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Earnings Management Ethicality and Application in the Kenyan Public Sector: A Critical Review

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ABSTRACT

Purpose:
This is a critical review of the empirical literature on earnings management ethicality and its application in public sector organizations in the Kenyan context.

Design/methodology/approach:
Semi-systematic review approach and thematic/content analysis technique were utilized in forming opinions on deductions of the study by reviewing previous publications between 2008-2022.

Findings:
Outcomes of this study portray that the main factors influencing the management of earnings include; a conducive environment that permits practicing creative accounting without stakeholders' knowledge, dodging declaring losses in the economic reports, meeting analyst predictions, circumventing submission of higher taxes, to qualify access to debt, contracting motivations, and to accomplish perks knotted to performance. Moreover, there is legitimate and illegitimate management of earnings since there is no consensus in regard to the ethicality of earnings management. Further, this review evidences that both accrual and real earnings management techniques are practiced by managers during reporting. Additionally, there are mixed results as to whether creative accounting is practiced in the public sector or not, and with reference to Kenya, no studies on earnings management ethicality have ever been conducted.

Research limitations/implications:
There are limited studies on earnings management ethicality in the public sector both in Kenya and globally. Besides, this is a qualitative study that depended on the previously published data in its entirety. This then, implies that all the findings here are not first-hand and are purely dependent on the findings of other studies that had been published. The researcher, therefore, had no control in regard to ascertaining the accuracy of the previous data analyzed. In mitigating these limitations, the majority of the publications included in this study were from high ranked journals. The bulk of the literature reviewed was from research work already conducted in other countries.

Originality/value:
This study contributes to accounting theory as an area of study. It depicts the deductive approach of research which can then be embraced by other graduate accounting students in furthering accounting research. Besides, it contributes to strategy makers like the Kenya Accounting Standards Board in the formulation and implementation of accounting principles. It also forms a basis for further research in the management of earnings and its ethicality among public sector firms. That is, no other study has been done in Kenya and just a few studies have been carried out globally.

1. Introduction

Earnings management is the act of improving a company's economic reports with an aim of portraying a particular better image which may not be the real case Hamilton et al. (2018). This is done by aggressively applying particular accounting techniques and standards that will favour the wrong results reflected in accounting reports. Management of earnings is therefore experienced when managers and those in charge of making decisions use their professional judgment during financial reports preparation so as to present financial reports in a manner that is misleading to the

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users of the financial information with an aim of either influencing contractual outcomes or public perception of the company. As advanced by Aziatul et al. (2015), earnings management is where the management utilizes its discretion in preparing and reporting accounting information.

The advent of earnings management is strongly evidenced by the recent world financial crisis when one of the leading disgraces in contemporary ages transpired as a consequence of deceptive records conveyed by the enterprise Enron, at the period when it was the seventh largest company in the US, which declared a 100 billion income the year before its insolvency in 2001. Enron was later taken to court-martial where countless persons were established to be guilt-ridden for fraud. Such cases have since led to great research work in regard to earnings management.

The principal drive of presenting economic declarations is to provide yearly firm's economic status to equally outside and in-house patrons in a dependable and well-timed fashion Aziatul et al. (2015). The subject matter in the report is the reported earnings which are utilized by the key stakeholder in decision making of the firm's future. However, as a result of information asymmetry, managers are being opportunistic in their reporting by only conveying to the public, the corporation's economic evidence which in their opinion, describes what champions their own interests. The selfish drive among managers hence does not allow them to report the true view of the company reports. Usually, the original aim of earnings communication should be to depict the true and genuine economic position of the firm indicating sources of revenue, cost allocations, and appropriations. However, as reported in various literature, this has not been the case for some firms that manage their earnings. Besides, earnings management has been researched by various authors. However, this topic has not been detailed with respect to public sector firms. Particularly in Kenya, no research in regard to the management of earnings in the public sector has been carried out describing the ethical aspects of the same. Based on the foregoing, it is, therefore, necessary to carry out this review. The objectives of this study include to; review the theoretical foundations of earnings management, reviewing motivators of earnings management, reviewing techniques of earnings management, reviewing the ethicality of earnings management, reviewing the applicability of earnings management in the public sector, and establishing if earnings management is still a researchable area.

Kenyan Perspective

Earnings management has indeed been a point of interest for various researchers in Kenya. Several studies have been carried out in the same area with diverse topics and industries. Based on this current study, several pieces of literature in regard to earnings management were reviewed as evidenced in the following table.

Table 1: Summary of Sampled Kenyan Studies on Earnings Management

The study	Nature of the study
Githaiga et al. (2022)	Board characteristics and earnings management. Does firm size matter?
Kapkiyai et al. (2022)	Audit Committee Effectiveness and Earnings Management Among Publicly Listed Firms in Kenya
Vekaria et al. (2022)	Tribal Connections and Earnings Quality Of Companies In Kenya
Kamau et al. (2017)	Correlation between Earnings Management and Financial Distress among Selected Firms in Kenya
Chelogoi et al. (2022)	Effect Of Corporate Governance On Earnings Management Of Firms Listed In Nairobi Securities Exchange
Outa et al. (2022)	The impact of corporate governance code on earnings management in listed non-financial firms: Evidence from Kenya
Joshua et al. 292016)	Determinants of Earnings Management Practice among Non-Listed Firms in the Motor Industry in Kenya
Mafunga et al. (2019)	Managerial Ownership And Earnings Management Of Listed Insurance Companies In Kenya
Muchoki et al. (2015)	The effect of corporate governance practices on earnings management of companies listed at the Nairobi securities exchange
Oruke et al. (2021)	Earnings Management: Acritical Review
Wawerui et al. (2013)	Corporate Governance, Firm Characteristics and Earnings Management in an Emerging Economy
Wangui et al. (2017)	Earnings Management And Financial Performance Of Listed Non-Financial Firms In Nairobi County, Kenya
Phylice et al. (2021)	Influence Of Earnings Management On Financial Performance Of Agricultural Firms Listed In Nairobi Securities Exchange

From the above table 1, it is evidenced that several studies have been conducted in Kenya in regard to the management of earnings. However, these studies have majorly been in the private sector and not among public sector organizations. Besides, studies on the management of earnings have not been conducted in relation to ethicality. Oruke et al. (2021) critically reviewed the management of earnings. However, their study only concentrated on control mechanisms and not motivators or techniques like the present study. In fact, their study result as regards to motivators of management of earnings was inconclusive. In addition, a similar study Oruke et al. (2021) had been done in India and thus theirs ought to have taken a different approach by concentrating on the Kenyan context and specifically in the Public Sector firms. It is only this study by Oruke et al. (2021) that has to a smaller extent offered to review the management of earnings critically locally and globally which has since not offered a solution in the Kenyan context. In view of the foregoing, there is a need for further research among public sector organizations, considering the ethicality of the management of earnings.

2. Review of Literature

2.1 Theoretical Review

Positive Accounting theory

Positive accounting theory elucidates how a firm's administration treats the relevant standards by selecting one of the other accounting guidelines amid the numerous alternatives existing. The positive accounting theory was first made known by Watts & Zimmerman (1990) as a theory hesitant with clarifying accounting practices by the administration and accountant without stipulating the consequent practice that the firm should embrace. Following this theory, organization administration can implement two kinds of conduct: beneficial behaviour and opportunistic behaviour (Mahjoub & Miloudi, 2015). Therefore, Positive theory offers three clarifying traditions to describe the use of earnings management by executives:

a) Bonus plan hypothesis

This supposition envisages that administrators act speculatively when the business has compensation and bonus plans using accounting approaches that escalates the confirmed earnings and increase the compensation and rewards that executives get (Watts & Zimmerman, 1990).

b) Debt covenant hypothesis

This bit suggests that in firms involved in financing and debt contracts, their management does participate in opting for accounting policies that increase revenue which when presented to the creditors, will then allow access to debts. Administrators implement this approach to ease financing contract terms and decrease defaulting overheads (Watts & Zimmerman, 1990).

c) The political Cost hypothesis

This supposition envisages that firms are more possibly able to apply accounting choices that decrease stated earnings since bigger corporations are more visible to political attention than smaller businesses (Watts & Zimmerman, 1990).

Agency Theory

Agency theory was originated by Jensen & Meckling (1976) and it specifies the affiliation between investors and managers. It is founded on the precept that the agent (executive) accepts to achieve certain obligations for the master (stockholders) and the principal undertakes to reward the agent (Odek & Oyugi, 2021). Thus, equity owners grant the management the duty of running the corporation on their behalf (Alfadhael & Jarraya, 2021). This theory thus explains that equity owners bring and invest capital. On the other hand, the management is charged with the duty of running the organization in the best interest of the equity holders Atmadje et al. (2021).

This theory is applicable in this case in the sense that the equity owners expect the manager to act in their interest. On the other hand, the manager may also end up acting in his own interest thus creating an agency conflict. This process in the long run results in information asymmetry where the manager having information on the dealings of the company uses his discretion to arrive at the financial reports to present to the directors. Thus earnings management.

Signalling Theory

Signal theory explicates the distribution of info that transpires amongst organization executives and concerned parties related to evidence accessible via economic declarations (Yasa, 2010). It is described in signal theory that managing directors possess correct detail in regard to a corporation's worth. When the administration conveys the info to the marketplace, the marketplace will re-join to this info as a signal that can influence firm value and is reproduced in stock prices (Purwanto, 2004). The manager as the person who manages the daily operations of the organization is in possession of the large useful information in relation to the daily operations of the firm. Thus he/she is indebted to present a signal about the status of the organization to the owner (Alfadhael & Jarraya, 2021). The signalling theory forms a foundation of this study in the sense that the information which managers give to the stakeholders is what signals the response from the financial statements users. That is, managers can either decide to give positive information by increasing earnings or negative information by reducing earnings.

2.2 Previous studies

2.2.1 Motivators of Earnings management

Hamilton et al. (2018) in their survey on the naughty list or the nice list conducted in the USA among managers, reported that executives are extra ready to participate in revenue-escalation earnings management when they are aware they can do so devoid of being noted by the users. Implying that one of the important motivators of managers toward managing a firm's earnings is when they can manage the earnings without being noticed by the users of the financial reports.

Aziatul et al. (2015) analyzed the association between opportunistic behaviours (free cash flow and profitability), monitoring mechanisms (leverage), and pressure behaviours (financial distress) toward earnings management. It was an empirical exploration with an illustration of Malaysian publicly listed corporations from the year 2010 to 2012.

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They concluded that executives tend to practice creative accounting with an aim of avoiding declaring losses in the bottom line.

Duncan (2001), in his article on twenty pressures to manage earnings in the USA, commented that influences include; experts' predictions, access to debt marketplaces, rivalry, predetermined responsibility, a thriving share marketplace, new monetary dealings, marketplace disregard of big burdens, merger appeal, executive reward, temporary emphasis, impractical strategies, and budgets, period-end requests from stockholders, stages of extreme income succeeded by fear of subsequent deterioration, hiding illegitimate dealings, individual advantages, career advancements, concentration on the group, and job retaining are amid the motives that motivate earnings management and that the effects of the latter variables in different countries may be different.

Adhikari et al. (2005) in their study investigated the connection concerning effective tax rates (ETR) and creative accounting in a non-Western context. Their study examined the application of bookkeeping choice by Malaysian businesses in reaction to an expected change in tax rules. They predicted that big Malaysian businesses with little effective tax rates minimize face value returns preceding a lessening in corporate tax rates with an aim of influencing tax policy. They also commented that their experiential effects were congruent with preceding confirmation in the US that corporations use accounting choices to realize economic objectives. Their findings hence infer that the greater the tax rate, the greater the chances that managers of corporations will practice earnings reductions so as to reduce taxes paid.

Aman & Hamid (2006) examined the explanations for the management of earnings in Malaysia by applying a trial of corporations listed on the Kuala Lumpur Stock Exchange. They reported that the debt-to-equity ratio is an important motivator toward earnings management. They explain that firms that are not capable of internally financing their operations are more prone to practice unrestricted bookkeeping accruals to portray an improved status of their businesses to outer users of economic declarations.

Jessica & Emma (2015) conducted a study on earnings management in private Swedish companies. Their thesis aimed to inspect the reality of creative accounting in Swedish private limited firms and influences, which may distress its existence throughout the last nine years. They studied a populace of more than 5 000 corporations and 48 000 interpretations. They discovered that corporations manage their earnings to overcome losses. They also noted that these companies that practice earnings management don't apply the services of the big four audit firms.

Joshua & Agness (2016) in a study to probe the causes of earnings management exercise amongst non-listed corporations in the motor industry in Kenya concluded that the most important contract-related incentives which encourage creative accounting are suppliers' agreement without the organization, outward agreement motivations with clienteles, the requirement of senior administration staffs to observe precautionary measures in regard to their term and the contract which comes with compensations as a consequence of improved performance.

2.2.2 Techniques of Managing Earnings

Earning management techniques refer to the methods applied by various management of organizations to practice creative accounting whenever they are reporting the economic situation of the company as detailed herein.

1. Big Bath

Lenka (2020) expounds that this practice is centered on the belief in manipulating the accumulation of overheads. For instance, in the present year, the executive declares all conceivable expenses associated with incomes, and a lucrative yet to come year is arranged. This is a procedure repeatedly applied in controlling of new organizational changes, where fresh supervisors can assign accountability for massive losses to the previous firm administrators. The real-world implication of this practice resides in the fact that if we contemplate lesser incomes, the enterprise will declare an added loss to present an even poorer commercial outcome, which in turn circumvents a future loss. This procedure seems to be about operational rearrangement, impairment of assets, and obsolete processes.

2. Income Minimization

A corporation with voluminous yield will be additionally probable to embrace this method with the motive of circumventing political burden and revenue tax reflection since this practice would necessitate the administration to upsurge the overheads so as to diminish the declared returns (Aziatul et al., 2015). This technique is applicable in the Kenyan industry based on the fact that many companies would want to report low earnings as a result of tax planning purposes.

3. Income Maximization

Positive accounting theory has the viewpoint that executives could participate in an arrangement of increasing declared final proceeds for extra pay drives (Ratsula, 2010). Therefore, this is possible frequently for the advantage of personalities such as executives and not for the profit of stockholders.

4. Income Smoothing

Executives could smooth declared proceeds for a given period with the object of receiving a comparatively continuous reward (Ratsula, 2010). The method was intentionally applied with the aim to reduce the impulsiveness of declared revenue. Frequently the administration will decline to depict the low declared incomes; thus, they will level the incomes as a practice to reflect fair earnings. The possibility of the method being opted for as a means to achieve perceived creative returns will be contingent on the object of the administration Aziatul et al. (2015).

5. Cookie jar reserve
This method of managing earnings arises from the ability of the accounting guiding principles to be flexed. The basics of this method are the hoarding of numerous sums till it is the correct period to upsurge or drop the return them based on the status at hand. The use of global principles or nationwide rules as executives lead to an approximation and record of the overheads sustained from the actions of the present year, even if they are ready in the yet to come periods. It is the approximation of charges that offers room for creative accounting (Lenka, 2020).

Analogy of cookie jar reserve goods returned
Receivables ought to be noted at a net attainable price. This is the concluding price that will be the final collection. Consequently, the executive is compelled to consider all conceivable aspects that influence the collection of receivables, such as return of goods. If executives contemplate a reimbursement or change of the sale value, they are obligated to note these evidences. Consider that the goods to clients this year shall be brought back in the actual sum of thousand euro, this transaction will be captured this year, by declaring the cost and the incidental allowance. The probable worth of items brought back in itself consist the management of earnings (Lenka, 2020).

6. Additional accrual centred earnings management methods

Table 2: Other accrual-based Earnings management techniques

Accruals based earnings management
Influence the time of proceeds and costs (for instance, note the sale prior to items dispatch/ recognize the expense on a later date)
Inadequately capitalize expenses (for instance, proceeds on construction ventures or overhaul and maintenance expenditure)
Infer accounting principles beyond limits and not as expected to expedite sales and/or extend costs
Choose the time to embrace fresh accounting canon (for instance, adoption as soon as it publicized against holding till acceptance is compulsory) based on its influence on income
Use professional judgment in accounting estimations to attain upper earnings in given circumstance (for instance, by choosing depreciation method, salvage value, or useful life)
Categorize items in regard to earnings they accrue (that is, re-categorize a trading security as available-for-sale to avoid an unrealized loss from being declared in net returns)
Real Earnings Management
Entice consumers to buy extra products at year end more they else would (for instance, by reducing prices or providing sales discounts or favourable credit condition)
Opt when to acquire or dispose assets in regards to earnings effects which may lead to (for instance, to avoid recording depreciation on a new machine, avoid a loss on the sale of an investment, or achieve a gain on sale)
Postponement of appointment of staffs to devoid recognizing different staff-related overheads in the present reporting period
Decrease or push forward research and development expenditure, publicity costs, or optional sales, and managerial expenditures chastely to increase returns.
Upsurge manufacture to create extra stock and take down cost of goods sold (COGS) through diversifying fixed costs over a larger number of units, hence working down the cost per unit

Source: Hamilton et al. (2018)

2.2.3 Earnings management Ethicality
Earnings management ethicality refers to the acceptable nature of management of earnings by executives in organizations. It is where there is an agreement on whether management of earnings is accepted or not accepted among executives. The same has been empirically reviewed here in.

Aziatul et al. (2015) suggests that the management of earnings may be ethical or not ethical. Illegitimate earnings management would logically impact falsified economic declarations, hence resulting to misinforming of the consumers of monetary statements. On the other hand, legitimate earnings management occurs if the principles applied are in line General Accepted Accounting Principles (GAAP). GAAP permits numerous bookkeeping options and necessitates abundant approximation. Because there are several options to convey the firm's income, there is no exact thresh hold past which use of a particular accounting principle is illegal, in that way; the administration or the corporation have the opportunity to opt which ever ways to declare final returns, provide they abide with the GAAP, Nur et al (2015)

Lawrence et al. (2009) remarks in their article that nearly entire falsified economic declarations could be branded as earnings management, though not entire earnings management is referred to as falsified. Besides, they further hold that ethicality of earnings management could be viewed from both ends; illegal and not illegal at the same time. Morris & Mintz (2008) elucidates that there exists no harmony as to when management of earnings is unethical behaviour as contrasted to not of good quality or even required executive conduct. Accordingly, various executives trust that some kinds of earnings management behaviour are tolerable or even necessary.

Hamilton et al. (2018) contends that controllers embrace a conventional method by alerting against inherently unethical earnings management, reasoning that it twists an organization's true income and deceives the investing

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public. On the other hand, they also suggest that among the responses received in their survey among managers on the ethicality of earnings management, some were in dilemma by accepting that creative accounting is within the continuum ranging from admissible understandings of accounting standards to absolute deception, with several accounting options being within the middle ground so that, it's neither completely ethical nor unethical.

2.2.4 Earnings Management application in the public sector organizations

Creative accounting is a usual exercise in the private sector (Bisogno & Donatella, 2022). However, currently, earnings management is attracting the concern of various public-sector intellectuals, who are interested in the application of accrual accounting schemes. Though scholars and practitioners were uncertain on the topic of earnings and management, currently this position has changed as studies are being intensified in this area. Bergmann et al. (2019) clarify that it is unanimously accepted that in the current era, organizational decisions cannot be based on cash accounting information only. Subsequently, earnings management in the public sector is an area that still calls for more research both in developed and developing countries like Kenya. As compared to cash accounting, accrual reporting relies heavily on principle-based standards where the accountant is at liberty to apply professional judgment. However, as advanced by Bisogno & Donatella (2022), in extremely political environments, there is often a hazard that professional judgment under given settings may be dangerous since it permits opportunism in the declaration of economic reports.

Hoang et al. (2016) study applying monetary statistics from Ho Chi Minh Stock Exchange and Hanoi Stock Exchange, and the printed yearly news of the corporations listed in Vietnam examined the influence of government ownership on the management of earnings of Vietnamese listed organizations. They established that state-owned enterprises (SOEs) do not practice creative accounting through accruals compared to privately owned enterprises (POEs), while conventionally, it is believed that SOEs are more susceptible to employing creative accounting.

Beck (2018) in her study on opportunistic financial reporting around municipal bond issues examined two actions of professional judgment in government economic statements: abnormal accruals in full accrual financial statements, and other financing sources and uses in modified accrual financial statements using a unique dataset of hand-collected financial data from California. She concluded that comprehending the method government officers express their professional judgment in the final organization disclosures is a prerequisite for countries, controllers, and scholars to deduce and screen monetary presentations. Besides, she found indication that municipals practice professional judgment through accrued accounting practice thus evidencing earnings management in the public sector.

Cohen et al. (2019) examined earnings management practices in local governments (LGs). They employed a wide trial of Greek and Italian LGs. The Greek databank considered the time from 2002 to 2015 with about 4,300 trials, and the Italian databank considered the time from 2008 to 2015 with about 1,130 trials. The discoveries from the investigation provided an indication that LGs participate in earnings management, the major influence being the electoral cycle.

Maxime & Nils (2017) in their study of personal background influences a finance minister to cook the books in the Swiss cantons used a panel data set of 26 cantons over the period 1980–2012. Their study revealed that Financial Ministers practice creative accounting regardless of their individual or philosophical background with the exemption that skilled economists inclined toward applying falsified bookkeeping. Furthermore, strict economic guidelines encourage Financial Ministers near extra surplus-hiding bookkeeping.

Capalbo et al. (2021) led a study on the association between accounting and the political process beyond the political cost hypothesis, detailing the information that a positive association is present between elections and earnings management in Municipally-Owned Entities (MOEs). Their examination applied a trial of 3557 Italian utility entities considering 506 enterprises for which one single municipality had the absolute majority of shares. The trial spanned a 6-year period as well as, on average, two election dates for each entity. Their empirical outcome affirmed the association between elections and earnings management of municipally owned entities. Moreover, their results illustrated that, during election periods, Municipally Owned Entities are more likely to issue an upsurge in their revenue.

Seraina & Charitini (2021) explored whether NHS hospitals in England managed their earnings upward before applying to the government for a foundation trust (FT) status-a scheme that permitted them superior monetary liberty and administration independence. The research work showed that NHS Foundation Trust adjusted discretionary accruals upward for up to two years before applying for Foundation Trust status. Henceforth, inducements that the government avails to public organizations may pose a weighty consequence on their conduct-just as a private area.

3. Methodology

This research work implemented a semi-systematic or narrative review methodology. According to Wong et al. (2013) semi-systematic review is deliberate for areas that have been intellectualized in a different way and studied by several groups of researchers within varied disciplines and that hamper a full systematic review procedure. That is, rereading every single article that could be applicable to the topic is just but not likely, so a different tactic must be settled on. Besides a semi-systematic review permitted observation of how this research topic has proceeded over time and developed across investigation civilizations.

The study targeted previous publications on the management of earnings. Therefore, not all the articles ever published were considered.

All the data were collected from past journals in regard to the management of earnings. That is, publications from 2008-2022 were reviewed as regards the study topic

The current study applied thematic/content analysis to form opinions about the deductions from the study. Thematic or content analysis is a universally applied practice for recognizing, scrutinizing, and commenting on patterns in the form of themes within a script (Braun & Clarke, 2006).

4. Results

Appraisal of empirical studies submits the following factors as the fundamental reasons why managers practice management of earnings; a conducive environment that permits practicing creative accounting without stakeholders' knowledge, dodging declaring losses in the economic reports, meeting analyst predictions, circumventing submission of higher taxes, to qualify access to debt, contracting motivations, and to accomplish perks knotted to performance. Based on the foregoing, it is concluded that the latter motivators for earnings management are true since previous studies reviewed were global and were not only done in a specific country. Thus, the findings can be generalized as applicable in organizations globally and hence correct to this extent.

Centered on the empirical literature on the ethicality of earnings management, it is true to conclude that there is no consensus as regards the ethicality of earnings management. In other words, ethicality is devoted to the intention of the manager during the preparation of the financial reports. So that if the purpose of the financial report is that which favours the shareholders and will enable the prosperity of the company in the long run, then earnings management is beheld as ethical. However, shall the objective for managing earnings be for the manager's personal benefit, then that would amount to unethical earnings management. This then guides the prerequisite of academic researchers to still carry out supplementary studies to establish the ethicality of earnings management. Besides, based on the findings on the ethicality of earnings management, insufficient studies have been done on the same hence the need for more studies.

Undeniably earnings management cannot be ignored in the public sector. Likewise, studies additionally advise that one of the key motivators of earnings management is the application of accrual-based accounting in the public sector. This then poses the question as to whether the public sector should stick to a cash accounting basis or apply accrual accounting. Definitely cash accounting has its own weaknesses and to be more specific when it comes to reporting assets. However, accrual accounting also has its own deficiencies which appear to be more badly compared to the limitations of cash accounting. That is, accrual accounting promotes earnings management which has been evidenced over the years to have resulted in the global financial crisis. It is contemplated that the Government of Kenya and through the Public Sector Accounting Standards Board (PSASB) could embrace accrual accounting in semi-autonomous government agencies in the financial year 2023/2024. However, the question remains with regard to the level of preparedness to implementation of accrual-based accounting. Has Kenya Public Sector Accounting Standards Board considered the side effects of accrual accounting and its negative impact on the Kenyan economy in the long run? This still remains an area to be addressed by further studies on earnings management in the public sector.

5. Conclusion and Recommendations

Based on the reviewed literature as regards earnings management in the public sector, it is evidenced to a greater extent, that public sector companies manage their earnings. However, there are also some studies that have opined that earnings management is practiced to a smaller extent in the public sector. Therefore, there are inconclusive outcomes as to whether earnings management is practiced in the public sector or not. Thus, further studies still need to be done on the same.

5.1 Theoretical implication

A theory is a set of ideas used to explain real-world observations. Hence, this study contributes to accounting theory as an area of study. It depicts the deductive approach of research which can then be embraced by other graduate accounting students. That is, accounting as a practice is currently embracing the scientific aspect which requires a normative approach where the practice is first based on theory. The theories are then utilized by the practitioners in actual practice. The deductive approach is therefore a real-life situational research practice.

5.2 Practical implication

This study contributes to strategy makers like the Kenya Accounting Standards Board in the formulation and implementation of accounting principles.

5.2 Research implication

The study forms a basis for further research in the management of earnings and its ethicality among public sector firms. That is, no other study has been done in Kenya and just a few studies have been carried out globally offering more gaps for further scholarly work. In view of the foregoing, studies should be intensified particularly on public organizations.

5.3 Research limitations

There are limited studies on earnings management ethicality in the public sector both in Kenya and globally. Besides, this is a qualitative study that depended on the previously published data in its entirety. This then, implies that all the findings here are not first-hand and are purely dependent on the findings of other studies that had been published. The researcher, therefore, had no control in regard to ascertaining the accuracy of the previous data analyzed. In mitigating these limitations, the majority of the publications included in this study were from high ranked journals. The bulk of the literature reviewed was from research work already conducted in other countries.

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