	1.108	1.397	1.860	2.306	2.896	3.355	4.501	5.041
9	0.000	0.703	0.883	1.100	1.383	1.833	2.262	2.821	3.250	4.297	4.781
10	0.000	0.700	0.879	1.093	1.372	1.812	2.228	2.764	3.169	4.144	4.587
11	0.000	0.697	0.876	1.088	1.363	1.796	2.201	2.718	3.106	4.025	4.437
12	0.000	0.695	0.873	1.083	1.356	1.782	2.179	2.681	3.055	3.930	4.318
13	0.000	0.694	0.870	1.079	1.350	1.771	2.160	2.650	3.012	3.852	4.221
14	0.000	0.692	0.868	1.076	1.345	1.761	2.145	2.624	2.977	3.787	4.140
15	0.000	0.691	0.866	1.074	1.341	1.753	2.131	2.602	2.947	3.733	4.073
16	0.000	0.690	0.865	1.071	1.337	1.746	2.120	2.583	2.921	3.686	4.015
17	0.000	0.689	0.863	1.069	1.333	1.740	2.110	2.567	2.898	3.646	3.965
18	0.000	0.688	0.862	1.067	1.330	1.734	2.101	2.552	2.878	3.610	3.922
19	0.000	0.688	0.861	1.066	1.328	1.729	2.093	2.539	2.861	3.579	3.883
20	0.000	0.687	0.860	1.064	1.325	1.725	2.086	2.528	2.845	3.552	3.850
21	0.000	0.686	0.859	1.063	1.323	1.721	2.080	2.518	2.831	3.527	3.819
22	0.000	0.686	0.858	1.061	1.321	1.717	2.074	2.508	2.819	3.505	3.792
23	0.000	0.685	0.858	1.060	1.319	1.714	2.069	2.500	2.807	3.485	3.768
24	0.000	0.685	0.857	1.059	1.318	1.711	2.064	2.492	2.797	3.467	3.745
25	0.000	0.684	0.856	1.058	1.316	1.708	2.060	2.485	2.787	3.450	3.725
26	0.000	0.684	0.856	1.058	1.315	1.706	2.056	2.479	2.779	3.435	3.707
27	0.000	0.684	0.855	1.057	1.314	1.703	2.052	2.473	2.771	3.421	3.690
28	0.000	0.683	0.855	1.056	1.313	1.701	2.048	2.467	2.763	3.408	3.674
29	0.000	0.683	0.854	1.055	1.311	1.699	2.045	2.462	2.756	3.396	3.659
30	0.000	0.683	0.854	1.055	1.310	1.697	2.042	2.457	2.750	3.385	3.646
40	0.000	0.681	0.851	1.050	1.303	1.684	2.021	2.423	2.704	3.307	3.551
60	0.000	0.679	0.848	1.045	1.296	1.671	2.000	2.390	2.660	3.232	3.460
80	0.000	0.678	0.846	1.043	1.292	1.664	1.990	2.374	2.639	3.195	3.416
100	0.000	0.677	0.845	1.042	1.290	1.660	1.984	2.364	2.626	3.174	3.390
1000	0.000	0.675	0.842	1.037	1.282	1.646	1.962	2.330	2.581	3.098	3.300
z	0.000	0.674	0.842	1.036	1.282	1.645	1.960	2.326	2.576	3.090	3.291
	0%	50%	60%	70%	80%	90%	95%	98%	99%	99.8%	99.9%
	Confidence Level										

t-table.xls 7/14/2007

Appendix VIII: F table

Degrees of freedom in denominator (df2)	p	Degrees of freedom in numerator (df1)										
		1	2	3	4	5	6	7	8	12	24	1000
10	0.100	3.29	2.92	2.73	2.61	2.52	2.46	2.41	2.38	2.28	2.18	2.06
	0.050	4.96	4.10	3.71	3.48	3.33	3.22	3.14	3.07	2.91	2.74	2.54
	0.025	6.94	5.46	4.83	4.47	4.24	4.07	3.95	3.85	3.62	3.37	3.09
	0.010	10.04	7.56	6.55	5.99	5.64	5.39	5.20	5.06	4.71	4.33	3.92
	0.001	21.04	14.90	12.55	11.28	10.48	9.93	9.52	9.20	8.45	7.64	6.78
12	0.100	3.18	2.81	2.61	2.48	2.39	2.33	2.28	2.24	2.15	2.04	1.91
	0.050	4.75	3.89	3.49	3.26	3.11	3.00	2.91	2.85	2.69	2.51	2.30
	0.025	6.55	5.10	4.47	4.12	3.89	3.73	3.61	3.51	3.28	3.02	2.73
	0.010	9.33	6.93	5.95	5.41	5.06	4.82	4.64	4.50	4.16	3.78	3.37
	0.001	18.64	12.97	10.80	9.63	8.89	8.38	8.00	7.71	7.00	6.25	5.44
14	0.100	3.10	2.73	2.52	2.39	2.31	2.24	2.19	2.15	2.05	1.94	1.80
	0.050	4.60	3.74	3.34	3.11	2.96	2.85	2.76	2.70	2.53	2.35	2.14
	0.025	6.30	4.86	4.24	3.89	3.66	3.50	3.38	3.29	3.05	2.79	2.50
	0.010	8.86	6.51	5.56	5.04	4.69	4.46	4.28	4.14	3.80	3.43	3.02
	0.001	17.14	11.78	9.73	8.62	7.92	7.44	7.08	6.80	6.13	5.41	4.62
16	0.100	3.05	2.67	2.46	2.33	2.24	2.18	2.13	2.09	1.99	1.87	1.72
	0.050	4.49	3.63	3.24	3.01	2.85	2.74	2.66	2.59	2.42	2.24	2.02
	0.025	6.12	4.69	4.08	3.73	3.50	3.34	3.22	3.12	2.89	2.63	2.32
	0.010	8.53	6.23	5.29	4.77	4.44	4.20	4.03	3.89	3.55	3.18	2.76
	0.001	16.12	10.97	9.01	7.94	7.27	6.80	6.46	6.20	5.55	4.85	4.08
18	0.100	3.01	2.62	2.42	2.29	2.20	2.13	2.08	2.04	1.93	1.81	1.66
	0.050	4.41	3.55	3.16	2.93	2.77	2.66	2.58	2.51	2.34	2.15	1.92
	0.025	5.98	4.56	3.95	3.61	3.38	3.22	3.10	3.01	2.77	2.50	2.20
	0.010	8.29	6.01	5.09	4.58	4.25	4.01	3.84	3.71	3.37	3.00	2.58
	0.001	15.38	10.39	8.49	7.46	6.81	6.35	6.02	5.76	5.13	4.45	3.69
20	0.100	2.97	2.59	2.38	2.25	2.16	2.09	2.04	2.00	1.89	1.77	1.61
	0.050	4.35	3.49	3.10	2.87	2.71	2.60	2.51	2.45	2.28	2.08	1.85
	0.025	5.87	4.46	3.86	3.51	3.29	3.13	3.01	2.91	2.68	2.41	2.09
	0.010	8.10	5.85	4.94	4.43	4.10	3.87	3.70	3.56	3.23	2.86	2.43
	0.001	14.82	9.95	8.10	7.10	6.46	6.02	5.69	5.44	4.82	4.15	3.40
30	0.100	2.88	2.49	2.28	2.14	2.05	1.98	1.93	1.88	1.77	1.64	1.46
	0.050	4.17	3.32	2.92	2.69	2.53	2.42	2.33	2.27	2.09	1.89	1.63
	0.025	5.57	4.18	3.59	3.25	3.03	2.87	2.75	2.65	2.41	2.14	1.80
	0.010	7.56	5.39	4.51	4.02	3.70	3.47	3.30	3.17	2.84	2.47	2.02
	0.001	13.29	8.77	7.05	6.12	5.53	5.12	4.82	4.58	4.00	3.36	2.61
50	0.100	2.81	2.41	2.20	2.06	1.97	1.90	1.84	1.80	1.68	1.54	1.33
	0.050	4.03	3.18	2.79	2.56	2.40	2.29	2.20	2.13	1.95	1.74	1.45
	0.025	5.34	3.97	3.39	3.05	2.83	2.67	2.55	2.46	2.22	1.93	1.56
	0.010	7.17	5.06	4.20	3.72	3.41	3.19	3.02	2.89	2.56	2.18	1.70
	0.001	12.22	7.96	6.34	5.46	4.90	4.51	4.22	4.00	3.44	2.82	2.05
100	0.100	2.76	2.36	2.14	2.00	1.91	1.83	1.78	1.73	1.61	1.46	1.22
	0.050	3.94	3.09	2.70	2.46	2.31	2.19	2.10	2.03	1.85	1.63	1.30
	0.025	5.18	3.83	3.25	2.92	2.70	2.54	2.42	2.32	2.08	1.78	1.36
	0.010	6.90	4.82	3.98	3.51	3.21	2.99	2.82	2.69	2.37	1.98	1.45
	0.001	11.50	7.41	5.86	5.02	4.48	4.11	3.83	3.61	3.07	2.46	1.64
1000	0.100	2.71	2.31	2.09	1.95	1.85	1.78	1.72	1.68	1.55	1.39	1.08
	0.050	3.85	3.00	2.61	2.38	2.22	2.11	2.02	1.95	1.76	1.53	1.11
	0.025	5.04	3.70	3.13	2.80	2.58	2.42	2.30	2.20	1.96	1.65	1.13
	0.010	6.66	4.63	3.80	3.34	3.04	2.82	2.66	2.53	2.20	1.81	1.16
	0.001	10.89	6.96	5.46	4.65	4.14	3.78	3.51	3.30	2.77	2.16	1.22

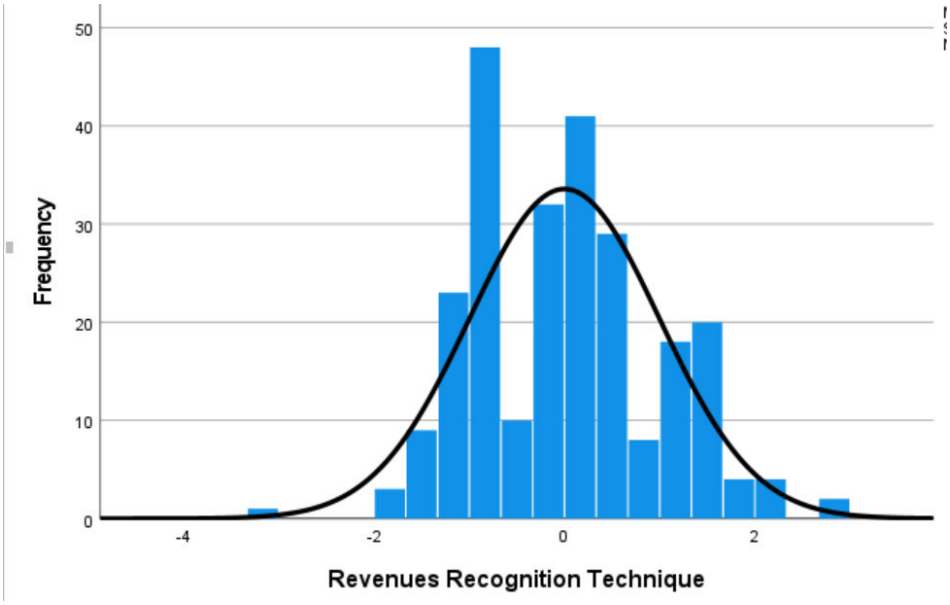
Use StaTable, WinPepi > WhatIs, or other reliable software to determine specific *p* values

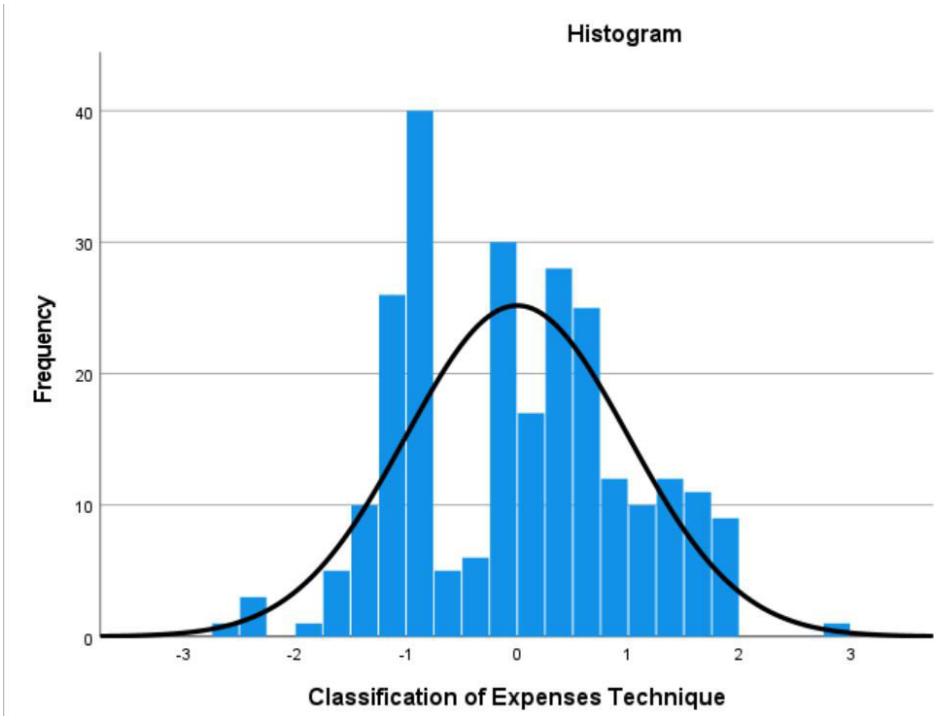
Appendix IX: University Size

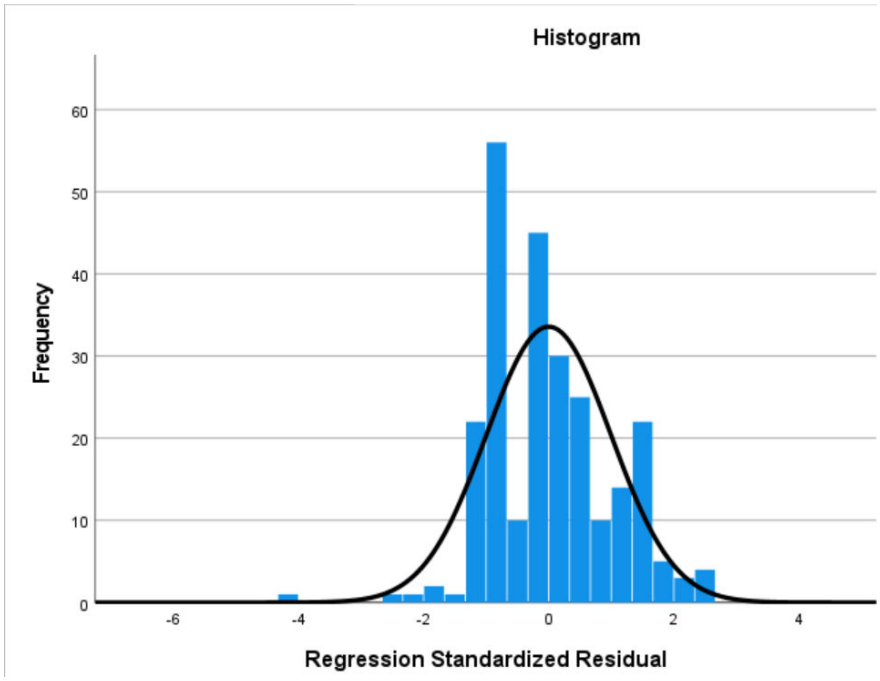
S/N	UNIVERSITY NAME	2019-2020	2020-2021	2021-2022
1	Chuka University	2,598,151,860	2,219,061,572	1,954,007,023
2	Dedan Kimathi University of Technology	1,922,350,345	1,542,219,220	1,491,204,794
3	Egerton University	4,280,987,159	3,638,583,371	3,724,159,513
4	Garissa University	715,695,167	529,780,534	575,573,327
5	JOOUST	2,202,864,307	1,828,282,846	1,864,338,944
6	JKUAT	9,580,438,553	11,387,540,885	8,215,419,374
7	Karatina University	1,343,277,695	1,087,788,399	1,114,259,203
8	Kenyatta University	9,583,294,572	10,250,808,911	8,315,424,428
9	Kibabii University	1,392,877,477	932,402,745	1,075,511,982
10	Kirinyaga University	732,958,512	622,588,380	746,420,062
11	Kisii University	3,293,888,255	2,812,571,052	1,961,800,051
12	Laikipia University	1,709,835,820	1,397,965,106	1,339,302,125
13	Machakos University	1,782,229,070	1,370,631,485	1,596,759,858
14	Maasai Mara University	1,488,697,221	1,312,886,901	1,305,966,946
15	Maseno University	3,882,259,716	3,867,024,602	3,384,098,972
16	MMUST	3,141,415,079	4,853,136,297	5,010,643,065
17	Meru University of Science and Technology	1,510,840,211	1,300,556,683	1,192,613,054
18	Moi University	8,628,253,597	9,508,261,404	9,039,792,109
19	Multi Media University	1,616,840,567	1,336,067,282	1,282,171,475
20	Murang'a University of Technology	774,051,229	769,956,451	835,144,808
21	Pwani University	1,518,773,571	1,207,252,183	1,278,333,001
22	Rongo University	1,337,102,442	963,209,606	934,188,535
23	South Eastern Kenya University	1,797,306,913	1,358,336,493	1,319,148,148
24	Taita Taveta University	830,218,940	537,411,230	886,757,382
25	Technical University of Mombasa	1,994,529,514	1,892,001,088	1,701,402,804
26	Technical University of Kenya	3,198,834,134	2,839,955,850	2,708,058,020
27	The Co-operative University of Kenya	1,015,553,816	815,114,851	1,115,736,431
28	University of Eldoret	2,885,014,572	2,568,318,276	2,481,108,226
29	University of Embu	1,209,960,667	1,102,457,493	1,071,865,333
30	University of Kabianga	1,427,450,863	1,272,464,452	1,259,120,888
31	University of Nairobi	18,264,568,766	17,344,937,122	16,931,798,579
32	National Defence University	-	-	-
33	Kaimosi Friends University	830,788,893	631,202,224	723,435,013
34	Alupe University	389,575,881	254,881,345	401,138,270
35	Tom Mboya University	727,957,913	542,764,222	692,231,299
36	Tharaka University	292,459,671	278,662,588	606,233,150
	Average	**2,775,036,193.56**	**2,671,585,643.03**	**2,503,754,616.44**

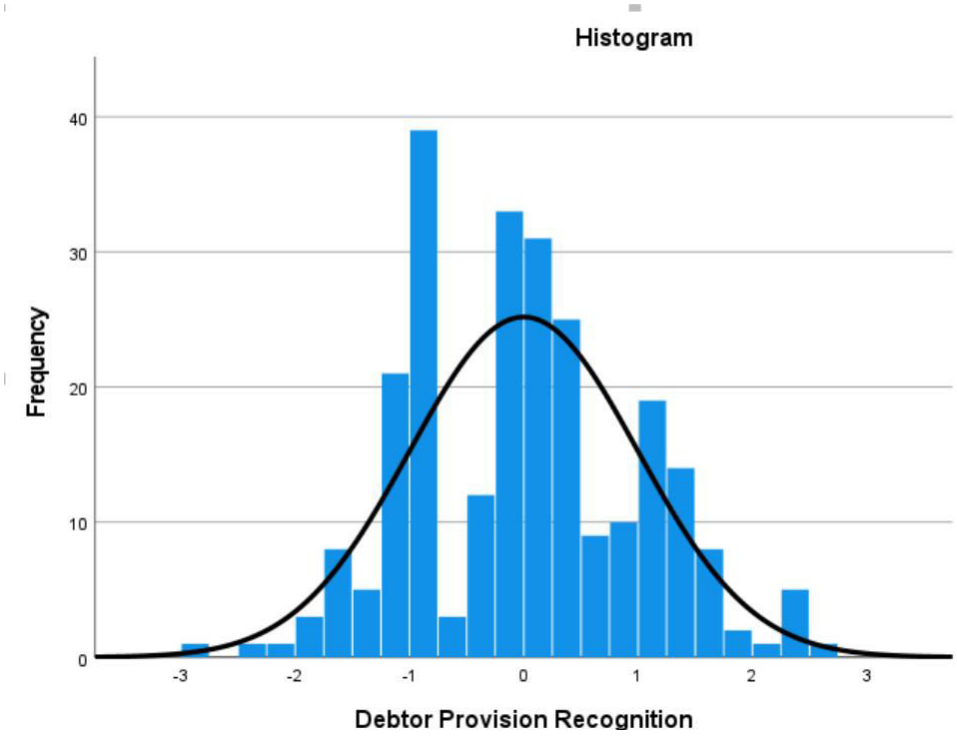
Source: National Treasury(Budget books)(2025)

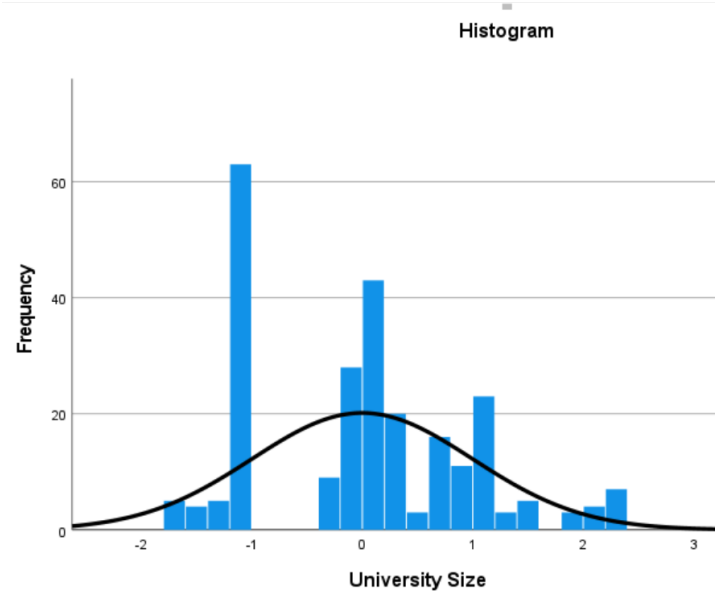
Appendix X: Histograms

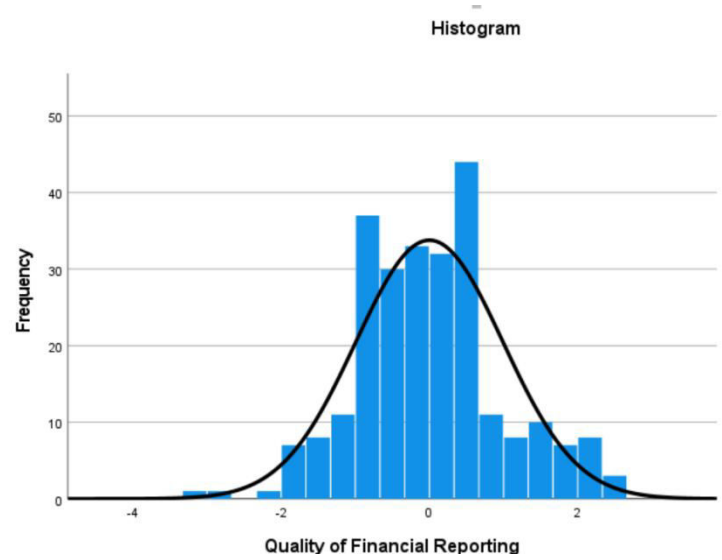





Histogram
Frequency
60
50
40
30
20
10
0
-6
-4
-2
0
2
4
Regression Standardized Residual


Histogram
Frequency
40
30
20
10
0
-3
-2
-1
0
1
2
3
Debtor Provision Recognition


Histogram
Frequency
60
40
20
0
-2
-1
0
1
2
3
University Size


Histogram
Frequency
50
40
30
20
10
0
-4
-2
0
2
Quality of Financial Reporting