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

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Systematic Review

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Abstract

Purpose

The purpose of this study was to critically review various empirical literature in regard to earnings management ethicality and its application in public sector organizations in the Kenyan context with the aim of identifying the gaps and areas for further research.

Methodology:

The study applied a semi-systematic or narrative review approach by relying on previous publications (2008–2022) on the topic under discussion. This current study applied thematic/content analysis to form opinions about the deductions from the study.

Findings:

Results shows key motivators toward earnings management to include; managers engaging in earnings management as a result of being sure of not being observed or detected by the public, avoiding reporting losses or avoiding showing any decreases in the reported earnings, meeting analyst forecasts, avoiding payment of higher taxes, to enable access to debt, contracting motivations, and to achieve bonuses tied to performance. Moreover, findings had it that there is no consensus in regard to the ethicality of earnings management. Hence legitimate and illegitimate management of earnings. The study also evidenced that both accrual and real earnings management techniques are applied by managers in the company's economic reports. 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 has ever been conducted.

Implications:

The findings from the many empirical studies reviewed herein are therefore helpful in addressing the research gaps identified. Therefore being the limited research on earnings management ethicality in Kenya and globally, it is recommended that scholars to still conduct further studies on earnings management and especially in the public sector firms.

Value of the Study:

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 had been done in Kenya and just a few studies have been carried out globally.

1.0 Introduction

Earnings management is the act of manipulating company earnings (such as through the use of aggressive accounting techniques) in an attempt to achieve a personal or companywide goal (Hamilton, Hirsch, Murthy, & Rasso, 2018). 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 users of the financial information with an aim of either influencing contractual outcomes or public perception of the company. As advanced by (Aziatul, Nur, & Zuraidah, 2015), earnings management is the use of management's discretion in preparing and reporting accounting information.

The advent of earnings management is strongly evidenced during 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.

1.1 Study Objectives

The specific study objectives were;

1. To review the theoretical foundations of earnings management
2. Review motivators of earnings management
3. Review techniques of earnings management
4. Review ethicality of earnings management
5. Review applicability of earnings management in the public sector
6. Establish if earnings management is still a researchable area

1.2 Problem Statement

The principle 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, Nur, & Zuraidah, 2015). The subject matter in the report is the reported earnings which is 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. Usually, the original aim of earnings communication should be to depict the true and genuine economic position of the firm indicating sources or revenue, cost allocations, and appropriations. However, as reported in various literature, this has not been the case for some firms that manage their earnings. Hence the need for this review.

1.3 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, Kabete, & Bonareri, 2022)	Board characteristics and earnings management. Does firm size matter?
(Kapkiyai, Cheboi, & Komen, 2020)	Audit Committee Effectiveness and Earnings Management Among Publicly Listed Firms in Kenya
(Vekaria, 2019)	Tribal Connections and Earnings Quality Of Companies In Kenya
(Kamau, Banafa, & Kariuki, 2022)	Correlation between Earnings Management and Financial Distress among Selected Firms in Kenya
(Chelogoi, 2017)	Effect Of Corporate Governance On Earnings Management Of Firms Listed In Nairobi Securities Exchange
(Outa & Paul, 2017)	The impact of corporate governance code on earnings management in listed non-financial firms: Evidence from Kenya
(Joshua & Agness, 2016)	Determinants of Earnings Management Practice among Non-Listed Firms in the Motor Industry in Kenya
(Mafunga, Fwamba, & Ondiek, 2019)	Managerial Ownership And Earnings Management Of Listed Insurance Companies In Kenya
(Muchoki, Mwangi, & Iraya, 2015)	The effect of corporate governance practices on earnings management of companies listed at the Nairobi securities exchange
(Oruke, Iraya, & Luther, 2021)	Earnings Management: Acritical Review
(Waweru & Riro, 2013)	Corporate Governance, Firm Characteristics and Earnings Management in an Emerging Economy
(Wangui, 2017)	Earnings Management And Financial Performance Of Listed Non-Financial Firms In Nairobi County, Kenya
(Phylice, Robert, & Ondiek, 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, Iraya, & Luther, 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 which(Oruke, Iraya, & Luther, 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, Iraya, & Luther, 2021) which has to a smaller extent offered to review management of earnings critically locally and globally which has since not offered a solution in Kenyan context. Based, on the foregoing, there is need for further research among public sector organizations, considering ethicality of management of earnings.

2.0 Methodology

2.1 Research Design

This research work implemented a semi-systematic or narrative review methodology. According to (Wong, Greenhalgh, Westhorp, Buckingham, & Pawson, 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 observing at how this research topic has proceeded over time developed across investigation civilizations.

2.2 Population of the Study

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

2.3 Data Collection

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

2.4 Data Analysis

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

3.0 Theoretical Foundations

3.1 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 conducts: beneficial behavior or opportunistic behavior (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 supposition envisages that firms dedicated to financing and debt contracts their executives participate in selecting techniques and accounting policies that upsurge revenue. Administrators implements 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).

3.2 Agency Theory

Agency theory was originated by (Jensen and 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).

Agency theory is clarified with two circumstances, viz. the presence of symmetry of information and the service fees gained by the administration must have a high degree of certainty. Firm owners give corporations duties to administration, while management is in charge of handling the firm under the directive of the corporation owners (Alfadhael & Jarraya, 2021). Agency theory elucidates that the owner of the business offers capitals for administration and that management must be accountable for functionality of the corporation in harmony with the interests of the stock holders (Atmadja, Saputra, Tama, & Paranoan, 2021)

Agency theory, therefore, applies in this case in that the principal expects the manager to act in his 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.

3.3 Signaling 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 corporation's worth. When administration conveys 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 administrator as the person who ensures daily organization's operations runs the organization and has more data in regard to the in-house company details and projections of the organization in the future likened to the principal as the owner of the company. Based on this, then the administrator is indebted to present a signal about the status of the organization to the owner (Alfadhael & Jarraya, 2021).

The signaling theory forms a foundation of this study in the sense that the information which managers give to the stakeholders if what signals the response form the financial statements users. That is, managers can either decide to give positive information by increasing earnings or negative information by reducing earnings.

3.4 Motivators of Earnings management

(Hamilton, Hirsch, Murthy, & Rasso, 2018) in their survey on the naughty list or the nice list conducted in USA among managers, they 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 earning is when they can manage the earnings without being noticed by the users of the financial reports.

(Aziatul, Nur, & Zuraidah, 2015) analyzed association amongst opportunistic behaviors (free cash flow and profitability), monitoring mechanism (leverage) and pressure behaviors (financial distress) toward earnings management. It was an empirical exploration with an illustration of Malaysian public listed corporations from the year 2010 to 2012. They concluded that executives tend to practice creative accounting with an aim of avoiding declaring losses in the bottom line.

(Duncan, 2001) on his article on twenty pressures to manage earnings in USA commented that influences including; 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 stock holders, stages of extreme income succeeded by a fear of subsequent deterioration, hiding illegitimate dealings, individual advantages, career advancements, concentration on group, and job retaining are amid the motives that motivates earnings management and that the effects of the latter variables in different countries may be different.

(Adhikari, Derashid, & Zhang, 2005) in their study investigated the connection concerning effective tax rates (ETR) and creative accounting in a non-Western context. Their study examined application of bookkeeping choice by Malaysian businesses in reaction to an expected change in tax rule. They predicted that big Malaysian businesses with little effective tax rates minimize face value returns preceding to 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 choice to realize economic objective. Their findings hence infers 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 management of earnings in Malaysia applying a trial of corporations listed on the Kuala Lumpur Stock Exchange. They reported that debt-to-equity ratio is an important motivator toward earnings management. They explain that firms that are not capable to internally finance 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 doesn’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 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.

3.5 Techniques of Managing Earnings

Earning management techniques refers 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.

3.5.1 Big Bath

(Lenka, 2020) expounds that this practice is centered on the belief of manipulating the accumulation of overheads. For instance, in the present year, the executive declare all conceivable expenses associated to 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.

3.5.2 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, Nur, & Zuraidah, 2015). This technique is applicable in the Kenyan industry based in the fact that many companies would want to report low earnings as a result of tax planning purposes.

3.5.3 Income Maximization

Positive accounting theory has the viewpoint that executives could participate in an arrangement of increasing of 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 profiting of stockholders.

3.5.4 Income Smoothing

Executives could smooth declared proceeds for a given period with the object of receiving 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 to be opted for as a means to achieve perceived creative returns will be contingent on the object of the administration (Aziatul, Nur, & Zuraidah, 2015).

3.5.6 Cookie jar reserve

This method of managing of earnings arises from the ability of the accounting guiding principles to be flexed. The basics of this method is the hoarding of numerous sums till it is the correct period to upsurge or drop the return by them based on the status at hand. The use of global principles or nationwide rules as executives' leads 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 creativity accounting (Lenka, 2020).

3.5.6.1 Analogy of cookie jar reserve-goods returned

Receivables ought to be noted at 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 influences the collection of receivables, such as return of goods. If executives contemplates 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).

3.6 Additional accrual centered 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

Adopted from (Hamilton, Hirsch, Murthy, & Rasso, 2018)

3.6 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, Nur, & Zuraidah, 2015) suggests that management of earnings may be ethical or not ethical. Illegitimate earnings management would logically impact in 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, Zuraidah, & Amrizah, 2015).

(Lawrence, Patricia, & Richard, 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 holds 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 exist no harmony as to when management of earnings is unethical behavior as contrasted to not of good quality or even required executive conduct. Accordingly, various executives trust that some kinds of earnings management behavior are tolerable or even necessary.

(Hamilton, Hirsch, Murthy, & Rasso, 2018) contends that controllers embrace a conventional method by alerting against inherently unethical earnings management, reasoning that it twists an organization's true incomes and deceives the investing public. On the other hand, they also suggests that among the responses received in their survey among managers on 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.

3.7 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. While together scholars and professional were primarily uncertain on the topic of accrual accounting in the public sector perspective, this has therefore transformed. (Bergmann, Fuchs, & Christoph, 2019) explicate that even the greatest serious rivals acknowledges that it is not any more practical to ground the decision-making procedure only on cash accounting info. Consequently, earnings management in the public sector is an area that cannot be ignored including in the developing countries like Kenya. As compared to cash accounting, accrual reporting relies heavily principle based standards where the accountant is at liberty to apply professional judgement. However, as advanced by (Bisogno & Donatella, 2022), in extremely political environments, there is often an hazard that professional judgment under given settings may be dangerous, since it permits opportunism in the declaration of economic reports.

(Hoang, Abeysekera, & Shiguang, 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 management of earnings of Vietnamese listed organizations. They established that state-owned enterprises (SOEs) does not practice creative accounting through accruals compared to the privately owned enterprises (POEs), while conventionally, it believed that SOEs are more susceptible to employ 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 pre-requisite for countries, controllers, and scholars to deduce and screen monetary presentation. Besides, she found indication that municipals practice professional judgement through accrued accounting practice thus evidencing earnings management in the public sector.

(Cohen, Bisogno, & Malkogianni, 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 indication that LGs participate in earnings management, the major influence being the electoral cycle.

(Maxime & Nils, 2017) in their study if personal background influences a finance minister to cook the books in the Swiss cantons used 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 incline toward applying falsified book keeping. Furthermore, strict economic guidelines encourages Financial Ministers near extra surplus-hiding bookkeeping.

(Capalbo, Lupi, Smarra, & Marco, 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 enterprise for which one single municipality had complete majority of shares. The trial spanned 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 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 which the government avails to public organizations may pose a weighty consequence on their conduct-just as the private area.

4.0 Results And Conclusions Of Earnings Management, Its Future Of In Academics

Appraisal of empirical studies submit the following factors as the key motivators toward earnings management; managers engage in earnings management as a result of being sure of not being observed or detected by the public, avoiding reporting losses or to avoid showing any decreases in the reported earnings, meeting analyst forecasts, avoiding payment of higher taxes, to enable access to debt, contracting motivations, and to achieve bonuses tied 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 ethicality of earnings management. In other words, ethicality is devoted on the intention of the manager during 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 manager’s personal benefits, then that would amount to unethical earnings management. This then guides the prerequisite of academic researchers to still carry supplementary studies to establish the ethicality of earnings management. Besides, based on the findings on ethicality of earnings management, insufficient studies have been done on the same hence need for more studies.

Undeniably earnings management cannot be ignored in the public sector. Likewise, studies additionally advises that one of the key motivators of earnings management is the application of accrual based accounting in the public sector. This then pose the question as to whether public sector should stick to cash accounting basis or apply accrual accounting. Definitely cash accounting has its own weaknesses and to be more specific when it comes to reporting of assets. However, accrual accounting also has its own deficiencies which appears 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 to 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 in 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 in 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.

4.3 Recommendations for further study

Based on the reviewed literature as regards to 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 mixed results as to whether earnings management is practiced in the public sector or not. Thus, further studies still needs to be done on the same. Besides, no studies on earnings management ethicality in the public sector firms have been done specifically in Kenya offering more gaps for further scholarly work. Therefore being the limited research on earnings management, it is recommended that scholars to still conduct further studies on earnings management and especially in the public sector.

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Abbreviations

COGS	Cost of Goods Available for Sale
FT	Foundation Trust

GAAP	Generally Accepted Accounting Principles
LGs	Local Governments
MOEs	Municipally-Owned Entities
POEs	Privately Owned Enterprises
PSASB	Public Sector Accounting Standards Board
SOEs	State-Owned Enterprises
US	United States

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