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INTERNAL CONTROL PROCEDURES AND THE QUALITY OF FINANCIAL REPORTING IN MOMBASA AND KILIFI COUNTY GOVERNMENTS

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ABSTRACT

The purpose of this study was to evaluate the relationship between the practices of internal control and the quality of financial reporting in the County Governments of Mombasa and Kilifi. Descriptive research design was applied. It involved a sample population of 117 participants, 62 of them in the Mombasa County, and 55 in the Kilifi County. A census methodology was used where all the respondents were employees of the finance, accounting, audit, and procurement units in the two County Governments. Structured questionnaires were used to collect data. Descriptive statistics were employed to examine the quantitative data. The average values within the dataset were determined by calculating measures of central tendency, which include mean, median, and mode. To illustrate the spread of the data, we utilized variability measures like range and standard deviation. Both the Mombasa and Kilifi County Governments' financial reporting quality was positively and significantly correlated with internal control measures, according to the study. Transparency, accountability, correctness, and reliability in financial reporting are more common in County Governments with robust and efficient systems of internal controls, according to the data. The study recommends institutionalizing and strengthening internal control procedures through proactive compliance enforcement, structured risk management, digital approval systems, and participatory budgeting supported by staff capacity building. These measures enhance accuracy and integrity in financial reporting while fostering accountability, transparency, public trust, and effective service delivery in line with sound governance principles.

Key Words: *financial statements, compliance, risk management systems, authorization*

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INTRODUCTION

An organization's financial statements; the balance sheet, income statement, statement of cash flow, and statement of changes in equity are contained in financial documents (Lin, 2021). Taken as a whole, these documents reveal how the company is doing financially and how profitable it is. According to Ewert and Wagenhofer (2020), the main goal of financial reporting is to accurately portray a company's financial performance and position. In addition, Bouwman (2020) mentions that the degree to which regulatory bodies exert oversight, the effectiveness of internal control mechanisms, and the educational qualifications of financial staff are all elements that could impact the quality of financial reporting.

Regulatory bodies, such as the Securities and Exchange Commission (SEC), play a pivotal role in enforcing compliance with accounting standards and ensuring the accuracy of financial reports (SEC, 2021). Effective internal controls and audit mechanisms are necessary to reduce financial frauds and enhance the quality of published and displayed financial statements (Sullivan, 2021). Moreover, accountants and auditors are well positioned in maintaining and exercising professional standards aiming at preparing and auditing the financial reports (Liu & Zhang, 2021).

Reporting of financial information differ by country because the legal standards of what must be disclosed and how it should be reported still do not require all companies to apply the same standards (Doupnik & Perera, 2023). (Doupnik & Perera, 2023). In many developing region, the failure of government regulations and weak enforcement normally leads to low reporting comparability, a situation that degrades investor confidence (Harrison, 2023).

The strategy that Japan takes to the reporting of financial information places an emphasis on both national and international standards, with a considerable emphasis on accuracy and transparency (Yamamoto, 2022). The convergence of Japan's Generally Accepted Accounting Principles (JGAAP) with the International Financial Reporting Standards (IFRS) has resulted in an increase in the quality of financial statements, which has led to an improvement in the international comparability of financial statements (Tanaka, 2021). The Government of Japan's Financial Services Agency(FSA) has the mantle of enforcing such standards thus enhances the credibility of financial reporting (Suzuki, 2020).

The South African public sector has had reoccurring problems with financial reporting, especially in local governments where inadequate reporting and low accountability are compromising transparency and service delivery. Most municipalities are facing the challenge of compliance, capacity and governance despite set regulatory systems. To recover public trust and sustain financial management, it is important to enhance oversight, institutional capacity, as well as ethical leadership (Selepe, 2022). On the one hand, the technical assistance on the international level like the International Monetary Fund (2024) highlights the fact that sound fiscal structures and open lines of reporting should be developed to enhance accountability and make fiscal systems sustainable. In more recent times, there has been a movement to improve the performance of South African municipalities by increasing their disclosure of financial sustainability practices. The focus of this movement is on credible, consistent, and transparent financial reporting as a means of promoting good governance and administration of resources (Tshabalala & Sibanda, 2025). However, this movement has not yet been fully implemented.

In the implementation of IFRS in Kenya, the operation intends to achieve the goal of high-quality accounting information and is regulated by the Institute of Certified Public Accountants of Kenya (Njoroge, 2022). The Capital Markets Authority ensures that companies that transact on the public markets have their financial statements audited according to these standards which makes the financial statements more reliable (Njenga, 2021).

The Public Finance Management Act is one of the steps taken by the Kenyan government to raise the bar on financial reporting. More openness and responsibility in the handling of the nation's assets, especially public funds, is one of the goals of this law, which is intended to encourage good governance. By establishing clear financial oversight and control, the Act strengthens the integrity of financial practices within the public sector (Mwangi, 2021). Training and capacity-building programs for accountants and auditors are regularly conducted to enhance their skills and knowledge, ensuring they are well-equipped to handle the complexities of modern financial reporting (Kariuki, 2021).

Kenyan public sector capital reporting standards are set by the National Treasury in consultation with the International Public Sector Accounting Standards Board (IPSASB). This double guidance guarantees compliance with national standard while providing the bank with financial reporting in line with International standards. In the paper by Mugo and Mutunga: Accrual Accounting as a Tool of Governance: A Comparative Analysis of Taiwanese and Kenyan Health Ministries , the authors demonstrated that the Kenyan government's move to accrual accounting has enhanced quality of data in the financial statements and made them more standard and useful for decision making and managerial functions. However, challenges such as weak enforcement mechanisms, inadequate capacity, and political interference pose significant obstacles to effective internal control implementation and financial reporting integrity (Ondego & Odongo, 2021).

Mombasa County is situated in the southeastern region of the former Coast Province, sharing its boundaries with the Kilifi County to the North, with the Indian Ocean along the eastern side and borders with the Kwale County in the South western region. It is divided administratively into seven divisions, eighteen locations, and thirty sub-locations. Recognized as the first of Kenya's 47 County Governments under the devolution statute, Mombasa's government consists of the county executive, led by the Governor, and the county assembly, overseen by the Speaker. The county has 12 departments, each managed by a County Executive Committee Member (CECM) supported by Chief Officers. Mombasa is a popular tourist destination, known for its historical landmarks, hotels, and stunning beaches..

Kilifi County, located north and northeast of Mombasa, is designated as county number 003 in Kenya. Established in 2010 from the merger of Kilifi and Malindi Districts, its capital is Kilifi, while Malindi is the largest town. The county comprises seven sub-County Governments : Kilifi North, Kilifi South, Ganze, Malindi, Magarini, Rabai, and Kaloleni. Tourism and fishing being the main economic activities drawing from the gainful factor of the region having access to the Indian Ocean, whereas the other major economic activity is agriculture majoring in dairy farming and crop growing due to good ground and weather. Some of the cash crops include coconut, cashew nuts, sisal, citrus fruits, mangoes, pineapples, maize and cassava being a staple food crop.

Internal control procedures are considered to be effective and essential for the protection of accuracy and fairness of financial reporting. Internal controls are therefore defined as policies, procedures, and activities that have been instituted within an organization to address and alleviate risks, check on compliance with standards and protect an organization's resources (Jones & Garcia, 2024). These controls relate to several actions which include separation of duties, approval and authorization, and transaction oversight (Lee et al., 2023). The internal controls system acts as a mechanism that facilitates operating activities, reduces fraud and mistakes while improving the credibility of financial reports (Adams & Martinez, 2023).

In addition, appropriate internal control structures assure that the financial information contained in the financial statements is accurate and comprehensive, which in turn strengthens the dependability of the statements (Chen & Wang, 2022). To improve and ensure the reduction of material misstatements and fraud at the times of financial statements preparation, organizations should develop sound control environments (Roberts & Kim, 2024). In addition, internal controls help to address legal demands, for example, the Sarbanes-Oxley Act because they ensure the correctness of information disclosed (Miller & Thompson, 2023).

This apparently poses the governments worldwide to a certain reliable accounting standards to ensure the truthfulness of the account information. The IPSAS are intended to improve quality and relevance of the published accounts for public sector organizations in different countries (Van Helden & Neu, 2022). A number of countries such as United Kingdom, Canada and Australia have established strong internal control infrastructure to enhance the reliability of financial information in public sector (Beattie et al., 2022).

Quality financial reporting refers to the provision of financial information that is accurate, relevant, timely, and complete, enabling users to make informed economic decisions (Barth et al., 2023). This includes compliance with established accounting frameworks, openness in presenting information, and maintaining uniformity over time (DeFond & Zhang, 2024). Such reporting reduces information gaps between organizations and stakeholders, fostering greater confidence and transparency (Chen et al., 2023). It also facilitates effective resource distribution by clearly outlining an organization's financial condition and achievements (Bushman, 2023). With the continuous evolution of financial regulations and market dynamics, stakeholders are increasingly demanding financial statements that are trustworthy and transparent (IFAC, 2024).

Statement of the Problem

To promote efficient governance and management of resources, the Kenyan public sector is committed to transparency, accountability, and accuracy in its financial reporting. This commitment is characterized by a dedication to transparency. In accordance with the Public Finance Management Act of 2012, all county governments are required to keep correct financial records and to prepare financial statements that appropriately reflect their financial performance and situation (Government of Kenya, 2012).

According to Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013) Internal control procedure are processes designed, implemented, and maintained by an entity's management and other personnel to provide reasonable assurance regarding the achievement of objectives in operations, reporting, and compliance play a critical role in ensuring the reliability of financial reporting. These procedures include regulatory compliance, risk management, authorization and approval processes, and budgetary control. Effective internal controls reduce the likelihood of errors, fraud, and misstatements, thereby enhancing the quality of financial reporting, which, according to the International Public Sector Accounting Standards (IPSAS, 2022) high-quality financial reports are complete, accurate, relevant, timely, understandable, verifiable, comparable, and faithfully represent the entity's financial position, performance, and cash flows.

Of the six coastal County Governments : Kilifi, Kwale, Lamu, Mombasa, Taita Taveta, and Tana River, Mombasa and Kilifi have been most troubled by financial misreporting. The 2020 audit of the County Executive of Mombasa flagged KES 2.1 billion in unaccounted expenditures, highlighting long-standing weaknesses in financial reporting and internal controls (Office of the Auditor-General, 2021). In the 2021–2022 financial year, the County Assembly of Mombasa recorded unreconciled variances exceeding KES 1.3 billion, further questioning the reliability of financial statements due to long-standing weaknesses in financial oversight and internal audit mechanisms (Office of the Auditor-General, 2023b). The 2022–2023 Auditor-General's report on Mombasa County exposed even more significant issues, particularly concerning KES 2.4 billion in pending bills. The report identified discrepancies in opening balances for accounts payable and staff payables, making it impossible to verify the accuracy of the county's financial statements (Office of the Auditor-General, 2024b).

Similarly, Kilifi County has faced persistent financial reporting challenges due to weak internal controls and poor documentation of expenditures. The 2021–2022 audit of the Kilifi Municipality identified KES 874 million in unsupported expenditures, signaling significant gaps in financial accountability and transparency (Office of the Auditor-General, 2023a). In the 2022–2023 financial year, the Kilifi County Assembly recorded KES 527 million in pending bills that lacked proper documentation, further highlighting weaknesses in financial oversight (Office of the Auditor-General, 2024a). These unresolved financial issues indicate that the county continues to struggle with ensuring accurate and credible financial reports.

These unresolved financial issues indicate that the County Governments continue to struggle with accurate and credible financial reporting. Wanja and Ibrahim (2023) note that weak internal audit practices significantly undermine reporting quality. Additionally, the 2023 Auditor-General's Report revealed that over 40% of county financial statements contained material misstatements, highlighting persistent concerns over poor reporting (Office of the Auditor-General, 2024b).

Although there are laid down regulatory frameworks, there are still cases of financial misreporting influencing the efficiency of internal control systems in these County Governments . It is questionable whether the existing mechanisms are well designed, implemented and monitored. This research was therefore aimed to investigate how internal control procedures can influence quality of financial reporting in Mombasa and Kilifi County Governments with reference to four key areas namely regulatory compliance, risk management, authorization and approval processes as well as budgetary control..

Objectives of the Study

The primary objective was to examine how internal control procedures affect the quality of financial reporting within Mombasa and Kilifi County Governments. The study was guided by the following specific objectives;

- To evaluate the effect of regulatory compliance on the quality of financial reporting in Mombasa and Kilifi County Governments.
- To assess the effect of risk management on the quality of financial reporting in Mombasa and Kilifi County Governments.
- To investigate the effect of authorization and approval processes on the quality of financial reporting in Mombasa and Kilifi County Governments.
- To examine the effect of budgetary control on the quality of financial reporting in Mombasa and Kilifi County Governments.

The research hypotheses included;

- H_1: There is no significant relationship between regulatory compliance and the quality of financial reporting in Mombasa and Kilifi County Governments.
- H_2: There is no significant relationship between risk management and the quality of financial reporting in Mombasa and Kilifi County Governments.
- H_3: There is no significant relationship between authorization and approval processes and the quality of financial reporting in Mombasa and Kilifi County Governments.
- H_4: There is no significant relationship between budgetary control and the quality of financial reporting in Mombasa and Kilifi County Governments.

LITERATURE REVIEW

Theoretical Framework

Legitimacy Theory

The Legitimacy Theory was primarily developed by Suchman (1995), who explored how organizations seek to align their operations with societal norms and expectations to gain legitimacy and support from stakeholders (Suchman, 1995). According to Suchman, organizations operate within a social context and must demonstrate their conformity to prevailing societal values to maintain their legitimacy and ensure continued success (Suchman, 1995).

Legitimacy Theory posits that organizations strive to align their activities with the norms and values of society to gain and maintain legitimacy from stakeholders (Suchman, 1995). This theory emphasizes that organizations actively engage in actions and communications that portray their commitment to societal values, thereby enhancing their acceptance and support from the public (Dowling & Pfeffer, 1975).

The theory helps to understand how adherence to regulatory standards enhances the perceived legitimacy of financial reporting practices. County Governments, by complying with regulatory requirements, seek to align their financial reporting practices with societal expectations and enhance their legitimacy. This adherence not only ensures transparency and accountability but also helps maintain the trust of stakeholders and the public.

Enterprise Risk Management (ERM) Theory

Enterprise Risk Management (ERM) Theory was notably developed by Beasley, Branson, and Hancock (2005), who focused on integrating risk management practices into an organization's strategic planning process. Beasley et al. (2005) emphasized that ERM involves a holistic approach to identifying, assessing, and managing risks across an organization to enhance performance and achieve strategic objectives.

ERM Theory advocates for a comprehensive framework where risk management is embedded into the overall strategic management process, rather than being treated as a standalone function (Beasley et al., 2005). It promotes the idea that proactive risk management can help organizations anticipate and mitigate potential risks, leading to improved decision-making and performance (Beasley et al., 2005).

Agency Theory

Agency Theory, as proposed by Jensen and Meckling (1976), focuses on the relationship between principals (owners or stakeholders) and agents (managers or decision-makers) and examines the challenges that arise when agents are entrusted to act on behalf of principals. The theory emphasizes the potential conflicts of interest between principals and agents, where agents may pursue personal objectives that diverge from the goals of the principals, potentially affecting organizational performance and accountability (Jensen & Meckling, 1976).

In the context of public sector financial management, Agency Theory highlights the importance of mechanisms that ensure agents—such as county government officials act in the best interests of stakeholders, including taxpayers, oversight bodies, and regulatory authorities. Authorization and approval processes serve as key control mechanisms that mitigate agency problems by providing structured oversight of financial transactions, expenditure decisions, and reporting practices.

Contingency Theory

Contingency Theory was primarily developed by Fred Fiedler in the 1960s and further advanced by scholars such as Donaldson (2001) and Lawrence and Lorsch (1967). The theory asserts that there is no universally best way to manage or lead an organization; instead, the most effective approach depends on the specific internal and external conditions faced by the organization. It emphasizes that organizational effectiveness results from fitting leadership styles, structures, and practices to situational demands (Fiedler, 1964). Leaders and managers must adapt strategies based on the context, environment, and nature of the tasks to enhance performance (Donaldson, 2001).

Recent studies, such as by Chenhall and Moers (2015), highlight how financial control systems are designed based on organizational context like size, industry, and uncertainty. For instance, companies in volatile markets adopt flexible budgeting and adaptive financial reporting systems. Otley (2016) supports the idea that management control systems are more effective when tailored to specific organizational and environmental factors. Furthermore, new research shows that firms aligning financial strategies with digital transformation, such as real-time analytics and decentralized decision-making, perform better (Granlund & Taipaleenmäki, 2020).

Institutional Theory

The institutional Theory as proposed by DiMaggio and Powell in 1983 with an emphasis on how organizations fit into institutional standards within a society to attain recognition, and sustainability. Others argued that institutions exert a tremendous force on organizations to adopt structures and practices recognized as legitimate within specific environmental contexts. This theory emphasizes on how social context influences the actions and decisions of organisations towards change in accordance with expectancy. This theory underscores the role of external influences in shaping organizational behavior and practices, emphasizing the importance of aligning with institutional norms to achieve legitimacy (DiMaggio & Powell, 1983).

Institutional Theory posits that organizations are not solely driven by internal efficiency but are significantly shaped by external social and cultural pressures (DiMaggio & Powell, 1983). It suggests that organizations adopt certain practices and structures to conform to the expectations of key stakeholders, including regulators, professional bodies, and society at large, to gain legitimacy and ensure survival (DiMaggio & Powell, 1983). The theory highlights three main mechanisms of institutional influence: coercive, mimetic, and normative isomorphism, which drive organizations toward homogeneity in their practices (DiMaggio & Powell, 1983).

Conceptual Framework

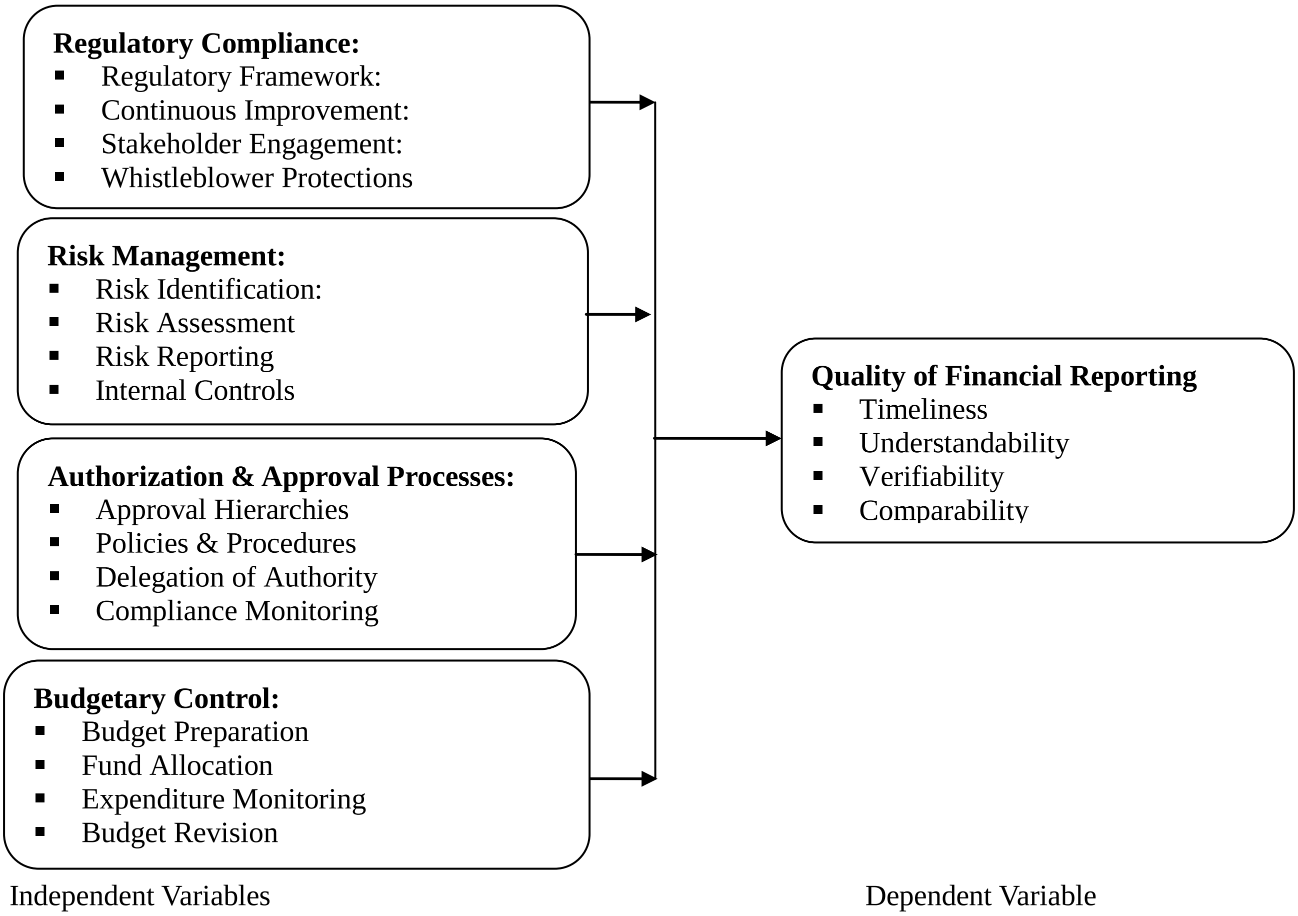

Figure 1: Conceptual Framework

Empirical Review

A study conducted by Poshakwale, Aghanya, and Agarwal (2020) examined the ways in which regulatory requirements influence the cost of compliance, the amount of risk taken, and the quality of information revealed by banks with headquarters in the European Union. Following their research, they were able to present evidence that shows that where compliance with such regulations increases operational costs substantially, it offers substantial credibility to financial reports by reducing risk taking. The researchers highlighted that regulatory compliance was crucial for enhancing reporting quality but recommended that banks adopt more cost-effective compliance strategies. They suggested leveraging technology to streamline compliance processes and reduce costs while maintaining high standards of reporting quality.

Non-financial firms that are listed on the GSE Forms of corporate reports and their specificity were examined by Mbir, Agyemang, Tackie, and Abeka (2020) in relation to IFRS compliance and corporate governance on the financial reporting quality of non-financial firms. Their research showed that, where companies complied with the IFRS standards and at the same time enhanced the corporate governance practices, there were positive effects in the information disclosed by the financial statements. As a result of the research, it was suggested that companies who are listed on the GSE should enhance their corporate governance frameworks and make certain that they completely comply with IFRS in order to generate financial reports of a higher quality.

Madugba, Ben-Caleb, Okpe, Oludare, Ogochukwu, & Mbamara. (2020) examined the contribution of RMCs in DE athletes of FMBS in improving Reporting quality and Financial performance. They also establishing that for organisations to improve the quality of its financial reporting and its overall financial performance from effective risk management. It is essential for risk management committees to be both capable of functioning independently and independently. To be more specific, the findings of the study indicated that there seems to be a favorable correlation between the scope of RMCs and the veracity of financial reports, as well as a beneficial influence on RMC practices and financial performances. In addition, the research advised that financial institutions should prioritize the enhancement of the quality of their RMCs, as well as the recruitment of professionals and the provision of appropriate equipment, in order to improve the quality of their financial reports and performance.

Enhanced risk disclosures, according to the author of Nichita (2018), improve the trustworthiness of financial information as well as the decision-making process. The author of Nichita (2018) conducted an analysis of the consequences that result from upgrading risk reporting in financial statements. This leads to more informed decision-making on the part of stakeholders, since enhanced risk reporting helps them better comprehend the potential risks and uncertainties connected with financial statements. As a means of improving the quality of financial information, the study recommended that businesses include a comprehensive disclosure of risks in their annual reports and adhere to best practices for risk communication.

According to Ekiru, Chelogoi, and Kitur (2024), Turkana County's internal audit control was examined for its efficacy. They discovered that accountability was greatly enhanced and financial reporting errors were decreased by using hierarchical authorization and structured approval procedures. Public funds are more open and accessible when there are internal controls that prioritize authorization, according to the study. To do this, they suggested checking approval processes and conducting audits on a regular basis. Still, just one county's general audit controls were the subject of the research. To that end, this research will analyze the Mombasa and Kilifi County Governments' authorization and approval procedures with a focus on the impact on the authenticity of their financial reports.

Using data from Kenyan government agencies, Kimathi (2025) analyzed the reliability of financial statements and the effectiveness of internal accounting controls. The results demonstrated that the use of pre-authorization for transactions improved report dependability and decreased the frequency of mistakes. The research suggested training employees and automating approval procedures because it found that trustworthy reporting requires a strong authorization structure. Notably absent from the study were county governments and their approval procedures; instead, the emphasis was on national government entities. To fill this need, this study will examine the impact of devolved governance on the quality of financial reporting in the Mombasa and Kilifi County Governments.

The impact of legislative budgetary control on financial responsibility in Nairobi County, Kenya was investigated by Adisa, Maingi, and Lyani (2024). Their research showed that oversight by lawmakers, especially in the form of approved budgets and expenditure tracking, increases openness and responsibility. They suggested that lawmakers should be trained in budget analysis and came to the conclusion that active involvement in the legislative process improves the credibility of financial management. However, they only looked at Nairobi County, and their focus was on financial responsibility not on financial reporting quality. This research seeks to fill that void by studying how budgetary control systems affect the quality of financial reporting in Mombasa and Kilifi County Governments, two coastal districts that have been understudied.

The effect of budgetary control measures on the financial performance of the Kajiado County Government was investigated by Noella (2024). The research found that solid budgetary frameworks improve the efficient use of public funds and that good financial performance is impacted by good planning, assessment, and monitoring. The study's author suggested training employees to be more proficient with budgeting procedures. But the study left out coastal County Governments and didn't aim to improve financial reporting quality.

Ali, Hassan, & Kadir (2023) examined the Effect of Budgetary Control on Organisational Performance in SMEs in Somalia. They found that budgeting practices like forecasting and variance analysis improved efficiency and profitability. The research concluded that vigorous budgetary control practice inherently increases organizational performance to a large extent. It also suggested a better managerial control on the budget. The study, on the other hand, concentrated on small and medium-sized enterprises (SMEs) that were privately owned and operated, as well as the performance of organizations, as opposed to the quality of financial reporting in the public sector. In addition, it did not address the predicament that the county governments of Kenya are in. Through an analysis of the influence that budgetary control has on the quality of financial reporting in Mombassa and Kilifi County Governments , the current study intends to fill the research gap that has been identified.

The researchers Fujianti, Bangun, and Wahyuningtias (2023) investigated the impact that governance structures, internal control systems, and techniques of financial reporting consolidation had on what they referred to as technical quality. They came to the conclusion that firms can improve the quality of their financial information by implementing efficient corporate governance and internal control measures. It was brought to their attention that the credibility of the financial reporting is significantly dependent on the integrity of the internal controls as well as the reliability of the accounting checks and balances. In light of this, they recommend increasing the scope of management and control systems in order to improve the quality of financial reporting and engaging in regular reviews in order to conform to the most recent reporting requirements.

Abraham, Chaarani, and Tao (2024) conducted a study that investigated the nature of the relationship between the quality of audit oversight and the financial success of corporations in the United States. Their research revealed that robust audit oversight is linked to better financial performance and more accurate financial reporting. The study emphasized that higher-quality audits contribute to increased investor confidence and reduced financial misstatements. The study therefore suggests that companies should seek the services of qualified audit firms and put in place effective audit control systems in order to improve the qualitative nature of financial statements and the general performance of the companies.

METHODOLOGY

This study adopted an explanatory research design, which aims to uncover how and why certain phenomena occur by examining cause-and-effect relationships between variables. The target population consisted of 117 respondents (62 officers from Mombasa County and 55 officers from Kilifi County). In this study, the sampling frame included all 117 respondents from the finance & accounting section, audit section, and procurement section in Mombasa and Kilifi County Governments. Census was adopted and all 117 staff members from the finance and accounting, audit, and procurement sections in Mombasa and Kilifi County Governments were used in the study.

The study utilized questionnaires to gather data from the respondents. These questionnaires were created using Google Forms, an online platform, and distributed via email to ensure prompt delivery and broader coverage. Google Forms offered a user-friendly interface that facilitated accurate responses, accommodated multiple question formats, and automatically stored data for easy access and analysis. To quantify attitudes and perceptions, the questionnaires incorporated a Likert scale, allowing respondents to express the extent of their agreement or disagreement with specific statements, thereby enabling structured and measurable data collection.

Quantitative data was analyzed using descriptive statistics to compute measures of central tendency, including the mean, median, and mode, to identify average values in the dataset. The data from the well-completed questionnaires was entered into the Statistical Package for Social Sciences (SPSS) version 27, a computer software for statistical analysis. Measures of variability, such as standard deviation and range, helped describe the spread and dispersion of the data points. Frequency distributions and percentage breakdowns were created to show the occurrence of various categories within the data. Graphical representations, including histograms, bar charts, and pie charts, were utilized to visualize the distribution and patterns in the data, making it easier to interpret the results. To realize this, the following multiple regression model was used in the analysis.

$$Y = \beta_\theta + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

Y= Quality of Financial Reporting
X_1 = Regulatory Compliance
X_2 = Risk Management
X_3 = Authorization and Approval Processes
X_4 = Budgetary Control
$\beta_{\theta =}$ Constant
ε = Error term

β_1-$\beta_{4 =}$ Regression Coefficient for each Independent Variable

FINDINGS

Response Rate

The study involved 117 respondents from Mombasa and Kilifi County Governments, of whom 104 returned completed questionnaires, yielding an 89% response rate. Only 13 questionnaires (11%) were not received. According to Ericson, Bonuck, Green, Conry, Martin, and Carney (2023), response rates below 50% may compromise the validity of survey results, while rates above 60% are generally considered acceptable. Higher response rates enhance accuracy, reduce bias, and improve representativeness. Therefore, the 89% response rate achieved in this study is excellent, surpassing the minimum credibility threshold. This strong level of participation ensures that the findings are robust, reliable, and reflective of the target population.

Descriptive Analysis

The purpose of the study was to investigate the extent to which certain independent variables, notably regulatory compliance, risk management, authorization and approval processes, and budgetary control, have an impact on the quality of financial reporting (the dependent variable). To achieve this, descriptive analysis was conducted to summarize and present the characteristics of the collected data in a meaningful way. This method shed light on the trending, patterning, and distribution of replies, painting a picture of the interrelationships between the study's independent variables and financial reporting procedures.

Regulatory compliance

This section presents the descriptive analysis of the study, exploring the effect of regulatory compliance on the quality of financial reporting in Mombasa and Kilifi County Governments, by summarizing data patterns, trends, and key characteristics of the variables under investigation.

Table 1: Regulatory compliance

Question	Mean	Std Dev
The County Governments ensure timely and transparent disclosure of financial information to relevant stakeholders.	4.12	0.73
There are continuous efforts to update and improve financial reporting standards and practices in the County Governments.	4.04	0.69
Stakeholders (e.g., staff, community members, oversight bodies) are actively engaged in financial reporting and compliance processes.	3.95	0.92
The County Governments have effective mechanisms to protect whistleblowers who report financial irregularities.	3.66	0.48
There are adequate enforcement mechanisms and penalties for non-compliance with financial reporting regulations.	3.81	0.56
The financial reporting policies in the County Governments are well aligned with national and legal regulatory frameworks.	4.25	0.71
Average	3.97	0.68

The study examined how regulatory compliance influences the quality of financial reporting in Mombasa and Kilifi County Governments. The findings reveal that timely and transparent disclosure of financial information was rated highly (mean = 4.12, SD = 0.73). This suggests that county administrations have made significant progress in ensuring that stakeholders receive accurate financial data within appropriate timeframes, an essential factor in enhancing trust and accountability.

Efforts to update and improve financial reporting standards were also positively noted (mean = 4.04, SD = 0.69). This indicates a commitment to adopting best practices and aligning county reporting processes with evolving regulatory requirements. Such continuous improvement helps to strengthen consistency and reliability in financial disclosures. Stakeholder engagement in reporting and compliance processes was moderately rated (mean = 3.95, SD = 0.92). While participation exists, the wide variation suggests inconsistencies across departments or county levels. Strengthening stakeholder involvement would ensure that financial reporting remains inclusive and reflective of broader accountability needs.

Whistleblower protection mechanisms recorded the lowest rating (mean = 3.66, SD = 0.48). This points to a gap in safeguarding individuals who expose financial irregularities, which may discourage reporting and hinder efforts to combat malpractice. Similarly, enforcement mechanisms and penalties for non-compliance were rated fairly low (mean = 3.81, SD = 0.56), indicating that while structures exist, their application may not be sufficiently robust to deter violations. The strongest area identified was the alignment of county financial reporting policies with national and legal frameworks (mean = 4.25, SD = 0.71). This demonstrates that County Governments are generally compliant with statutory requirements, reinforcing the legitimacy of their financial practices.

Overall, the analysis indicates that regulatory compliance positively influences financial reporting quality, with an average score of 3.97. The findings are in line with findings of research by Smith (2023) who emphasizes that robust financial reporting frameworks and compliance mechanisms are crucial for ensuring transparency, accountability, and comparability. The County Governments ' alignment of their financial policies with national regulations reflects this principle, enhancing credibility and legitimacy in their practices. Smith (2023) further asserted that compliance frameworks alone are insufficient without strong enforcement and inclusivity.

The study also highlights the value of a structured and systematic approach in evaluating compliance, echoing the methodological insights of Noor, Tajik, and Golzar (2022), who argued that rigorous, well-defined processes improve research reliability. Similarly, County Governments employing structured mechanisms like timely disclosures, continuous updates, and active stakeholder engagement can achieve more dependable financial reporting. Enhancing enforcement while promoting inclusivity would not only strengthen transparency but also align county financial management with national standards and international best practices.

Risk Management

The study sought to establish the effect of risk management on the quality of financial reporting in Mombasa and Kilifi County Governments, providing descriptive analysis of data collected to highlight patterns, relationships, and emerging trends within the findings.

Table 2: Risk Management

Question	Mean	Std Dev
The county government has clear and documented procedures for mitigating financial reporting risks.	3.74	0.83
Financial risks identified are followed by timely and appropriate mitigation actions.	3.91	0.76
Internal audit functions actively contribute to reducing financial misstatements and irregularities.	4.09	0.71
Risk mitigation strategies are regularly reviewed and updated to address emerging financial reporting risks.	4.32	0.68
Staff involved in financial reporting receive adequate training on risk awareness and mitigation techniques	4.11	0.73
There is collaboration between departments to implement effective cross-functional risk mitigation strategies.	3.85	0.75
Average	**4.00**	**0.72**

The study sought to establish the effect of risk management on the quality of financial reporting in Mombasa and Kilifi County Governments, focusing on how the County Governments address risks that could compromise accuracy, reliability, and transparency. The findings show that respondents generally agreed that the county governments have taken deliberate measures to mitigate financial reporting risks, with an overall mean of 4.00 and a standard deviation of 0.72, indicating consistency in responses. The highest-rated statement was that risk mitigation strategies are regularly reviewed and updated to address emerging risks (mean = 4.32, SD = 0.68). This demonstrates that County Governments recognize the dynamic nature of financial risks and have instituted mechanisms to adjust policies in response to new challenges. Such reviews are essential in ensuring the sustainability of reporting quality in the face of evolving economic, technological, and regulatory environments.

The internal audit function also received a strong rating (mean = 4.09, SD = 0.71), highlighting its significant role in reducing misstatements and irregularities. Internal audits act as independent checks that not only ensure compliance but also enhance stakeholder confidence in financial disclosures. Equally, staff training on risk awareness and mitigation recorded a mean of 4.11, suggesting that capacity-building initiatives are fairly effective in strengthening human resource competence in managing risks.

Moderately rated areas include collaboration between departments (mean = 3.85, SD = 0.75) and documentation of procedures (mean = 3.74, SD = 0.83). These lower ratings indicate gaps in interdepartmental synergy and consistency in applying documented guidelines. Such weaknesses could potentially hinder holistic risk mitigation, especially in complex county operations that cut across multiple functions.

Overall, the results underscore that effective risk management positively contributes to improved financial reporting quality. However, enhancing collaboration and strengthening the enforcement of documented procedures would further consolidate gains and minimize vulnerabilities in the County Governments ’ reporting frameworks.

Authorization and Approval Processes

The study sought to establish the effect of authorization and approval processes on the quality of financial reporting in Mombasa and Kilifi County Governments, providing descriptive analysis of data collected to highlight patterns, relationships, and emerging trends within the findings

Table 3: Authorization and Approval Processes

Question	Mean	Std Dev
The county government has a clear and well-structured approval hierarchy that enhances the accuracy of financial reporting.	4.36	0.67
Authorization and approval processes are guided by well-documented and consistently applied policies and procedures.	4.31	0.69
Financial approvals are processed promptly, allowing for timely and reliable financial reporting.	4.28	0.71
There is an effective segregation of duties in financial authorization to minimize errors and fraud.	4.18	0.73
Delegation of authority is well-defined and contributes to accountability in financial decision-making.	4.09	0.82
The county government has a clear and well-structured approval hierarchy that enhances the accuracy of financial reporting.	4.14	0.76
Average	**4.23**	**0.73**

The study sought to establish the effect of authorization and approval processes on the quality of financial reporting in Mombasa and Kilifi County Governments. The descriptive analysis presented in Table 3 highlights how structured approval systems and related controls contribute to accountability, accuracy, and reliability in financial disclosures.

The overall mean score of 4.23 with a standard deviation of 0.73 indicates a strong level of agreement among respondents that authorization and approval processes significantly enhance financial reporting. The highest-rated item was the presence of a clear and well-structured approval hierarchy (mean = 4.36, SD = 0.67), suggesting that county governments have established robust chains of command that ensure accuracy in financial transactions. Such hierarchies act as safeguards by ensuring financial reports are vetted at different levels before finalization, minimizing the chances of misstatements or errors.

Closely following this was the view that authorization and approval processes are guided by well-documented and consistently applied policies (mean = 4.31, SD = 0.69). This reflects a strong institutional framework that promotes uniformity and reduces discretion, thereby limiting opportunities for manipulation or inconsistencies. Similarly, respondents agreed that prompt processing of financial approvals (mean = 4.28, SD = 0.71) enhances timeliness and reliability in reporting, a critical element for decision-making and compliance with regulatory timelines.

Segregation of duties in financial authorization scored a mean of 4.18, reflecting the importance of separating responsibilities to reduce risks of fraud and errors. However, slightly lower ratings were observed in delegation of authority (mean = 4.09, SD = 0.82) and a second assessment of approval hierarchy (mean = 4.14, SD = 0.76), pointing to some gaps in role clarity and consistency in execution across departments.

The overall mean score of 4.23 with a standard deviation of 0.73 indicates a strong level of agreement among respondents that authorization and approval processes significantly enhance financial reporting. The findings emphasize that effective authorization and approval processes are central to safeguarding the integrity of financial reporting. By reinforcing accountability, minimizing risks of fraud, and enhancing timeliness, these processes provide a strong foundation for transparency and good governance in county financial management.

Budgetary Control

The study sought to establish the effect of budgetary control on the quality of financial reporting in Mombasa and Kilifi County Governments, providing descriptive analysis of data collected to highlight patterns, relationships, and emerging trends within the findings

Table 4: Budgetary Control

Question	Mean	Std Dev
The county government conducts a comprehensive and participatory budget preparation process that enhances financial reporting.	3.95	0.92
Funds are allocated based on clear priorities and timelines, supporting accurate financial reporting.	4.06	0.74
Budget officers receive adequate training and capacity-building that improves the quality of financial reporting.	3.78	0.85
Routine variance evaluations are performed to uncover deviations between projected budgets and actual expenditures.	4.11	0.73
Continuous tracking of spending is undertaken to confirm consistency with the authorized budget.	3.86	0.81
Timely and precise budget adjustments are implemented to accommodate evolving financial conditions	4.21	0.71
Average Mean	**4.00**	**0.79**

The study aimed to determine the influence of budgetary control on the quality of financial reporting in Mombasa and Kilifi County Governments. The descriptive results in Table 4 shed light on how budget formulation, monitoring, and adjustments shape the accuracy, reliability, and transparency of county financial statements. The analysis shows that participatory budget preparation received a moderate score (mean = 3.95, SD = 0.92). This indicates that while efforts are made to involve stakeholders in the budgeting process, the wide variation suggests inconsistencies across departments. Stakeholder engagement is particularly important as it promotes ownership, reduces conflicts, and ultimately enhances reporting quality.

Resource allocation based on priorities and timelines was rated slightly higher (mean = 4.06, SD = 0.74), pointing to deliberate attempts by County Governments to align financial resources with developmental objectives. This alignment strengthens the accuracy of financial reports since expenditures are tied to specific activities. Nevertheless, there remains room to improve how well allocations strictly follow set priorities.

Training and capacity-building for budget officers emerged as the weakest area (mean = 3.78, SD = 0.85). This highlights a gap in technical expertise, which may reduce the effectiveness of budgetary control and, in turn, affect the precision of financial reporting. Continuous professional development would help officers adopt modern practices that enhance reporting standards.

Variance analysis was rated positively (mean = 4.11, SD = 0.73), showing that County Governments are actively identifying and addressing differences between planned and actual expenditure. Likewise, ongoing expenditure monitoring (mean = 3.86, SD = 0.81) indicates some level of oversight, although its application is not entirely consistent.

The most highly rated aspect was timely and accurate budget revisions (mean = 4.21, SD = 0.71), which illustrates flexibility in responding to changing financial realities. Such adaptability ensures that financial reports remain current and reliable. The findings demonstrate that budgetary control plays a significant role in improving financial reporting, as reflected in the overall mean score of **4.00**. This suggests that while County Governments have adopted effective budget management practices, strengthening staff capacity and deepening participatory planning would further enhance financial accountability and governance.

Quality of Financial Reporting

The study sought to establish factors affecting the quality of financial reporting in Mombasa and Kilifi County Governments, providing descriptive analysis of data collected to highlight patterns, relationships, and emerging trends within the findings

Table 5: Quality of Financial Reporting

Question	Mean	Std Dev
Financial reports prepared by the county government contain information that is relevant to the needs of local decision-makers and stakeholders.	4.03	0.74
The county government ensures that financial reports fairly and accurately represent its financial position without bias or omission.	3.94	0.86
County financial statements are consistently prepared in a way that allows comparison across departments and fiscal years.	3.85	0.92
Financial statements are compiled and presented within the legally prescribed timelines and in accordance with regulatory requirements.	4.17	0.73
The county government presents financial reports in a clear and straightforward manner that is easy for non-experts to understand.	4.06	0.87
The county government discloses all key accounting policies, assumptions, and relevant financial decisions openly in its reports.	3.89	0.94
Average.	3.99	0.84

The study sought to assess the quality of financial reporting in Mombasa and Kilifi County Governments, with a focus on relevance, accuracy, comparability, timeliness, clarity, and disclosure. The findings indicate that financial reports are generally considered relevant to decision-makers and stakeholders (mean = 4.03, SD = 0.74). This suggests that the County Governments are making deliberate efforts to align reporting with the informational needs of users, ensuring that data provided is both purposeful and practical for local governance.

Accuracy and fairness of reporting were moderately rated (mean = 3.94, SD = 0.86), reflecting progress but also pointing to possible areas where omissions or inconsistencies may occur. Similarly, comparability across departments and fiscal years recorded one of the lower ratings (mean = 3.85, SD = 0.92). This signals that while reports are being produced, uniformity in presentation and adherence to consistent standards may not always be fully achieved.

Timeliness emerged as a strength, with financial reports being prepared and submitted within legal deadlines (mean = 4.17, SD = 0.73). This is critical for accountability and compliance with regulatory requirements. Clarity and simplicity of presentation were also positively rated (mean = 4.06, SD = 0.87), suggesting that County Governments are mindful of making reports accessible to both technical and non-technical audiences.

Disclosure of accounting policies and key assumptions received a moderate score (mean = 3.89, SD = 0.94), indicating that while transparency is practiced, there may be instances where reporting lacks sufficient detail to fully inform stakeholders.

Overall, the analysis shows that the County Governments are performing reasonably well in financial reporting, with an overall mean of 3.99. This implies that while quality reporting practices are generally in place, greater emphasis on comparability, full disclosure, and strengthening objectivity would further improve credibility and enhance public trust in county financial management.

Correlation Analysis

Correlation analysis is a statistical technique used to determine the degree and direction of association between two variables. It provides insights into whether variables move together and the strength of their relationship, ranging from negative to positive correlation (Pandey, 2020). This method is essential in research for identifying patterns, supporting data interpretation, and informing regression analysis, (Cieniawska, Pentoś, & Szulc, 2022).

Pearson's Correlation

The Pearson correlation coefficient is a statistical tool used to evaluate the degree of association between two continuous variables, considering both the strength and the direction of their relationship (Turney, 2022). The coefficient ranges from –1 to +1, where a value of 0 indicates no correlation, +1 signifies a perfect positive correlation, and –1 reflects a perfect negative correlation. A positive correlation implies that as one variable increases, the other tends to increase as well, whereas a negative correlation indicates that the variables move in opposite directions..

Table 6: Pearson's Correlation

Variables	**QFR**	**RC**	**RM**	**AA**	**BC**
QRF	1				
Sig. (2-tailed)	104				
N	0.629**	1			
RC	0				
Sig. (2-tailed)	104	104			
N	0.571**	0.493**	1		
RM	0	0			
Sig. (2-tailed)	104	104	104		
N	0.553**	0.459**	0.437**	1	
AA	0	0	0		
Sig. (2-tailed)	104	104	104	104	
N	0.617**	0.505**	0.489**	0.471**	1
BC	0	0	0	0	
Sig. (2-tailed)	104	104	104	104	104
N					

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

In this research, the Pearson correlation technique was utilized to examine the association between the dependent variable, Quality of Financial Reporting (QFR), and the independent variables: Regulatory Compliance (RC), Risk Management (RM), Authorization and Approval Processes (AA), and Budgetary Control (BC). This analysis offered critical insights into the linear relationships among the study variables. Regulatory compliance exhibited the strongest positive correlation with the quality of financial reporting ($r = 0.629$, $p < 0.01$). This result underscores the importance of aligning financial practices with existing regulations, laws, and standards. County Governments that adhere to these frameworks tend to present more reliable and credible financial information. Such compliance enhances accountability and minimizes the risk of misstatements. Ultimately, this suggests that strengthening compliance structures is fundamental to improving the overall quality of financial reporting in county governments.

Risk management revealed a strong positive correlation with the quality of financial reporting ($r = 0.571$, $p < 0.01$). This highlights the critical role of identifying, assessing, and addressing financial risks in shaping the accuracy of reports. County Governments that integrate effective risk management strategies are more likely to produce dependable financial statements. Properly mitigating risks reduces uncertainty and enhances reliability. Hence, incorporating comprehensive risk management practices significantly contributes to improved financial reporting quality and accountability within public sector operations.

Authorization and approval processes were also positively correlated with the quality of financial reporting ($r = 0.553$, $p < 0.01$). This finding points to the importance of oversight mechanisms such as formal approvals and checks before transactions are executed. When approval systems are properly applied, financial records are better safeguarded against misstatements or irregularities. These processes encourage transparency and prevent unauthorized actions. The results indicate that County Governments with stronger approval procedures are positioned to produce more accurate reports, thereby enhancing trust in their financial management practices.

Budgetary control exhibited a significant positive relationship with the quality of financial reporting ($r = 0.617$, $p < 0.01$). This reflects the value of effective monitoring of revenue, expenditure, and resource allocation in ensuring reliable reporting. County Governments that implement strict budgetary control mechanisms maintain financial discipline, avoid overspending, and create accurate records of financial activity. Proper budgeting supports consistency in reporting practices. Thus, the findings suggest that enhancing budgetary oversight is essential for strengthening the quality and credibility of financial reporting across county governments. The outcomes indicate that County Governments with strong regulatory compliance, budgetary control, effective risk management, and structured approval processes are more likely to achieve high-quality financial reporting, underscoring the critical role of robust internal controls in enhancing accountability

Multiple Linear Regression

Multiple linear regression is a statistical method that examines the relationship between a single dependent variable and two or more independent variables, enabling researchers to predict outcomes and assess the relative impact of each predictor (Roustaei, 2024). This technique relies on assumptions of linearity, independence, homoscedasticity, and normally distributed residuals. In this study, the analysis employed the Model Summary, ANOVA, and Coefficients tables to assess the overall fit of the regression model, test the significance of the equation, and evaluate how regulatory compliance, risk management, authorization and approval processes, and budgetary control individually influence the quality of financial reporting.

Model Summary

Table 7: Model Summary

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate
1	0.785	0.615	0.602	0.479

Predictors: (Constant), Regulatory compliance, Risk Management, Authorization and Approval Processes and Budgetary Control

The model summary indicated an R value of 0.785, representing the multiple correlation coefficient. Since R values range between 0 and 1, with values closer to 1 indicating a stronger relationship, the obtained R value of 0.785 demonstrates a strong relationship, meaning the predictors Regulatory Compliance, Risk Management, Authorization and Approval Processes, and Budgetary Control collectively explain the outcome very well. The R^2 value was 0.615, indicating that about 61.5% of the variance in the quality of financial reporting can be explained by the combined effect of the four predictor variables in the model. This demonstrates that the regression model possesses strong explanatory power, while the remaining 38.5% of the variation in reporting quality may be linked to other factors not captured in this study.

ANOVA

Table 8: ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	24.518	4	6.13	17.852	0.000
Residual	34.857	99	0.352		
Total	59.375	103			

a. Dependent Variable: Quality of Financial Reporting

b. Predictors: (Constant), Regulatory compliance, Risk Management, Authorization and Approval Processes and Budgetary Control

The ANOVA results indicated an F-statistic of 17.852 with a significance value of 0.000 confirms the model's robustness and validity. Since the p-value is far below the 0.05 threshold, the null hypothesis that internal control procedures have no effect on financial reporting quality is rejected. This demonstrates that the chosen independent variables collectively have a strong and statistically significant influence.

Coefficients

From the results presented in Table 9, a multiple linear regression model was developed to assess the combined effect of independent variables (Regulatory compliance, Risk Management, Authorization and Approval Processes and Budgetary Control) on the dependent variable (Quality of Financial Reporting).

Table 9: Coefficients

Model	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	T	Sig.
Constant	0.674	0.213	–	3.21	0.002
Regulatory Compliance	0.251	0.102	0.278	2.409	0.018
Risk Management	0.317	0.106	0.242	2.991	0.005
Authorization & Approval Processes	0.186	0.077	0.212	2.206	0.027
Budgetary Control	0.393	0.072	0.301	5.458	0.000

a. Dependent Variable: Quality of Financial Reporting

The fitted regression equation is as follows:

$$\mathbf{Y = 0.674 + 0.251X_1 + 0.317X_2 + 0.186X_3 + 0{,}393X_4 + \varepsilon}$$

The regression findings indicate that all four internal control mechanisms; Regulatory Compliance, Risk Management, Authorization and Approval Processes, and Budgetary Control exert a positive and statistically significant influence on the quality of financial reporting within the Mombasa and Kilifi County Governments..

Discussion of Key Results

According to Bujang (2025), the standard significance level in research analysis is p = 0.05. Values below 0.05 provide strong evidence against the null hypothesis, indicating a meaningful or statistically significant effect, whereas values above 0.05 suggest that the results are not statistically significant and may have occurred due to random variation.

The results showed that Regulatory Compliance recorded a p-value of 0.018, which is lower than the 0.05 significance level, signifying a statistically significant association with the quality of financial reporting. The unstandardized coefficient (B) of 0.251 implies that a one-unit improvement in regulatory compliance leads to a 0.251-unit increase in the quality of financial reporting. Consequently, the null hypothesis is rejected, supporting the alternative hypothesis that regulatory compliance significantly influences reporting quality. The above findings are in line with the outcome of a study by Burke and Riley League (2025) on equity crowdfunding "rules," which established that compliance with mandated financial reporting requirements improves disclosure quality even in environments with weak enforcement. Their results emphasize that adherence to regulations strengthens transparency and credibility, supporting the current study's conclusion that regulatory compliance significantly enhances financial reporting quality. Similarly, the findings are consistent with the outcome of a study by Christensen, Lei, Shu, and Thomas (2023), which examined whether audit regulation improves the reliability of information used by managers and found that oversight through PCAOB inspections leads to more accurate forecasts and higher reporting quality. This reinforces the observation that compliance with regulatory frameworks enhances accountability and transparency. In addition, the findings align with the study by Ilugbo, Josiah, and Ozele (2024), who demonstrated that adherence to international financial reporting standards moderates governance challenges and promotes reliable disclosures, affirming that compliance is central to strengthening financial reporting quality and accountability.

-The analysis indicated that risk management has a p-value of 0.005, which is significantly lower than the 0.05 benchmark, confirming a statistically significant influence on the quality of financial reporting. The unstandardized coefficient (B) of 0.317 means that enhancing risk management practices by one unit can improve financial reporting quality by 0.317 units. This suggests that effective identification, assessment, and mitigation of risks directly strengthen financial reporting processes. Therefore, the null hypothesis (H_2) is rejected in favor of the alternative, affirming that risk management significantly contributes to reporting quality.The findings above are in line with the outcome of a study by Madugba et al. (2020) on risk management committees in Nigerian deposit money banks, which showed that structured oversight significantly enhances financial reporting quality and performance. This supports the present study's result that effective risk management practices strengthen reporting processes. In the same way, Metlej, Zalzali, and Farhat (2021) found that the implementation of financial risk management directly improves disclosure quality by reducing uncertainty and increasing transparency. Their conclusion reinforces the current finding that systematic identification and mitigation of risks are crucial to credible reporting. Likewise, Ademola, Adeyemi, and Akintoye (2023) emphasized that financial technology provides practical solutions for managing reporting risks, enhancing both reliability and efficiency. Their evidence connects well with the current study's demonstration that advancing risk management, through either frameworks or innovations, positively influences the quality of financial reporting and promotes accountability.

The results show that the p-value for authorization and approval processes stood at 0.027, which is below the 0.05 significance level, establishing a meaningful statistical relationship with the quality of financial reporting. The unstandardized coefficient (B) of 0.186 indicates that improving authorization and approval procedures by one unit can increase the quality of financial reporting by 0.186 units. This outcome highlights the importance of structured approval mechanisms and accountability in enhancing reporting accuracy. Consequently, the null hypothesis (H_3) is rejected, supporting the alternative hypothesis that these processes play a significant role. The above findings are in line with the outcome of a study by Ekiru, Chelogoi, and Kitur (2024), who examined the effectiveness of internal audit controls in public financial management in Turkana County. Their study revealed that well-structured internal audit and approval mechanisms strengthen accountability and improve the accuracy of financial management processes. This supports the present study's finding that authorization and approval procedures significantly enhance the quality of financial reporting. Similarly, the findings align with the outcome of Kimathi (2025), who established that robust internal accounting controls, including approval processes, are directly linked to the accuracy of financial statements in Kenya's public sector. His research demonstrated that systematic checks and approvals minimize errors and irregularities, reinforcing the current study's conclusion that structured authorization processes are essential for reliable financial reporting. Together, these results underscore that accountability mechanisms embedded in approval systems are vital in sustaining transparency and reporting integrity

Budgetary control revealed a highly significant p-value of 0.000, which is well below the 0.05 threshold, indicating a strong statistical association with the quality of financial reporting. The unstandardized coefficient (B) of 0.393 suggests that improving budgetary control practices by one unit can result in a 0.393-unit increase in financial reporting quality. This underscores the critical role of effective planning, monitoring, and allocation of funds in ensuring accurate financial statements. Therefore, the null hypothesis (H_4) is rejected, confirming that budgetary control has a significant influence on reporting quality. The above findings are in line with the outcome of a study by Adisa, Maingi, and Lyani (2024), who investigated the effect of legislative budgetary control on financial accountability in Nairobi County. Their study revealed that effective budgetary oversight, through planning, monitoring, and legislative review, significantly enhances financial accountability and improves the accuracy of financial statements. This strongly supports the present study's finding that budgetary control has a meaningful impact on the quality of financial reporting. Both studies highlight that well-structured budgetary processes not only prevent misuse of resources but also promote transparency and accountability, thereby strengthening the credibility of financial reports.

CONCLUSION AND RECOMMENDATIONS

The study concludes that regulatory compliance significantly enhances the quality of financial reporting in Mombasa and Kilifi County Governments. High ratings in timely disclosure, policy alignment with national frameworks, and continuous updates demonstrate progress toward transparency and accountability. he study also identifies areas needing improvement, particularly in enforcing compliance measures and protecting whistleblowers. Strengthening these aspects would further enhance the effectiveness of regulatory compliance as a tool for improving financial reporting quality in county governments.

The study concludes that the implementation of sound risk management practices exerts a substantial and positive impact on the quality of financial reporting, enhancing its accuracy, reliability, and overall credibility.. Proactive risk identification, regular review of risk mitigation strategies, and investment in staff training enhance the reliability and accuracy of financial disclosures. When County Governments adopt structured approaches to managing financial risks, they not only safeguard the integrity of their reporting systems but also build resilience against emerging challenges. Improving the interaction between departments and the rigid adherence to the existing procedures would significantly strengthen accountability and transparency in the system of public financial management.

The study found that financial reporting is more accountable, accurate, and reliable when there are clear approval hierarchies, unified policy documents, fast transaction processing, and sufficient responsibility separation. The quality and reliability of the county-wide financial reporting systems are ultimately enhanced by these steps, which also promote transparency and good financial governance.

It was concluded that county governments have made commendable strides in aligning their budgeting practices with transparency and accountability objectives. Initiatives such as participatory planning, linking budgets to development goals, and conducting variance analysis contribute to more accurate and dependable financial statements. However, the study also notes that disparities exist, particularly in stakeholder involvement and the technical capacity of budgeting personnel.

The study recommends that county governments in Mombasa and Kilifi strengthen regulatory compliance by integrating control mechanisms that ensure adherence to national financial management standards. This can be achieved through the automation of compliance checklists within financial systems, periodic internal audits to verify adherence, and continuous training for compliance officers. Establishing independent whistleblower reporting channels and enforcing disciplinary measures for non-compliance will promote accountability.

The study recommends that county governments should maintain dynamic risk registers linked to financial operations, conduct quarterly risk assessments, and integrate risk mitigation reports into management review meetings. Regular training for finance and audit personnel on emerging risks such as cyber threats and procurement fraud will improve their capacity to detect and prevent irregularities..

The study recommends that County Governments reinforce their authorization and approval procedures to ensure that every financial transaction undergoes proper validation and documentation. Implementing electronic approval workflows within the Integrated Financial Management Information System will create transparent audit trails, minimize manual errors, and limit opportunities for unauthorized access. Clear delegation of authority and periodic review of signatory limits will strengthen control activities by ensuring that all expenditures are both legitimate and traceable.

The study recommends that county governments improve budgetary control by embedding internal controls throughout the budgeting cycle from planning to execution and reporting. This can be achieved through participatory budgeting forums that link departmental budgets with internal audit oversight and variance analysis. Budget officers should receive training in financial forecasting, data analytics, and performance-based budgeting to ensure informed resource allocation.

Recommendations for Further Research

The findings of the study indicate that regulatory compliance has a considerable and favorable impact on the quality of financial reporting. When county governments align their reporting practices with established legal and regulatory standards, the result is greater transparency, enhanced accuracy, and improved public trust in financial disclosures. Consistent updates to reporting frameworks and adherence to statutory requirements foster accountability and reinforce the integrity of financial processes. Nonetheless, the study also identifies areas needing improvement, particularly in enforcing compliance measures and protecting whistleblowers. Strengthening these aspects would further enhance the effectiveness of regulatory compliance as a tool for improving financial reporting quality in county governments.

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