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ROLE OF CORPORATE GOVERNANCE IN FINANCIAL ADMINISTRATION OF PUBLIC UNIVERSITIES IN KENYA

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ABSTRACT

Good corporate governance and sound financial administration are significant requirements in today's dynamic corporate world. This paper examines the role of corporate governance practices in the financial administration of public universities in Kenya. Descriptive research statistics was adopted as the research design, with sample size drawn from the target population of one hundred and thirty eight. The role of corporate governance in financial administration was evaluated using primary data and the results showed average of above 62% agreed to significant role by the combined effects of corporate governance variables in financial administration of public Universities in Kenya. It was concluded that there is existence of significant relationship between corporate governance and financial administration with the effect on relevance and reliability of financial reports of public Universities. Reliability as to faithful representation was determined in the mediating effect of compliance of public Universities in Kenya with the directives and guidelines of external regulatory bodies.

KEY WORDS: *Financial Administration, Public Universities, External Corporate Governance.*

1. INTRODUCTION

Financial administration acknowledges its responsibility for appropriate stewardship of financial resources of an organisation. Transparency, accountability and openness in reporting and disclosure of information, both operational and financial, are internationally accepted to be vital to the practice of good corporate governance. The object of corporate governance is therefore attained when institutions demonstrate their public accountability and conduct their business within acceptable ethical standards. This demonstration will take the form of effective financial reporting, both internally and externally, and the unqualified encouragement of public debate in respect of such financial reports (Fourier,2012). Broadly speaking, corporate governance refers to the processes, and the related organisational structures, by which organisations are directed, controlled and held to account. It involves a set of relationships between an organisation's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the organisation are set, and the means of attaining those objectives and monitoring performance as determined (Roger, 2004). Good governance generally focuses on two main requirements for organisations: Performance, whereby the organisation uses its governance arrangements to contribute to its overall performance and the delivery of its goods, services or programs; and conformance, whereby the organisation uses its governance arrangements to ensure it meets the requirements of the law, regulations, published standards and community expectations of probity, accountability and openness . (Tricker,2009)..

For all public sector organisations, good corporate governance practices should assist and encourage their governing boards, councils and management to establish and maintain a clear focus on performance, transparency and accountability (Roger,2004). Public universities are typically operated under the supervision of state governments and are funded, in part, by internally generated revenue and subsidies from the state. Public universities are complex institutions and their stakeholders' expectations are continuously changing and increasing in terms of quality of service, academic performance and financial accountability. Governance in higher education is said to involve the authority to make decisions about fundamental policies and practices in several critical areas concerning universities. The problem of governance is therefore the location of authority to resolve these issues: internal and external corporate governance (Sifuna,2006).

The aim of financial administration in the public Universities is to manage limited financial resources to ensure economy and efficiency in the delivery of outputs required to achieve desired outcomes that will serve the needs of the community and concluded that you cannot demand quality on a higher plane if you don't have the financial, material and technical resources required to realize the desired quality (Mauri, 2013). The connection between corporate governance and financial administration lies in the multi-dimensional nature of good governance. Narrowly conceived, corporate governance involves ensuring compliance with regulatory obligations, accountability, transparency and disclosure. Prior researchers have found relationships between corporate governance mechanisms and financial reporting quality of profit making organisations, earnings management, financial fraud and manipulations (Ali, S. B. & Hassan, A.2009). While one should anticipate that better corporate governance mechanisms leads to improved financial reporting, there is a lack of agreement as to what comprises financial reporting quality in the public sector. Rather than ascertain compliance and implementation of new public sector financial regulations and their effects on quality of financial reporting, prior literature has focused on Earnings Management, financial restatements, the role of various players that are a part of corporate governance, such as the internal and external auditors, in reducing the material misstatements in financial reporting. (Krah & Aveh 2013). The effect of external governance mechanism on financial administration of public universities are not tested and this sub-sector of the public sector are the most vulnerable to these external governance mechanism. The problems of what are the external corporate governance practices that add value to public universities' financial administration, agreement as to what constitute quality of financial reporting in the public sector and to ascertain compliance and implementation of new public sector regulations requires examination are the intention of this study.

2. OBJECTIVE

The main objective that guided the study is to examine the role of corporate governance in financial administration of public Universities in Kenya. The effect of external governance mechanism on financial administration of public universities have not been tested and this sub-sector of the public sector are the most vulnerable to external governance mechanism. The problems of what are the external corporate governance practices that add value to public universities' financial administration and agreement as to what constitute quality of financial reporting in the public sector and to ascertain compliance and implementation of new public sector regulations requires necessitate this study. The combined effects of council responsibilities, audit committee of the council and executive compensation plans were measured as corporate governance mechanisms to evaluate financial administration. Relevance, reliability, internal controls, timing of reporting and accounting, transparency and Disclosure were employed as measure of quality of financial reports while compliance with external regulatory bodies' guideline was used as moderating variable.

3 THEORETICAL REVIEW

Some theoretical frameworks though varied in terms of names, meanings, tenets and authors, their relevance to this study cannot be questioned as they provided the basis for a good understanding of both financial administration and corporate governance concept. Corporate Governance stems from theories which have undoubtedly assisted to understand the role that corporate governance may play in contributing to the financial administration of an organization (Deegan,2004).. Corporate governance practices hinge on agency problem upon which the most widely used agency theory is based. The conflict of interests between principal (shareholder) and agent (director) gives rise to the 'principal-agent problem' which is the key area of corporate governance focus. The role of accounting in reducing the agency cost in an organization, effectively through written contracts tied to the accounting systems as a crucial component of corporate governance structures is emphasized (Freeman,1984). The stakeholder theory is relevant to this study since it specifies how stakeholder groups should exercise oversight and control over management for example which groups, in addition to shareholders, should be represented on the board, and how the board should function (Heath, & Norman,2004). Accounting theory is relevant since by understanding how some basic accounting theories fit into the conceptual framework, one can determine the theoretical underpinnings of financial accounting rules and principles. (Freedman, 2015). (Miller, & Balhnson,2010) explained that the purpose of accounting theories was to ensure better accounting practice. Positive accounting theory was founded on the ontological view that "the reality of accounting can be discovered by the use". The underlying purpose and theory of financial accounting and reporting is that financial accounting information, in the form of financial statements, should provide information that is useful for making business and economic decisions. Because the essence of financial administration is to provide information related to making business and economic decisions, financial accounting is more of an externally focused process than many business owners realize (Freedman,2015). Legitimacy theory posits that businesses are bound by the social contract in which the firms agree to perform various socially desired actions in return for approval of its objectives and other rewards, and this ultimately generates its continued existence (Gotherstrom, 2012). Corporate governance concept and sound financial administration ensure this, hence its relevance. The theories are in harmony, in spite of different approaches to achieve one of the main goals of the organisation which is provision of financial information for decision making through corporate governance mechanisms.

4.EMPIRICAL REVIEW

Some empirical studies have provided the nexus between corporate governance and firm financial performance (Bebchuk, Cohen & Ferrell,2004), indicate that well-governed firms have higher firm performance. Many public sector organizations face common governance challenges relating to the role and importance of non-executives, the effective use of information, engaging users and the public, and the balance between local and national priorities. The role of regulation, audit and inspection needs to be rationalized within a more coherent framework in order to bring clearer accountability to organisations and greater assurance to the public (U.K Audit Commission, 2003). (Bushman, & Smith 2003) focused primarily on the governance role of publicly reported financial accounting information. Financial accounting information is the product of corporate accounting and external reporting systems that measure and routinely disclose audited, quantitative data concerning the financial position and performance of publicly held firms. Audited balance sheets, income statements, and cash-flow statements, along with supporting disclosures, form the foundation of the firm-specific information set available to investors and regulators.

(Tucker & Zarowin 2006) reported that study and test of the relationship between management's capability and quality of financial reporting was carried out. By creating a model which measures management's capability and also separating management's specific effects from entity's specific effects, the authors try to identify management's specific effects. The results of their study indicate that the quality of financial reporting has a positive relation with management's capability. In another assessment of the effect of the corporate governance mechanisms on improving the quality financial reporting by decreasing agency problems resulting from the conflict interest between managers and shareholders, they used cross-sectional regression for measuring effect corporate governance of companies (the composition of the board of the non-bound directors, absent from the Chief Executive Officer as chairman or vice chairman and institutional investors) as a dependent variable on earnings quality (accrual quality, persistence and predictability). Finding of the article indicates that there is a significant and positive relationship between the ratio of non-bound members to persistent and earning predictability (Shiri, et al, 2012)

4.1 Council's Responsibilities:-

In a related article the authors stated that what is generally accepted as "best practice" in corporate governance 'generally failed to find convincing connections between these facts and organisational performance . They similarly argued that empirical research has failed to find a clear link between the separations of CEO/chair positions and enhanced firm performance. They showed that whether the chair and CEO are separate or the same person does not, on its own, appear to make much difference to performance (Leblanc & Gillies,2004).

In a study by Kiel, Nicholson, & Gavin (2007) while much attention has focused on the issue of optimal board size there is no consensus about what the actual ideal size is. In the main, it is proposed that a not-too-large board will help in efficient decision-making by minimising negative board dynamics. Eight directors is cited as the upper limit, and 6.6 as the mean board size. In another study, (Larcker, Richardson & Tuna, (2007) eight is described as "typical". Another author reported that six to nine is current good practice in the private sector but goes on to suggest that optimal board size in the public sector may differ from one organisation to another (Uhrig, J. 2003). We need to understand the inter-relationships between governance variables and understand them in context - and not just as discrete, unchanging units – if we are to get a more accurate picture of how governance attributes contribute to organisational performance. Edward & Clough (2005) in contrast to most of the previous empirical work, their evidence suggests that the costs of separation are larger than the benefits for most large firms. However, Brickley, Cole & Terry(1994) in their conclusion on the composition, size and tenure of the board as pointed out, results are mixed and inconclusive and these among others may influence their responsibilities.

4.2 Audit Committee of the Council:-

The Audit Committee consists of members independent of the Company, elected by the Board of Directors from amongst. For instance, Farber, (2005) examined the association between the credibility of the financial reporting system and the quality of governance mechanisms. Farber,(2005) found that fraud firms have fewer numbers and percentages of outside board members, fewer audit committee meetings, fewer financial experts on the audit committee, a smaller percentage of Big four auditing firms, and a higher percentage of Chief Executive Officers who are also chairmen of the board of directors. Audit committees are increasingly responsible for the quality of financial reporting and oversight of the audit processes in public organisations but it is often challenging to provide effective oversight, especially in large, complex organizations. The intense focus on greater audit committee responsibility has led to a number of studies on audit committee performance (Beasley,2009).

4.3Compliance with Regulatory Bodies:-

There are often several external bodies to which organisations are accountable or to which they are required to provide information on their performance and/or conformance with regulatory requirements. It is through effective governance arrangements that organisations acquit their responsibilities to these bodies. There is however, general acknowledgement that public sector corporate governance is different from public management (Uhrig, J. 2003). In particular, not all practices of public sector management are part of public sector corporate governance and not all aspects of public sector corporate governance are part of public sector management. Draw a distinction between public governance and public management on the basis that public management is an approach that uses managerial techniques to deliver improved value for money, while public sector has Guidance on Good Practices in Corporate Governance.

4.4 Executive Compensation:-

In the ordinary course of events, public firms are managed by executives not directors and shareholders. Executives' decisions are also affected by the incentives provided to them by executive compensation arrangements. These compensation arrangements have become the subject of a large literature (Core, Guay & Larcker,2003) . While CEO remuneration is thought to be important to performance Bhagat& Black (2002) observed that CEO compensation correlates more with the compensation paid to outside directors from their own companies than with the CEO's performance. More specifically *(Hermalin, &* Weisbach, 2012) supported another view that better disclosure regimes can also aggravate agency problems and related costs, including executive compensation.

5 METHODOLOGY

Descriptive research design was adopted for this research to analyse and compare variables meant to answer the study objectives. The researcher adopted stratified sampling technique while simple random sampling method was used for selection of respondents from each of the stratum. Validity test was carried out to check the ability of the research instruments to measure the variables whether they measure what was intended to measure.

Model Specification: effect of (CR, AC, EC, CGE, RC) on quality of financial reports.

Quality=f {CR, AC, EC, CGE, RC}

Υ = f {X_1, X_2, X_3, X_4, X_5}

Υ= quality of financial reports, CR,X_1,is Council Responsibilities,AC,X_2 is Audit Committee, EC,X_3 is Executive Compensation, CGE,X_4 is Corporate Governance Expenditure, RC,X_5 is Regulatory Compliance.

6. RESULTS AND DISCUSSION

Forty three out of sixty nine questionnaires were retrieved; hence the analysis was based on sixty percent rate of response. Combined effects of three corporate governance mechanisms on financial administration of public Universities were examined while guidelines of external regulatory bodies was the moderating variable. It came out clearly that corporate governance has a significant impact on financial administration of public Universities as measured by performance.

Table1: Descriptive Statistics Measures

Variables (from Tables)	Mean	Standard Deviation
Quality of Financial Reports	3.7	0.086
Council Responsibilities	3.91	0.1225
Audit Committee	4.02	0.1235
Executive Compensation	3.3	0.1166
Regulatory Compliance	3.48	0.2114

The results revealed that of the corporate governance mechanisms examined audit committee has the highest observed mean of 4.02 which implies that it significantly affects credibility of financial reporting system of public Universities. The facts also gave standard deviation of 0.1235 indicating that deviation of audit committee's relationship from the observed mean of facts is negligible. Facts to determine the relationship between council responsibilities and quality of financial reports gave mean of 3.91, it explained the existence of council responsibilities on relevance and reliability of financial reports. As indicated on table1 above accounting practices influence relevance and reliability of financial reports implying that public Universities meet qualitative characteristics as laid down by International Public Statement of Accounting Standards (IPSAS). Regulatory Bodies guidelines influence transparency and disclosure of financial information of public Universities. However standard deviations SD obtained from the analysis indicate that the data point tends to be close to the mean which is the expected value of the facts. The SD small values further support facts that explained the existence of CR on financial administration quality and that the council plays significant role in the quality of financial reports. The study has a mean score of 3.5 (approximately 4) implying that there is moderate mediating effect of compliance of public Universities in Kenya with the directives and guidelines of external regulatory bodies on quality of financial reports.

The study attracted the smallest mean score of 3.3 which implies that the respondents are neutral about the relationship between corporate governance and the quality of Financial Administration of public Universities in Kenya.

To evaluate how the various corporate governance mechanisms' affect financial administration of public Universities in Kenya as measured.

Table 2: Quality of Financial Reports

Facts	Disagree	(%)	Neutral	(%)	Agree	(%)
Information disclosure.	4	9	10	24	29	67
Material information.	5	12	13	30	25	58
Contents of financial relevant.	4	9	6	14	33	77
Financial reports add value.	-	-	14	33	29	67
Information is timely.	14	33	9	21	20	46
Financial reports' changes decisions.	-	-	7	16	36	84

Table 2 is the measure of the effects of corporate governance expenditure on Financial Administration of public universities in Kenya. Results revealed that all material information disclosed in the financial reports are useful for decision making, this also suggests that the information are very germane to the stakeholders and the management cannot do otherwise than to publish them regardless of the cost involved. This is further supported by the fact that 84% with frequency of 36 agreed that contents of University's financial reports are always an input to decision making. It implies that if information in the financial reports of public University add value to stakeholders more cost would be incurred, even if there would be further advantages/benefits from financial information. The facts confirm reliability as to completeness of financial information, all material information that influence decision making were included. This is contrary to Leblanc & Gillies, (2004) who concluded that what is generally accepted as "best practice" in corporate governance 'generally failed to find convincing connections between corporate governance and organisational performance.

Table 3: Council Responsibilities

Facts	Disagree	%	Neutral	%	Agree	%
Budgets' approval.	4	**9**	1	2	38	89
Management Spending limit .	11	26	4	9	28	65
Audit Committee's appointment	-	-	13	30	30	70
Relevance of financial information.	1	2	9	21	33	77
Financing and fund mobilization. f	2	5	4	9	37	86
Understanding of financial reports.	9	21	6	14	28	65
Timeliness of reporting.	13	30	9	21	21	49
Expertise in Accounting and Finance.	3	7	5	12	35	81
Trustee of public funds.	4	9	3	7	36	84
Accountability for public funds	11	26	1	2	31	72

Table 3 is the measure of financial statements quality to determine the existence of Council Responsibility on the quality of financial reports of public Universities in Kenya. Various facts on Council Responsibility were evaluated, as shown on table 3. Highest frequency of 39 89% agreed that annual budget of the university is usually approved by the council before its execution that the council is accountable for use of public funds indicating that there would be proper accountability. This implies the staff of public universities agreed that the University's council is responsible for the quality financial administration through its good corporate governance procedures. The University financial reports are qualitative with high compliance with codes of best practice, it is therefore established that council plays significant roles in the quality of financial statement of Public Universities. The findings agree with those of (Tucker, & Zarowin 2006), whose results indicated that the quality of financial reporting has a positive relation with management's capability.

Table 3: Audit Committee of the Council

Facts	Disagree	%	Neutral	%	Agree	%
Audited accounts.	1	2	4	9	38	88
Value of Internal Audit Department	-	-	2	5	31	72
Responsibility of Finance department.	12	28	3	7	28	65
AC accountable to council.	2	5	11	26	30	70
Audited reports must be reviewed and passed.	14	33	3	7	26	60
The AC provides checks and balances internal controls	-	-	4	9	39	91
public funds safeguarded.	-	-	3	7	40	93

Various facts to examine the transparency and accountability of Audit Committee oversight role on credibility quality of the financial reporting system of public Universities in Kenya were evaluated as shown on table 4. The results revealed that 93% of the respondents agreed that the accounts of the University cannot be presented to the public unless it is approved and passed by the Audit Committee thus ensuring reliability of financial reports generated through financial administration of public university. The respondents agreed that it is mandatory for Finance department to present monthly/annual financial reports of the institution to the Audit Committee the facts confirm relevance as to timeliness of financial reports to be relevant for decision making. There is therefore dependability for factual accuracy in information representation as to reliability of financial reporting system. It complements the facts that transparency and accountability affect credibility quality of financial reporting system. This aligned with Farber, D.B. (2005) that concluded that Audit committees are increasingly responsible for the quality of financial reporting and oversight of the audit processes in public organisations.

Table 4: Executive Compensation Plans

Facts	Disagree	(%)	Neutral	(%)	Agree	%
EC is percent of staff costs.	17	40	21	49	5	12
Highly incentives as compared with functions.	7	16	13	30	23	54
ECP affects infrastructural.	10	24	11	26	22	51
Council size affects ECP	14	33	13	30	16	37
ECP takes priority.	16	37	6	14	21	49
ECP are authorized.	7	16	9	21	27	63

The study is to measure quality of financial reports, whether Executive Compensation plans affect quality of financial reports of public Universities in Kenya. Results in table 4 indicate that 63% agreed that EC plans affect quality of financial reports of public Universities. These facts confirm prudence, that there are acceptable policies by public Universities that do not exaggerate economic values. This is supported by *Hermalin,* & Weisbach (2012) with a view that better disclosure regimes can also aggravate agency problems and related costs, including executive compensation.

To determine the mediating effect of compliance of public Universities in Kenya with directives and guidelines of external regulatory bodies on financial administration.

Table 5: Compliance with External Regulatory Bodies of University

Facts	Disagree	(%)	Neutral	(%)	Agree	(%)
Effects Regulatory authorities.	22	51	9	21	12	28
External Regulatory Compliance.	2	5	9	21	32	74
Recent penalty.	3	7	15	35	25	58
Management not capable to carry out policies from UGC.	23	54	13	30	7	16
Regulatory roadmap is costly.	4	9	15	35	24	56
Financial reports reflect compliance.	7	16	3	7	33	77
Quality Assurance Office required.	1	2	13	30	29	67

Determining the mediating effect of compliance of public Universities in Kenya with the directives and guidelines of external regulatory bodies was measured in table 5. As shown in the table, reliability as to faithful representation was determined, Financial Administration was guided by professional judgments in producing financial reports that are factually accurate to influence decision making.77% agreed that compliance with accounting standards is reflected in the financial statements of public Universities in Kenya. This aligns with Hoque & Moll (2001) whose findings revealed that the most of the select companies perceived the relevance of standards for good corporate governance and complied with twenty to twenty five accounting standards with varied treatments of items, which jeopardised the comparability and left the scope for personal discretion and confusion.

7. CONCLUSION

Based on the findings and the general objective of the study which was to examine the role of corporate governance on financial administration of public Universities in Kenya. It can be concluded that; there is existence of significant relationship between corporate governance and financial administration with the effect on relevance and reliability of financial reports of public Universities. Audit Committee affects credibility of financial reporting system of public Universities, the facts confirm relevance as to timeliness of financial reports for decision making. Reliability as to faithful representation was determined in the mediating effect of compliance of public Universities in Kenya with the directives and guidelines of external regulatory bodies. Financial Administration was guided by professional judgments in producing financial reports that are factually accurate to influence decision making Ridder, Bruns, H.& Spier (2005).. The financial statements of public Universities meet qualitative characteristics as laid down by International Public Sector Accounting Standards (IPSAS). Overall, the results show average of above 62% agreed that corporate governance has significant role on financial administration of public Universities in Kenya by the combined effects of corporate governance variables.

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