Financial Reporting Practices and Financial Sustainability of County Governments in Kenya

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Abstract: ***Financial sustainability was a critical concern for county governments in Kenya because it determined their capacity to mobilize and utilize financial resources effectively, meet financial obligations, maintain essential public services, and implement development programs. Despite the emphasis on sound public financial management, county governments continued to face challenges related to revenue shortfalls, expenditure pressures, and the accumulation of pending bills, limited development expenditure, and weaknesses in financial accountability. Effective financial reporting was therefore considered essential to provide reliable information for financial planning, resource allocation, expenditure control, accountability, and decision-making. This study examined how financial reporting practices influence the financial sustainability of county governments in Kenya. The study was guided by Agency Theory and adopted a positivist research philosophy, quantitative approach, and descriptive correlational research design. The target population comprised officers involved in financial reporting, accounting, budgeting, auditing, revenue management, procurement, planning, and financial administration across Kenya's 47 county governments. The study collected primary data through structured questionnaires using a five-point Likert scale. The data were analyzed using descriptive and inferential statistics, including frequencies, percentages, means, standard deviations, Pearson correlation, and regression analysis. The study obtained 280 valid responses from a sample of 341 respondents, representing an 82.1% response rate. Descriptive findings indicated that financial reporting practices were implemented at a moderate level, with an overall mean of 3.22 (SD = 1.25). Comprehensive reporting of revenues, expenditures, assets, and liabilities recorded the highest mean score (M = 3.83, SD = 1.14), followed by adherence to IPSAS (M = 3.69, SD = 1.28) and timely submission of financial reports (M = 3.64, SD = 1.30). However, transparency (M = 2.50, SD = 1.23), accuracy (M = 2.52, SD = 1.24), and stakeholder understanding of financial information (M = 2.52, SD = 1.25) recorded relatively low scores. Inferential findings established a strong positive and statistically significant relationship between financial reporting practices and financial sustainability ($r = .693$, $p < .01$). Regression analysis indicated that financial reporting practices explained 48.0% of the variation in financial sustainability ($R^2 = .480$), while the regression model was statistically significant, $F (1, 278) = 256.51$, $p < .001$. The regression coefficient further demonstrated a positive and statistically significant influence of financial reporting practices on financial sustainability ($\beta = .693$, $t = 16.02$, $p < .001$). The null hypothesis was therefore rejected. The study concluded that effective financial reporting practices significantly contributed to financial sustainability among county governments in Kenya. The study recommended strengthening financial reporting policies, regulatory oversight, staff capacity, internal verification procedures, transparency, and the use of financial information in budgeting and financial decision-making.***

Keywords: financial reporting practices, financial sustainability, county governments, IPSAS, public financial management, Kenya

1. Introduction

Financial sustainability has become an increasingly important concern for public-sector governments because it determines their capacity to mobilize resources, meet financial obligations, maintain essential services, and implement development programmes over time. At the subnational level, financial sustainability is closely linked to the quality of financial management and the availability of reliable information for planning, budgeting, monitoring, and accountability. High-quality financial reporting provides decision-makers, oversight institutions, and citizens with information about revenues, expenditures, assets, liabilities, cash flows, and financial commitments, thereby supporting informed resource allocation and fiscal control. The International Public Sector Accounting Standards Board (IPSASB) emphasizes that general-purpose financial reporting should provide information that meets the accountability and decision-making needs of service recipients and resource providers (IPSASB, 2023). Consequently, effective financial reporting practices are increasingly viewed not merely as an accounting compliance requirement but as an important component of sound public financial management and long-term fiscal sustainability. Globally, public-sector entities have strengthened financial reporting frameworks by adopting and implementing accrual-based accounting standards, particularly IPSAS. Accrual-based reporting enhances the visibility of assets, liabilities, revenues, and expenses and can provide a more comprehensive representation of an entity's financial position than cash-based reporting. The 2025 IPSASB Handbook provides the current suite of International Public Sector Accounting Standards and the Conceptual Framework for General Purpose Financial Reporting, reflecting continued international efforts to improve the quality and comparability of public-sector financial information (IPSASB, 2025). Empirical evidence from local governments also demonstrates the relevance of financial information to fiscal sustainability. For instance, Lhutfi and Sugiharti (2022), in examining local governments in Indonesia, found that financial characteristics were significantly associated with financial sustainability. Similarly, Balogun and Fatogun (2022) established that IPSAS adoption significantly improved financial accountability and the credibility of financial management in selected local governments in Nigeria. These findings suggest that the quality and institutionalization of public sector financial reporting can influence subnational governments' capacity to manage public resources sustainably.

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In Africa, the pursuit of effective financial reporting has gained prominence because decentralization has increased subnational governments' responsibilities while also creating demands for greater accountability and fiscal discipline. Reliable financial reports enable governments to assess revenue performance, expenditure patterns, liabilities and financial commitments and, consequently, identify emerging fiscal pressures. However, weaknesses in reporting quality, compliance and financial controls can reduce the usefulness of financial information for decision-making and oversight. This is particularly significant where subnational governments experience revenue constraints and expenditure pressures. Evidence from Kenya indicates that financial accountability and related public financial management practices remain important determinants of sustainability. Osundwa et al. (2025), for example, found that financial accountability practices were associated with county government sustainability in Kenya. More recent evidence from Kisii County also indicates that financial auditing is significantly related to financial sustainability, reinforcing the broader importance of financial governance mechanisms in sustaining county operations. In Kenya, financial reporting is embedded in the country's public financial management framework. The Public Finance Management Act requires county treasuries to prepare consolidated annual financial statements and submit them to the Auditor-General, National Treasury, Controller of Budget, and Commission on Revenue Allocation within the prescribed period. County government entities must also prepare financial statements that disclose appropriations, expenditure, assets and liabilities, accounting policies, and performance against predetermined objectives (Republic of Kenya, 2012). The reporting environment has also undergone an important transformation through Kenya's transition from IPSAS cash-basis accounting to IPSAS accrual-basis accounting. The transition commenced on 1 July 2024, with the first accrual-based financial statements expected for the financial year ending 30 June 2025 and a compliance period extending to 2027 (National Treasury, 2024). Consequently, the Public Sector Accounting Standards Board has developed revised accrual-based reporting templates for county governments and other public-sector entities.

Despite these regulatory and institutional developments, concerns regarding the quality, completeness, timeliness, and reliability of financial information continue to arise within county governments. The Office of the Auditor-General continues to publish separate audit reports for county executives and assemblies, reflecting the continuing importance of financial accountability and reporting at the devolved level. Recent Kenyan research has similarly identified persistent financial management challenges affecting county sustainability. For example, Thambura Atheru and Gichohi (2025) found that persistent payroll non-compliance in Meru County affected financial sustainability, while Ndonye *et al.* (2026) reported that governance strengthened the relationship between public financial management practices and financial sustainability in Makueni County. These findings indicate that although county governments operate within an increasingly formalized financial reporting and accountability framework, the extent to which reporting practices translate into stronger financial sustainability remains an important empirical question. The existing literature has largely examined financial sustainability in relation to broad public financial management, financial accountability, auditing, revenue mobilization, and governance. Comparatively less empirical attention has focused specifically on financial reporting practices as a distinct determinant of county-government financial sustainability, particularly in the context of Kenya's ongoing transition to accrual-based IPSAS reporting. This creates an important empirical and contextual gap because compliance with reporting requirements does not necessarily guarantee that financial information is timely, accurate, complete, transparent, and useful for fiscal decision-making. The present study therefore analyses how financial reporting practices influence the financial sustainability of county governments in Kenya. By examining this relationship, the study aims to contribute empirical evidence to the public financial management literature and provide policy and practical insights for strengthening financial reporting as an instrument for sustainable county governance.

1.2 Statement of the Problem

Ideally, county governments should maintain financial sustainability by generating adequate revenues, controlling expenditure, meeting financial obligations as they fall due, and sustaining development and service delivery over time. Effective financial reporting practices should support this objective by providing timely, accurate, complete, and transparent information on revenues, expenditures, assets, liabilities, and financial commitments, enabling county governments and oversight institutions to identify fiscal pressures and take corrective action. In this regard, sound financial reporting should contribute to revenue adequacy, prudent expenditure management, timely settlement of obligations, and effective implementation of development programs. However, Kenyan county governments' financial sustainability continues to show significant weaknesses. During FY 2023/24, counties collected Sh 58.9 billion in own-source revenue against a target of Sh 80.9 billion, achieving only 72.8%. Development expenditure absorption averaged 57.5%, indicating that a substantial share of resources allocated for development did not translate into actual development spending.

This is further reflected in the accumulation of financial obligations and weaknesses in county governments' expenditure structure. The Auditor-General reported that county-government pending bills increased dramatically from Sh 40.23 billion in FY 2019/20 to Sh 226.61 billion in FY 2023/24, representing more than a five-fold increase within five years. County executives alone accounted for Sh 221.04 billion of the FY 2023/24 pending bills. The Auditor-General further observed that, if the reported pending bills had been settled, actual county expenditure would have exceeded budgeted expenditure, highlighting significant weaknesses in expenditure planning and financial management. At the same time, county governments' actual development expenditure represented only 24.4% of total actual expenditure in FY 2023/24, while only nine counties achieved the statutory minimum 30% development-expenditure threshold. County wage expenditure also amounted to Sh 209.8 billion, equivalent to 47.6% of total county revenue, substantially above the 35% threshold prescribed under the public financial management framework. These indicators point to persistent challenges in revenue adequacy, expenditure management, fulfilment of financial obligations, and development spending, and the core dimensions of county financial sustainability.

Although existing studies have examined county financial sustainability through broad public financial management, financial accountability, auditing, and governance perspectives, limited empirical attention has specifically examined financial reporting practices as a determinant of county financial sustainability. Recent evidence shows persistent information asymmetries in county fiscal disclosure, particularly concerning revenue, expenditure, and non-financial information, which weaken budget transparency (Muthomi, 2026). Similarly, recent research has established relationships between broader financial accountability practices and county sustainability but does not sufficiently isolate the contribution of financial reporting practices to sustainability outcomes. This study therefore seeks to fill this empirical gap by examining whether, and to what extent, financial reporting practices influence financial sustainability among Kenya's county governments, particularly in relation to revenue adequacy, expenditure management, the ability to meet financial obligations, and the capacity to sustain development and service delivery. This evidence is important given Kenya's continuing reforms in public sector financial reporting and the need to strengthen county fiscal resilience.

1.3 Objective of the study

To analyze the influence of financial reporting Practice on the financial sustainability of county governments in Kenya.

1.4 Research Hypothesis

$H0_1$: Financial Reporting Practice has no statistically significant Influence on the financial sustainability of County governments

1.5 Significance of the study

The study was significant to county governments in Kenya because it provided empirical evidence on how financial reporting practices influenced financial sustainability. The findings were expected to help county governments strengthen the timeliness, accuracy, completeness, and transparency of financial reports, thereby improving revenue management, expenditure control, settlement of financial obligations, and continuity of service delivery. The study was also significant to policymakers and regulatory institutions, including the National Treasury, the Public Sector Accounting Standards Board, and the Commission on Revenue Allocation, the Controller of Budget, and the Office of the Auditor-General. The findings were expected to inform improvements in financial reporting policies, accounting standards, monitoring mechanisms, and capacity-building programs to strengthen county financial management and sustainability. Finally, the study was significant to researchers and scholars in accounting, public finance, and financial management. It addressed the limited empirical evidence on the specific relationship between financial reporting practices and financial sustainability among Kenyan county governments. The findings were expected to provide a basis for future studies and contribute to the growing body of knowledge on financial reporting and fiscal sustainability in devolved governments.

2. Literature Review

The literature review examined previous theoretical and empirical studies on the relationship between financial reporting practices and financial sustainability. It focused on how reporting quality, timeliness, accuracy, completeness, and transparency had influenced revenue management, expenditure control, financial obligations, and service delivery. The review identified existing findings, theoretical perspectives, and research gaps, providing a basis for examining how financial reporting practices influence the financial sustainability of county governments in Kenya.

2.1 Theoretical Review

2.1.1 Agency Theory

Jensen and Meckling (1976) advanced Agency Theory and explained the relationship between principals who delegate responsibilities and agents who manage resources on their behalf. The theory posited that separating ownership from control could create conflicts of interest and information asymmetry, making monitoring and accountability mechanisms necessary. In county governments, citizens and taxpayers could be regarded as principals, while elected leaders and public officials acted as agents responsible for managing public resources. Financial reporting therefore served as an important mechanism for reducing information asymmetry by providing information on revenues, expenditures, assets, liabilities, and resource utilization. Recent public-sector evidence showed that financial reporting quality was positively associated with accountability, supporting the relevance of agency-based explanations to public financial management (Nguyen et al., 2021).

However, the theory had been criticized for emphasizing self-interest and control while giving less attention to trust, cooperation, and institutional values. It could also be challenging to apply directly to public organizations because they involve multiple stakeholders with different interests. Despite these limitations, Agency Theory was appropriate for the current study because effective financial reporting could strengthen accountability and monitoring of county resources. Timely, accurate, complete, and transparent reports could support better revenue management, expenditure control, and management of financial obligations, thereby contributing to financial sustainability. The theory therefore directly supported the study objective of analyzing the influence of financial reporting practices on the financial sustainability of county governments in Kenya.

2.2 Empirical Review

2.2.2 Financial Reporting Practices and Financial Sustainability

Empirical studies have shown that financial reporting practices strengthen transparency, accountability, and financial management in public-sector institutions. In Kenya,

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Nderitu and Koori (2023) found that public-sector accounting standards influenced financial reporting practices in county governments in the Central Region, and that compliance with prescribed standards improved the reliability and usefulness of financial information for decision-making and accountability. Similarly, Wycliffe and Musau (2024) established that public-sector accounting standards influenced the quality of financial reporting in Nairobi City County Government. Their findings showed that preparation and presentation of financial statements significantly contributed to reporting quality, although the effect of financial information disclosure was not uniformly positive. These findings demonstrated that compliance with reporting standards alone was insufficient unless accompanied by effective preparation, presentation, and disclosure practices.
Financial reporting quality was also associated with the systems and technologies supporting the reporting process. Chepkorir and Kariuki (2024) found that digital transformation significantly improved financial reporting quality in Nairobi City County Government, with technologies such as big data, blockchain, and cloud computing enhancing reporting processes. This suggests that adopting appropriate financial information systems could improve the accuracy, timeliness, and reliability of financial information. The findings were particularly relevant to county governments because reliable, timely financial information could support budgeting, expenditure monitoring, and identifying emerging financial pressures. The Public Sector Accounting Standards Board (PSASB) had also continued to issue standardized financial reporting templates and cash-to-accrual reporting templates for county governments, demonstrating the increasing institutional emphasis on standardized and comprehensive financial reporting.

Financial reporting was further connected to financial accountability and sustainability through its role in enabling oversight and monitoring. Osundwa et al. (2025), in a study covering 23 Kenyan counties, found that financial accountability practices enhanced transparency, stakeholder engagement, and access to funding, and concluded that accountability was an important determinant of county-government sustainability. Their findings indicated that disclosure of financial information enabled stakeholders to monitor the use of public resources and identify deviations requiring corrective action. In a related study, Osundwa et al. (2025) established that strong financial control practices enhanced fund security, efficiency, and adherence to development and recurrent expenditure plans, thereby supporting county financial sustainability. These findings suggested that financial reporting practices could support sustainability by providing the information needed for effective financial control and accountability.

Evidence from financial auditing also reinforced the importance of reliable financial information to sustainability. Kinamdali *et al.* (2024), in their study of Kisii County Government, established that auditor competency, auditor independence, internal audit standards, and audit reporting structures significantly influenced financial sustainability. The findings implied that effective audit and reporting mechanisms strengthened oversight and reduced financial mismanagement, thereby supporting sustainable financial management. This aligned with Gaitho's assessment of Kenyan county governments, which identified incomplete and unreliable financial reports as a persistent challenge that limited effective auditing and obscured counties' actual financial position. Although Gaitho's study was older, its findings remained relevant in explaining the continuing reporting challenges that recent reforms were intended to address.

The importance of financial reporting had become even more pronounced following Kenya's transition from cash-based to accrual-based accounting. The PSASB currently provides annual and quarterly accrual-based financial reporting templates for county executives, assemblies, County Revenue Funds and consolidated county governments. These reforms were intended to improve the recognition and disclosure of assets, liabilities, revenues, and expenses and, consequently, provide a more complete representation of county financial positions. The Public Finance Management Act also required county treasuries to consolidate annual financial statements in prescribed formats and submit them to the Auditor-General and other oversight institutions within four months after the end of each financial year. These requirements showed that financial reporting was not only an accounting function but also a key component of county financial accountability and fiscal management.

Despite these developments, an empirical gap remained. Existing Kenyan studies largely examined financial reporting in relation to reporting quality, accounting standards, digital transformation, auditing, financial controls, and accountability, while relatively few studies directly examined financial reporting practices as an explanatory factor for financial sustainability. For example, Chepkorir and Kariuki (2024) examined digital transformation and reporting quality; Wycliffe and Musau (2024) focused on accounting standards and reporting quality; and Kinamdali et al. (2024) examined auditing and financial sustainability. Osundwa et al. (2025) focused on accountability and financial controls as determinants of sustainability. Consequently, limited empirical evidence had directly established whether the quality, timeliness, accuracy, completeness, and transparency of financial reporting influenced the financial sustainability of county governments. The current study therefore sought to fill this gap by examining how financial reporting practices influence county financial sustainability, particularly in relation to revenue adequacy, expenditure management, fulfillment of financial obligations, and continuity of service delivery.

2.3 Conceptual Framework

The conceptual framework illustrated the relationship between financial reporting practices and financial sustainability of county governments in Kenya. Financial reporting practices were represented by timeliness, accuracy, and completeness, compliance with accounting standards, and transparency and disclosure, while financial sustainability was measured through revenue adequacy, expenditure management, ability to meet financial obligations, and continuity of service delivery. The framework provided a basis for assessing how financial reporting practices influenced the financial sustainability of county governments in Kenya.

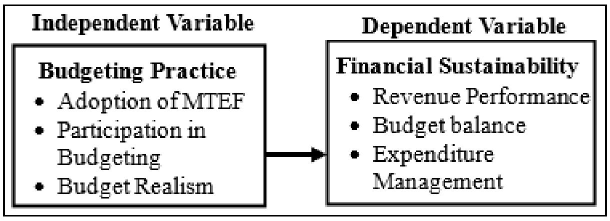

Figure 1: Conceptual Framework

3. Methodology

The study adopted a positivist research philosophy because it sought to objectively examine the measurable relationship between financial reporting practices and the financial sustainability of county governments in Kenya. The study adopted a descriptive and correlational research design to describe prevailing financial reporting practices and establish their relationship with financial sustainability. The study employed a quantitative approach and collected primary data using structured questionnaires administered to finance and accounting officers in county governments. The target population comprised officers directly involved in financial reporting, budgeting, accounting, and financial management within the 47 county governments. The researchers selected a representative sample using appropriate sampling procedures to ensure adequate coverage of the counties and respondents. The study collected data using a structured questionnaire based on a five-point Likert scale. The instrument measured financial reporting practices using indicators including timeliness, accuracy, and completeness; compliance with accounting standards; and transparency and disclosure. Financial sustainability was measured using revenue adequacy, expenditure management, ability to meet financial obligations, and continuity of service delivery. We conducted a pilot study among respondents excluded from the final study to assess the reliability and validity of the research instrument. We evaluated reliability using Cronbach's alpha and established content and construct validity through expert review and alignment of questionnaire items with the study variables. We coded and analyzed the collected data using the Statistical Package for the Social Sciences (SPSS). We used descriptive statistics, including frequencies, percentages, means, and standard deviations, to summarize the data, and inferential statistics, including Pearson correlation and multiple linear regression analysis. We conducted diagnostic tests for normality, multicollinearity, heteroscedasticity, and autocorrelation before regression analysis. The regression model was specified as:

$$FS = \beta_0 + \beta_1 FRP + \varepsilon$$

Where: **FS** represented financial sustainability, **FRP** represented financial reporting practices, β_0 was the constant, β_1 was the regression coefficient, and ε represented the error term. The study tested statistical significance at the 5% level and rejected the null hypothesis when the p-value was less than 0.05. The study observed ethical principles, including informed consent, confidentiality, voluntary participation, and protection of respondents' information.

4. Findings

This section presents the study's findings on how financial reporting practices influence the financial sustainability of county governments in Kenya. The findings were organized by study objective and based on data collected from the selected respondents. Descriptive statistics were first used to summarize the responses, followed by inferential analysis to establish the nature and significance of the relationship between financial reporting practices and financial sustainability. The findings were presented using tables and appropriate statistical measures to facilitate interpretation.

4.1 Response Rate

A total of 341 questionnaires were issued to respondents drawn from various departments and functional units within county governments in Kenya. The questionnaires were distributed to internal auditors, accountants, finance officers, budget officers, chief officers in charge of finance, revenue officers, procurement officers, planning and development officers, sub-county administrators, and audit committee members. Table 1 presents the response rates for each respondent category.

Table 1: Response Rate by Respondent Category

Respondent Category	Sample Size	Returned	Not Returned	Response Rate (%)
Internal Auditors	28	23	5	82.1
Accountants	42	34	8	81.0
Finance Officers	21	17	4	81.0
Budget Officers	21	17	4	81.0
Chief Officer Finance/CEC Finance	7	6	1	85.7
Revenue Officers	56	46	10	82.1
Procurement Officers	28	23	5	82.1
Planning and Development Officers	63	52	11	82.5
Sub-County Administrators	42	34	8	81.0
Audit Committee Members	33	28	5	84.8
Total	341	280	61	82.1

Table 1 shows that of the 341 questionnaires administered, 280 were completed and returned, for an overall response rate of 82.1%, while 61 were not returned, representing 17.9% of the total sample. Among the respondent categories, Chief Officer Finance/CEC Finance recorded the highest response rate (85.7%), followed by Audit Committee Members (84.8%). Planning and Development Officers recorded an 82.5% response rate, while Internal Auditors, Revenue Officers, and Procurement Officers each recorded 82.1%. Accountants, Finance Officers, Budget Officers, and Sub-County Administrators recorded an 81.0% response rate. The high response rates across all respondent categories demonstrate strong participation and adequate representation of the various stakeholders involved in financial management and governance within county governments. The overall response rate of 82.1% was considered sufficient for statistical analysis and generalization of the study findings. According to Mugenda and Mugenda (2019), a response rate above 70% is considered very good for survey research. Therefore, the achieved response rate was deemed adequate to generate reliable and valid conclusions about the relationship between accounting practices and the financial sustainability of county governments in Kenya, as well as the moderating effect of governance structure.

4.2 Descriptive Statistics

Descriptive statistics summarized respondents' views on budgeting practices and the financial sustainability of county governments in Kenya. The analysis presented the mean and standard deviation for the study variables and their indicators, with higher mean scores indicating greater agreement with the statements. The results provided an overview of the extent to which county governments implemented budgeting practices and the perceived level of financial sustainability.

4.4.1 Descriptive Statistics for Financial Reporting Practice

Respondents were asked to indicate their level of agreement with statements on financial reporting practice using a five-point Likert scale (1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree). Table 2 presents the results.

Table 2: Descriptive Statistics for Financial Reporting Practice (n = 280)

Statements	SD	D	N	A	SA	Mean	SD.
My county government adheres to IPSAS (International Public Sector Accounting Standards) in preparing its financial reports.	22 (7.9%)	33 (11.8%)	55 (19.6%)	71 (25.4%)	99 (35.4%)	3.69	1.28
The financial reports produced by my county government are accurate and reflect the county's true financial position.	63 (22.5%)	100 (35.7%)	50 (17.9%)	42 (15.0%)	25 (8.9%)	2.52	1.24
My county's financial reporting is highly transparent.	65 (23.2%)	98 (35.0%)	53 (18.9%)	41 (14.6%)	23 (8.2%)	2.5	1.23
My county government submits financial reports on time, as required by regulations.	24 (8.6%)	35 (12.5%)	56 (20.0%)	68 (24.3%)	97 (34.6%)	3.64	1.3
The financial reports provide comprehensive details on the county's revenues, expenditures, assets, and liabilities.	14 (5.0%)	25 (8.9%)	49 (17.5%)	98 (35.0%)	94 (33.6%)	3.83	1.14
Stakeholders, including citizens, easily understand the financial reporting system in my county.	66 (23.6%)	92 (32.9%)	57 (20.4%)	39 (13.9%)	26 (9.3%)	2.52	1.25
My county's financial reports reflect compliance with the Public Finance Management Act (PFMA).	30 (10.7%)	32 (11.4%)	54 (19.3%)	96 (34.3%)	68 (24.3%)	3.5	1.27
County management uses financial reports effectively for decision-making.	25 (8.9%)	38 (13.6%)	51 (18.2%)	97 (34.6%)	69 (24.6%)	3.52	1.25
Overall Mean and SD						3.22	1.25

Table 2 shows that respondents agreed that county governments adhere to International Public Sector Accounting Standards (IPSAS) in preparing financial reports, as shown by a mean score of 3.69 (SD = 1.28). The finding suggests that county governments have largely embraced internationally recognized accounting standards, thereby enhancing consistency and comparability in financial reporting. Respondents disagreed that the financial reports produced by their county governments accurately reflect the county's true financial position, with a mean score of 2.52 (SD = 1.24). This finding suggests that, despite existing reporting frameworks, concerns remain about the reliability and accuracy of financial information in county government reports.

Similarly, respondents disagreed that county financial reporting is highly transparent, with a mean score of 2.50 (SD = 1.23). This finding suggests that financial information may not be sufficiently disclosed or accessible to stakeholders, limiting accountability and public trust in county financial management. Respondents agreed that county governments submit financial reports in a timely manner, as shown by a mean score of 3.64 (SD = 1.30). This suggests that counties generally comply with statutory deadlines and reporting schedules established under public financial management regulations.

The statement that financial reports provide comprehensive details on revenues, expenditures, assets, and liabilities recorded the highest mean score of 3.83 (SD = 1.14). The finding indicates that respondents generally perceive county financial reports as comprehensive and capable of providing the detailed financial information required for planning, monitoring, and accountability. Respondents disagreed that stakeholders, including citizens, easily understand the financial reporting system in their counties, as evidenced by a mean score of 2.52 (SD = 1.25). This suggests that county financial reports may be highly technical and difficult for ordinary citizens and other non-specialist stakeholders to interpret and utilize effectively.

The findings further reveal that respondents agreed that county financial reports reflect compliance with the Public Finance Management Act (PFMA), as indicated by a mean score of 3.50 (SD = 1.27). This implies that county governments generally align their reporting practices with the legal and regulatory requirements governing public financial management in Kenya. Additionally, respondents agreed that county management uses financial reports effectively for decision-making, with a mean score of 3.52 (SD = 1.25). This finding demonstrates that financial reporting is an important management tool for budgeting decisions, resource allocation, performance monitoring, and strategic planning within county governments.

Overall, financial reporting practice recorded a composite mean score of 3.22 and a standard deviation of 1.25. The overall mean indicates a moderate level of agreement regarding the effectiveness of financial reporting practices in county governments in Kenya. The findings suggest that while counties have made significant progress in complying with reporting standards and regulatory requirements, and in providing comprehensive financial information, challenges related to transparency, report accuracy, and stakeholder understanding persist. Therefore, strengthening transparency mechanisms, enhancing the quality of financial information, and simplifying financial reports for public consumption would contribute to improved financial sustainability within county governments.

4.3 Correlation Analysis

Pearson correlation analysis was conducted to determine the nature, direction, and strength of the relationship between financial reporting practices and financial sustainability in Kenyan county governments. Financial reporting practices were assessed based on IPSAS compliance, accuracy, transparency, timeliness, comprehensiveness, stakeholder understanding, compliance with the Public Finance Management Act, and use of financial reports for decision-making. Pearson's correlation coefficient (r) was used to determine the strength and direction of the association, while the p-value was used to establish its statistical significance at the 1% level. Table 3 presents the results.

Table 3: Correlation between Financial Reporting Practices and Financial Sustainability

Variables	Financial Reporting Practices	Financial Sustainability
Financial Reporting Practices	1	.693**
Financial Sustainability	.693**	1
Sig. (2-tailed)	—	0
N	280	280

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

Table 3 showed that financial reporting practices had a strong, positive, and statistically significant relationship with financial sustainability among county governments in Kenya ($r = .693$, $p < .01$). The positive correlation implied that improvements in financial reporting practices were associated with improvements in financial sustainability. The coefficient of .693 indicated a strong association between the two variables, suggesting that counties characterized by better financial reporting practices tended to demonstrate stronger financial sustainability.

The statistical significance ($p < .01$) indicated that the observed relationship was significant at the 1% level and was unlikely to have occurred by chance. The finding suggested that practices such as adherence to IPSAS, timely reporting, comprehensive disclosure of revenues, expenditures, assets and liabilities, compliance with the Public Finance Management Act and effective use of financial reports for decision-making were important in supporting sustainable financial management. However, because correlation measures association rather than causation, the finding did not, by itself, establish that financial reporting practices caused improvements in financial sustainability. Overall, the results provided empirical support for a significant relationship between financial reporting practices and financial sustainability among county governments in Kenya.

4.4 Model Summary

A simple linear regression analysis was conducted to determine the extent to which financial reporting practices explained variations in the financial sustainability of county governments in Kenya. Since the correlation coefficient between the two variables was $r = .693$, the coefficient of determination was calculated as $R^2 = .480$. Thus, financial reporting practices explained approximately 48.0% of the variation in financial sustainability.

Table 4: Model Summary for Financial Reporting Practices and Financial Sustainability

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.693	0.48	0.478	0.722

The model summary indicated a strong positive relationship between financial reporting practices and financial sustainability ($R = .693$). The R^2 of .480 indicated that financial reporting practices explained 48.0% of the variation in financial sustainability among county governments. The remaining 52.0% was attributable to other factors not included in the model. The adjusted R^2 of .478 suggested that the model retained a similar explanatory power after adjusting for the predictor. Overall, the results indicated that financial reporting practices contributed substantially to explaining financial sustainability among county governments in Kenya.

4.5 Analysis of Variance (ANOVA)

An analysis of variance (ANOVA) was conducted to determine whether the regression model linking financial reporting practices to financial sustainability was statistically significant. The analysis assessed whether financial reporting practices, as a predictor, explained a statistically significant proportion of the variation in financial sustainability. The results were evaluated at the 5% significance level.

Table 5: ANOVA for Financial Reporting Practices and Financial Sustainability

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.693	0.48	0.478	0.722

The ANOVA results in Table 5 indicated that the regression model was statistically significant, $F(1, 278) = 256.51$, $p < .001$. This implied that financial reporting practices significantly predicted financial sustainability among county governments in Kenya. The significant F-statistic further showed that the regression model explained financial sustainability significantly better than a model without the predictor. This finding was consistent with the model summary, which showed that financial reporting practices explained 48.0% ($R^2 = .480$) of the variation in financial sustainability. Therefore, the model was considered statistically significant and suitable for examining the influence of financial reporting practices on the financial sustainability of county governments in Kenya.

4.6 Regression Coefficient

Regression coefficient analysis was conducted to establish the extent to which financial reporting practices influenced financial sustainability among county governments in Kenya. The analysis examined the regression coefficient (B), standardized beta coefficient (β), standard error, t-statistic, and significance level. The results were used to determine whether financial reporting practices contributed statistically significantly to financial sustainability.

Table 6: Regression Coefficients for Financial Reporting Practices and Financial Sustainability

Model	Unstandardized Coefficients		Standardized Coefficients Beta (β)	t	Sig.
	B	Std. Error			
(Constant)	1.27	0.18	—	7.06	0
Financial Reporting Practices	0.61	0.038	0.693	16.02	0

Table 6 results indicated that financial reporting practices positively and significantly influenced financial sustainability ($\beta = .693$, $t = 16.02$, $p < .001$). The positive beta coefficient indicated that improvements in financial reporting practices were associated with improvements in financial sustainability. Specifically, a one-unit improvement in financial reporting practices was associated with an estimated 0.61-unit increase in financial sustainability, holding other factors constant. The coefficient's statistical significance ($p < .001$) indicated that financial reporting practices significantly predicted financial sustainability. This finding was consistent with the correlation result ($r = .693$, $p < .01$) and the model summary, which indicated that financial reporting practices explained 48.0% of the variation in financial sustainability ($R^2 = .480$). The regression results therefore provided empirical evidence that effective financial reporting practices, including IPSAS compliance, timely reporting, comprehensive reporting, accuracy, transparency, and effective use of financial reports, were important in strengthening the financial sustainability of county governments in Kenya.

4.7 Hypothesis Test Results

The study tested the null hypothesis that financial reporting practices had no significant influence on the financial sustainability of county governments in Kenya. The study evaluated the hypothesis using regression coefficient results at the 5% significance level. The decision rule was to reject the null hypothesis where the p-value was less than 0.05 and fail to reject it where the p-value was greater than 0.05.

Table 7: Hypothesis Testing Results

Hypothesis	β	t-value	p-value	Decision
H_{01}: Financial reporting practices have no significant influence on the financial sustainability of county governments in Kenya.	0.693	16.02	0	Rejected

Table 7 showed that financial reporting practices had a positive and statistically significant influence on financial sustainability ($\beta = .693$, $t = 16.02$, $p < .001$). Since the p-value of .000 was less than the 0.05 significance level, the null hypothesis was rejected. The study therefore concluded that financial reporting practices significantly influenced the financial sustainability of county governments in Kenya. The positive coefficient further indicated that improvements in financial reporting practices were associated with improvements in financial sustainability. The finding was consistent with the correlation analysis, which established a strong positive relationship between the variables ($r = .693$, $p < .01$), and the regression model, which showed that financial reporting practices explained 48.0% of the variation in financial sustainability.

5. Summary of Findings

The study examined how financial reporting practices influence the financial sustainability of county governments in Kenya. Descriptive findings indicated that financial reporting practices were implemented at a moderate level, with an overall mean of 3.22 (SD = 1.25). Comprehensive reporting of revenues, expenditures, assets, and liabilities recorded the highest mean (M = 3.83, SD = 1.14), followed by adherence to IPSAS (M = 3.69, SD = 1.28) and timely submission of financial reports (M = 3.64, SD = 1.30). However, accuracy of financial reports (M = 2.52, SD = 1.24), transparency (M = 2.50, SD = 1.23), and stakeholder understanding (M = 2.52, SD = 1.25) recorded relatively low scores, indicating weaknesses in the quality, transparency, and accessibility of financial information.

Inferential findings established a strong positive and statistically significant relationship between financial reporting practices and financial sustainability ($r = .693$, $p < .01$). Regression analysis showed that financial reporting practices explained 48.0% of the variation in financial sustainability ($R^2 = .480$), while the regression model was statistically significant, $F(1, 278) = 256.51$, $p < .001$. The regression coefficient further indicated a positive and significant influence of financial reporting practices on financial sustainability ($\beta = .693$, $t = 16.02$, $p < .001$). Consequently, the study rejected the null hypothesis. The findings demonstrated that stronger financial reporting practices were associated with improved financial sustainability, although weaknesses in accuracy, transparency, and stakeholder accessibility remained areas requiring attention.

5.1 Conclusion

The study concluded that financial reporting practices significantly influenced the financial sustainability of county governments in Kenya. Effective reporting practices provided useful information for monitoring revenues, expenditures, assets, liabilities, and financial obligations and consequently supported better financial planning, accountability, and resource management. However, the relatively low ratings on accuracy, transparency, and stakeholder understanding indicated areas requiring further improvement. Strengthening these aspects of financial reporting would therefore help enhance the fiscal resilience and sustainability of county governments.

5.2 Recommendations

5.2.1 Policy Recommendation

The National Treasury, Public Sector Accounting Standards Board (PSASB), Office of the Controller of Budget and Office of the Auditor-General should strengthen policies, guidelines and oversight mechanisms governing financial reporting in county governments. Greater emphasis should be placed on compliance with IPSAS and the Public Finance Management Act, timely submission of financial reports, accurate disclosure of financial information, and complete reporting of revenues, expenditures, assets, and liabilities. Relevant institutions should also enhance regular monitoring, technical support, and capacity building for county finance officers to address weaknesses in reporting accuracy, transparency, and completeness. Strengthened policy oversight would improve the reliability of financial information, enhance accountability, and support sound fiscal management and financial sustainability.

5.2.2 Practice Recommendation

County governments should strengthen internal financial reporting by improving the capacity of finance, accounting, internal audit, and departmental officers involved in preparing and reviewing financial reports. Counties should establish effective procedures to reconcile, verify, and review financial information before submission, and make greater use of integrated financial management systems to minimize errors and improve reporting accuracy. Management should also ensure financial reports are prepared and submitted within required timelines and that key financial information is presented in clear, understandable formats for citizens and other stakeholders. Regular use of financial reports in budgeting, expenditure control, revenue management, and financial decision-making should further be encouraged to improve resource utilization, accountability, and sustainable service delivery.

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