

**THE EFFECT OF ADOPTION OF INTERNATIONAL FINANCIAL
REPORTING STANDARDS ON THE QUALITY OF ACCOUNTING
INFORMATION OF DEPOSIT TAKING SACCOS IN NAIROBI COUNTY**

BY

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DECLARATION

I hereby declare that this research project is my original work and has not been presented for any academic award in any university.

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This research project has been submitted for examination with my approval as the university supervisor.

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DEDICATION

I dedicate this research project to my family members beginning with my Spouse Lilian, my Mum Tabitha Wambui and my children Celestine, Tabby, Paul, and Prudence for their love, support, patience and encouragement. My Sisters Pity, Diana, Jane my Brother Matu also gave me a moral support. Lastly but not least not forgetting my late Aunt Charity Wairimu who brought me up in my early school days.

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LIST OF ABBREVIATIONS AND ACRONYMS

IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IFRIC	International Financial Reporting Interpretation Committee
IFRSs	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
PAT	Positive accounting theory
PWC	Price Water Coopers
SACCOs	Savings and Credit Co-operatives
SASRA	SACCO Society Regulatory Authority
SIC	Standards Interpretation Committee
SOCE	Statement of Changes in Equity
SORIE	Statement of Recognized Income and Expenses p
WOCCU	World Council of Credit Unions

ABSTRACT

The objective of the study was to investigate the effect of adoption of International Financial Reporting Standards on the quality of accounting information of deposit taking SACCOS in Nairobi County. The study adopted descriptive research design. The target population was deposit taking SACCOS in Nairobi County that were dully registered with SASRA. There were 34 deposit taking SACCOS in Nairobi County, and this formed the population of the study. The study adopted a census study approach. The study collected primary data through a closed and open-ended questionnaire. The respondents to the questionnaire were the managers of the Saccos. The data collected was edited, coded, and entered into Statistical Package for Social Sciences (SPSS) which also aided in the data analysis. This study was expected to generate qualitative and quantitative data. The quantitative data analyzed using descriptive and inferential statistics. The qualitative data was generated from the open ended questions and was categorized in themes in accordance with research objectives and reported in narrative form along with quantitative presentation. The quantitative data was analyzed by using descriptive statistics which included frequency distribution tables and measures of central tendency (the mean), measures of variability (standard deviation) and measures of relative frequencies. The inferential statistics included a regression model which established the relationship between variables. Data was presented using tables, charts and graphs. The study found out that as a result of adoption of IFRSs, majority of the SACCOS were transparent and honest in disclosure and presentation of financial statements and that the presentation of accounting information was uniform with other institutions which had adopted IFRSs. Moreover, the financial statements of the SACCOS were comparable with those of other institutions that have adopted IFRSs. It was concluded that adoption of IFRSs in the SACCOS had improved the timely preparation and presentation of financial statements and related disclosures., it had improved the relevance, reliability and understandability of accounting information provided in the financial statements and related disclosures. The study recommends that IFRSs should be fully complied with and more accounting standards that can improve business performance should be adopted. There is also need for increased training so that both the management and the general employees understand the importance of adoption of IFRSs to SACCOS.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Accounting seeks to contribute to the reduction of information asymmetry, which minimizes agency conflicts and assists in the proper provision of the available resources. Accounting reports are the base of the company analysis and are used as an important means of communication of a firm's performance for the investors and as a mechanism of corporative governance (Palepu, Healy & Bernard, 2004). However, accounting reports only contribute, effectively, for the reduction of the information asymmetry, when they provide good quality in accounting information about the companies' financial and economic situation (Paulo, Girão, Carter, Sousa, 2013).

Several recent studies document favorable economic consequences associated with mandatory IFRSs adoption. For example, there is evidence of improvements in analyst forecast accuracy and reduction in dispersion (Horton, Serafeim, and Serafeim 2012; Byard, Ying, and Yu 2011), improvements in liquidity (Daske, Hail, Leuz & Verdi, 2008) and reduction in cost of equity capital (Daske et al. 2008; Li, 2010). These studies argue that these benefits of IFRSs adoption could result from improved accounting quality and/or improved comparability.

1.1.1 International Financial Reporting Standards

International Financial Reporting Standards (IFRSs) are a principle based set of accounting standards that establish broad rules and also dictate specific treatments of

accounting reports such as the balance sheet, profit and loss account and cash flow statement. IFRSs consists of IFRSs issued after 2001; International Accounting Standards (IAS) issued before 2001; Interpretations originating from the International Financial Reporting Interpretation Committee (IFRIC) issued after 2001; Standards Interpretation Committee (SIC) issued before 2001 and the Framework for the Preparation and Presentation of Financial Statements (Accenture, 2008; Ball, 2006).

The Framework for the Preparation and Presentation of Financial Statements, which is the foundation of IFRSs, describes the principles underling IFRSs. IFRSs financial statements consist of statement of financial position; statement of comprehensive income; statement of changes in equity (SOCE) or a statement of recognized income and expenses (SORIE); statement of cash flows; notes (including a summary of the significant accounting policies) (PWC, 2008).

IFRSs are issued by the International Accounting Standards Board (IASB), formerly known as International Accounting Standards Committee (IASC). The main objective of IASB is “to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world’s capital markets and other users make economic decisions” (Epstein & Mirza, 2002 p. 11).

The implementation of IFRSs would reduce the information asymmetry between informed and uninformed investors (Bushman & Smith, 2001). The reduction of uncertainty and information asymmetry would smooth the communication between

managers and other related interested parties, such as shareholders, lenders, regulatory and supervisory authorities, financial analysts, etc. This would therefore tend to reduce the related agency costs that might otherwise arise (Bushman & Smith, 2001; Healy & Palepu, 2001), and would in turn tend to lead to an appreciation in stock returns, which might be unrelated to firm current financial performance (Gelb & Zarowin, 2002). Lower information asymmetry would also lead to lower costs in issuing equity capital (Glosten & Milgrom, 1985; Diamond & Verrecchia, 1991) and debt (Clarkson, Guedes & Thompson, 1996; Sengupta, 1998; Botosan & Plumlee, 2002).

The benefits of the implementation of IFRSs include the harmonization of accounting practice across adopting countries, which in turn leads to higher comparability, lower transaction costs and enhances international investment. IFRSs also assist investors in making informed financial decisions and predictions of firm future financial performance (Street & Bryant, 2000). IASB includes over 140 accounting bodies, representing over 100 nations. The International Organization of Securities Commissions (IOSCO) has approved the use of IFRSs for cross-border stock exchange listings. Several major stock markets, such as London, Frankfurt, Zurich, Hong Kong, Amsterdam and Rome, accept the preparation of financial statements of foreign listed companies under IFRSs.

The provision of quality accounting disclosures would tend to reduce the opportunities for earnings manipulation and enhance the stock market efficiency (Leuz, 2003); give a positive signal to investors as information asymmetry and agency costs tend to diminish. Other explanatory proxies of the adoption of IFRSs relate to high profitability, the issuance of equity or debt capital in the adoption period, debt covenants, the differences

between domestic GAAP and IFRSs (Holthausen, 1990; Sweeney, 1994; May, 1995; Ashbaugh, 2001; Cuijpers & Buijink, 2005). The effects of IFRSs would tend to have a positive impact on adopters' stock returns and other stock-related financial performance measures, stock option schemes among others.

1.1.2 Quality of Accounting Information

The past decade has seen a large amount of empirical research, for instance, Soderstrom and Sun (2007), regarding what constitutes high-quality accounting information. Previous research for instance Barth, Landsman and Lang (2008) has commonly used earnings management, timely loss recognition and value relevance as indicators of accounting information quality, although metrics such as quality indices and appropriateness also appear.

The introduction of IFRSs has entailed substantial changes in accounting methods, and this change has prompted a major 'natural' opportunity to examine factors thought to affect the quality of accounting information. Consistently, academics around the world are now extensively studying the effects of IFRSs on quality of accounting information (Armstrong, Christopher, Barth, Mary, Jagolinzer, Alan and Riedl, Edward, 2010; Byard, Li, and Yu, 2011). Results from these studies are mixed. On the one hand, IFRSs appear to have a positive effect on quality of accounting information, but the results are contingent on country or firm specific characteristics (Jansson, Jönsson & Von Koch, 2012).

1.1.3 International Financial Reporting Standards and Quality of Accounting Information

Barth et al. (2008) present three reasons why the adoption of IFRSs could lead to improvements on quality of accounting information. First, IFRSs eliminate certain accounting alternatives thereby reducing managerial discretion. This could reduce the extent of opportunistic earnings management and thus improves the quality of accounting information (Ewert & Wagenhofer 2005). Second, IFRSs are viewed as principle-based standards and thus are potentially more difficult to circumvent. For example, under a principle-based standard it should be more difficult to avoid recognition of a liability through transaction structuring. Third, IFRSs permit measurements, such as use of fair value accounting that may better reflect the underlying economics than domestic standards.

On the other hand, Barth et al. (2008) also identified two reasons why the adoption of IFRSs may reduce quality of accounting information. First, IFRSs could eliminate accounting alternatives that are most appropriate for communicating the underlying economics of a business thus forcing managers of these firms to use less appropriate alternatives thus resulting in a reduction in the quality of accounting information. Second, because IFRSs are principle-based, they inherently lack detailed implementation guidance and thus afford managers greater flexibility (Langmead & Soroosh 2009). For some important areas such as revenue recognition for multiple deliverables, the absence of implementation guidance would significantly increase discretion and allowable treatments depending upon how they are interpreted and implemented. Given managers'

incentives to exploit accounting discretion to their advantage documented in prior studies such as Leuz, Nanda and Wysocki, (2003), the increase in discretion due to lack of implementation guidance is likely to lead to more earnings management and thus lower accounting quality.

1.1.4 Deposit Taking SACCOS in Nairobi County

The Saccos sub-sector in Kenya is considered the fastest growing in the cooperative movement. SACCOS in Kenya in their struggle to achieve this objective have been able to mobilize over Kshs.200 billion in savings (Co-operative Bank of Kenya, 2010). Almost half of the 972 additional cooperative societies and unions registered in 2011 were Saccos. As at December 31, 2011, there were 6,902 registered Saccos, up from 6,737 in 2010, but only 3,983 were active, with 227 of them, or six per cent, offering deposit-taking services, commonly referred to as Front Office Services Activity (Fosa), a quasi banking enterprise undertaken by licensed Saccos. These societies with Fosas and the other active Saccos operate Back Office Savings Activity (Bosa) (Sacco Supervision Report, 2011).

Saccos in Kenya have rapidly grown to be the largest in Africa, With 3,500 active Saccos accounting for 60 percent, 64 percent, and 63 percent of the continents savings, loan, and assets respectively (Ademba, 2012). SASRA regulates the deposit taking Saccos that offer services almost similar to banking commonly referred to as Front Office Services. The sector's portfolio stands at Sh 202 billion. Of Kenya's 20 million adult population, 22.5 per cent are served by commercial banks and micro finance institutions while 17.6 per cent are served by Saccos (Ademba, 2012).

Saccos in Kenya are gradually responding to the fast changes in the financial environment and are adopting new approaches to the Sacco model. Saccos were forced to come up with strategies and products to assist them cope with these challenges (Wanyama, 2009). Some of these strategies included changing rules of membership and coming up with a new range of products. Currently, Savings and credit co-operative societies (Saccos) are now competing for a slice of banking services with commercial banks.

In recent years, Kenya embarked on reforming and deregulating its financial systems and sector, more so in Saccos and transforming institutions into effective intermediaries. The enactment of SACCO Societies Act 2008 which saw the establishment of SACCO Society Regulatory Authority (SASRA) came to address skills gaps, improve professionalism in management of SACCOs and enhance transparency in financial performance of SACCOs (Sacco Supervision Report, 2011). This has also piled pressure on Saccos to adopt International Financial Reporting Standards in a bid to improve the quality of accounting information and meeting regulation standards. Currently there are 34 deposit taking SACCOs in Nairobi County (SASRA Report, 2013).

1.2 Research Problem

Studies on International Financial Reporting Standards and accounting quality have concluded that IFRSs may either improve or reduce accounting information quality. Ahmed, Neel and Wang (2012) argue that the effects of mandatory IFRSs adoption on accounting quality critically depend upon whether IFRSs are of higher or lower quality than domestic generally accepted accounting principles and how they affect the efficacy

of enforcement mechanisms. Given the competing arguments, whether IFRSs adoption improves or decreases the in quality of accounting information is an empirical question that needs to be investigated.

SACCOs play an increasingly important role in Kenya's financial services sector, serving a growing number of rural and poor households. An estimated 1.7 million Kenyans, or 9% of the country's adult population, rely on SACCOs for financial services. SACCOs in Kenya or the SACCO movement in Kenya is said to be the largest in Africa and among the top 10 globally. With over Ksh 230 billion in assets and a savings portfolio estimated at Ksh 190 billion, the SACCO movement in Kenya constitutes a significant proportion, about 20 per cent, of the country's domestic savings (WOCCU, 2012). Saccos in Kenya have for a very long time experienced quite a number of challenges which includes: inadequacy of existing legislation to accommodate diversified products, weak internal control systems, acute liquidity problems, inadequate performance standards and lack of disclosure requirement standards (Kenya Financial Sector Stability Report, 2010). Mudibo (2005) also revealed that SACCO Societies had challenges in ensuring quality financial management.

The enactment of SACCO Society Regulatory Authority (SASRA) which seeks to strengthen SACCOs through supervision and prudential regulation requires licensed SACCOs to have accounting systems that are effective and efficient in generating requisite monitoring reports. Moreover, the financial reporting needs to comply with the International Financial Reporting Standards and any prudential requirements issued by

the Authority. Thus the regulatory authority has put pressure on Saccos to adopt International Financial Reporting Standards but the question is, “How have these impacted on the quality of accounting information in these Saccos? This is yet to be documented.

Locally, a number of studies have been conducted on Saccos, for instance, Olando, Jagongo and Mbewa (2013), Oyoo (2002), and Wanyoike (2013); however, to the researcher’s knowledge, no notable study has been conducted to look at how the adoption of International Financial Reporting Standards have affected the quality of accounting information in Saccos. It is against this study background that the study sought to answer the question; what is the effect of adoption of International Financial Reporting Standards on the quality of accounting information of deposit taking SACCOS in Nairobi County?

1.3 Objective of the Study

To investigate the effect of adoption of International Financial Reporting Standards on the quality of accounting information of deposit taking SACCOS in Nairobi County.

1.4 Value of the Study

This study was of importance to managers of cooperative societies in Nairobi and in Kenya in general as they would be able to understand how the adoption of international financial reporting standards has impacted on the quality of accounting information in their Saccos.

The information acquired from this study was also be useful to policy-makers both in the government and SACCOs, especially in strengthening policy considerations in this

sector. Such policy improvement may be handy in enhancing the guidelines on how to improve the performance and effectiveness of SACCOs in an effort to enhance their efficiency for the benefit of the members.

The findings of this study were expected to be of great importance to various researchers in the field of accounting as well as other fields as it would equip the learners with more knowledge and skills on the accounting standards and their effect on the quality of accounting information in their organizations. The study also acts as a basis for further research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter is concerned with the review of the theoretical and empirical literature relevant to the area of study. The theoretical review section discusses the theories in relation to the study area in order to help understand the concepts and the relationship between variables. The empirical literature section reviews the existing literature on the adoption of International Financial Reporting Standards and the quality of accounting information.

2.2 Theoretical Review

2.2.1 Agency Theory

The agency paradigm was developed in the economics literature during 1960s and 1970s in order to determine the optimal amount of the risk- sharing among different individuals (Ross, 1973; Jensen & Meckling, 1976). Agency theory is a theory explaining the relationship between principals (shareholders) and agents (managers). In this relationship, the principal delegates or hires an agent to perform work in the best interest of the principal. The delegation of decision-making authority can lead to a loss of efficiency and consequently increased costs (Jensen & Meckling, 1976).

Agency theory has been one of the most important theoretical paradigms in accounting during the last 20 years (Lambert, 2001). It conceives disclosure as a mechanism which decreases the costs resulting from conflicts between managers and shareholders

(compensation contracts) and from conflicts between the firm and its creditors (debt contracts). Therefore disclosure works as a mechanism to control manager's performance. As a consequence, managers are stimulated to disclose information voluntarily. According to Healy and Palepu (2001), corporate disclosure is critical for the functioning of an efficient capital market. Firms provide disclosure through regulated financial reports, including the financial statements, footnotes, management discussion and analysis, and other regulatory filings.

Financial reporting is a key practice of corporate disclosure. However, there are multiple factors surrounding the quality of financial reporting. Beyer, Cohen, Lys and Walther (2010) argue that the function of corporate information environment is the dynamic interaction as a consequence of information asymmetries and agency problems between investors, firms and managers. Therefore, in a capital markets setting, the corporate information environment is shaped by the decisions made by managers' reporting and disclosure, mandated reporting and disclosures regulations, and analysts' expectations.

Beyer, Cohen, Lys and Walther (2010) illustrate two very important rationales. Firstly, agency costs will be reduced when mandated disclosure allows for more efficient contracting with agents as it can serve as a cost-effective way to commit to frequent and detailed future disclosures when the literature supports that more information can reduce agency costs (Shleifer & Wolfenzon, 2002). Secondly, economies of scale can be possible since disclosure regulation will result in efficiency gains by reducing investors' duplication of information production and enhance comparability of disclosed information across business and sectors. When financial information users will receive

more accurate and timely assessments about firm performances and the optimal level of corporate disclosure, market-wide cost savings and efficiency can be achieved relatively similar across firms (Dye & Sridhar, 2008). Leung and Ilsever (2013) also argue that one way to mitigate problems from agency relationship is to reduce the information asymmetry between managers and investors. Thus the adoption of IFRSs would ensure that managers give and disclose relevant and reliable accounting information and reports to the shareholders thus reducing agency problems.

2.2.2 Positive Accounting Theory

Positive accounting theory (PAT) has been of interest to accounting theorists for around four decades. Positive accounting theory is considered as the mainstream in accounting choices research realm. Jensen (1976) asserts that the PAT is managed to explain why accounting is what it is, why accountants do what they do and what effect these phenomena have on people and resources utilization. Watts and Zimmerman (1990) assert that the accounting theory's role is to provide explanations and predictions for accounting practices.

According to Colasse (2000) the PAT interferes either on the level of standards setter or on the firm level when standards setter let the choice among several options. The observation of the first time adoption of IAS/IFRS's options is located on this second issue. Belkaoui (1992) asserts that the central ideal of the positive approach is to develop hypotheses about factors that influence the world of accounting practices and to test empirically the validity of these hypotheses. Studies following this trend studied

statistically the relationship between an accounting choice made by company and characteristics of firms (Chiapello & Desrosieres, 2003).

Positive accounting theory also focuses on the role of contracting cost and political cost considerations in explaining management motives for making accounting choices when markets possess semi-strong form efficiency (there is information asymmetry); when there are significant costs in writing and enforcing contracts (agency costs); and when there are political costs arising out of the regulatory process (Jensen & Meckling, 1976; Watts & Zimmerman, 1990). Contracting costs include transactions costs, agency costs, information costs, renegotiation costs and bankruptcy costs, and they are all crucial to accounting choice models (Watts & Zimmerman, 1978; 1990). PAT investigates how particular contractual arrangements based on accounting numbers can be put in place in order to minimize agency costs associated with the problems. Authors such as Dumontier & Raffournier (1998), Missonier-Piera (2004) have provided empirical support on accounting choices based on positive approach. This theory is critical in this study in seeking to explain, understand and predict managerial accounting policy choice across SACCOs in Kenya.

2.2.3 Signaling Theory

Signaling theory is useful for describing behavior when two parties (individuals or organizations) have access to different information. Typically, one party, the sender, must choose whether and how to communicate (or signal) that information, and the other party, the receiver, must choose how to interpret the signal. In circumstances of information asymmetry (Akerlof, 1970), signaling theory suggests that companies with superior

performance (or good companies) use financial information to send signals to the market (Ross, 1977; Spence, 1973). Spence (1973) showed that if the cost of signal is higher for the bad type than it is for the good type. The bad type may not find it worthwhile to mimic, and so the signal could be credible. Ross (1977) demonstrated how debt could be used as a costly signal to separate the good from the bad. Therefore, managers can be motivated to disclose private information voluntarily. This is because they expect this to provide (and to be interpreted as) a good signal about their company's performance to the market, and as reducing information asymmetry.

Signaling theory would suggest that the provision of voluntary IFRSs disclosures would give an indication of firms' decision-making process and financial behaviour (Eccles, Hertz, Keegan & Phillips, 2001). For example, voluntary IFRSs disclosure may signify the intention of firms to distinguish themselves and give positive signals to market participants about their managerial ability and performance (Watson, Shrivies & Marston, 2002). Also, the violation of debt covenants would give investors a negative signal of corporate performance with negative implications for firm creditability and future financial prospects. The combination of agency and signaling theory is possible to lead to predictions about firm financial behaviour and accounting choices and improve the understanding of financial statements (Morris, 1987).

The adoption of IFRSs gives a positive signal of higher quality accounting and transparency (Tendeloo & Vanstraelen, 2005) and would also lead to lower information asymmetry and cost of capital (Leuz & Verrecchia, 2000). The provision of quality accounting disclosures would tend to reduce the opportunities for earnings manipulation

and enhance the stock market efficiency (Leuz, 2003). The higher disclosure requirements and financial reporting quality that stem from IFRSs implies that the adoption of IFRSs gives a positive signal to investors as information asymmetry and agency costs tend to diminish (Tarca, 2004).

2.3 Determinants of the Quality of Accounting Information

2.3.1 Financial Reporting Incentives

The first financial reporting incentive that likely affects accounting quality is the development of financial markets. Soderstrom and Sun (2007) mention that the demand for information results from market participants' needs to reduce information asymmetry. Adverse selection happens when market participants cannot differentiate between good and bad firms. Without such differentiation, market participants would 'price protect' themselves by increasing costs of financing to firms, and thus only bad firms would be willing to finance at these high costs. Francis, LaFond, Olsson and Schipper (2005) state that firms in need of external financing voluntarily disclose more information than a country's minimum requirement and have lower costs of capital. Thus, the demand for information from market participants provides incentives for firm managers to improve the quality of financial reporting. Through the financial markets, legal and political systems indirectly affect accounting quality.

Firms with different financing needs have different incentives for financial reporting. Ali and Hwang (2000) make a distinction between bank-based economies and market-based economies. In market-based economies, investors invest directly through a stock market and they rely directly on a company's financial reports and expend resources to acquire information. In bank-based economies, investors decide to lend money through a bank and delegate the role of monitoring of firms to the bank. However, Sun (2006) finds that the usefulness of financial reporting in improving capital investments decisions is

decreasing with the level of debt financing. As a result of low reporting incentives, accounting quality would decrease in firms dependent on bank financing.

2.3.2 Ownership Structure

The ownership structure of a firm also influences accounting quality. For firms with concentrated ownership where controlling stakeholders are active in management (mostly private companies), the need for financial reporting reduces. Political and legal systems can also influence accounting quality indirectly through the ownership structure of a firm. La Porta, Lopez-de-Silanes and Shleifer (2008) mention that countries with stronger investor protection have a lower concentration of ownership, because ownership concentration is a substitute for legal protection, since shareholders need more control over managers and small investors have less protection. Thus, the legal and political system of a country affects the ownership structure, which in turn affects earnings quality.

2.3.3 Tax System

Another aspect which is of legal nature is the tax system; the tax system can influence earnings quality in several ways. First, when there is a close linkage between accounting standards and tax laws, the quality of accounting standards reduces due to the fact that accounting standards serve political purposes such as tax collection for the government. Second, tax rates can increase the incentives to reduce taxable income. Third, tax authorities have statutory power to verify a firm's profits. Finally, legal and political

systems affect accounting quality through tax systems, because tax rates are determined via a political process (Badloe, 2011).

2.4 Empirical Review

Several studies document effects associated with adoption of IFRSs in various companies from different economies. Bova (2007) conducted a study on the determinants and consequences of higher accounting quality following IFRSs adoption in emerging markets with inferences from Kenya. Using a sample of Kenyan firms, the study makes several insights. First, higher levels of IFRSs compliance and accounting quality in general are positively correlated with a firm being publicly-traded and with variables that proxy for a firm's ability to weather the costs of higher compliance. Second, foreign ownership is positively correlated with higher IFRS compliance. Supplementary tests suggest that the causal link between the two variables runs from the former to the latter. Third, after addressing potential endogeneity, higher IFRSs compliance is positively correlated with share turnover, an inverse proxy for a firm's cost of capital. Finally, the collective results provide a novel insight into the impact of foreign ownership in an emerging market setting. Given that foreign ownership is a positive determinant of higher IFRSs compliance, and that higher IFRSs compliance is positively related to share turnover, the results suggest that greater foreign ownership may help lower a firm's cost of capital, indirectly, by improving the quality of a domestic firm's financial statements following IFRSs adoption.

Callao, Jarne, and Lainez (2007) did a study on the adoption of IFRSs in Spain; they sought to establish the effect on the comparability and relevance of financial reporting.

They demonstrated that the relevance of the accounting information of the Spanish companies was not affected by the adoption of the IFRSs. Paananen (2008), analyzing a sample of financial statements from 2003 to 2006, identified that a decrease occurred in the value relevance of the numbers reported by the Swedish companies. Oliveira, Rodrigues and Craig (2010) also show a reduction in the value relevance in Portuguese firms that adopted the IFRSs. Horton and Serafeim (2010) found that the mandatory IFRSs adoption altered the perception of the investors of the capital market of the United Kingdom.

Barth et al. (2008) examined whether application of International Accounting Standards (IAS) is associated with higher accounting quality. The application of IAS reflects combined effects of features of the financial reporting system, including standards, their interpretation, enforcement, and litigation. Using a sample of foreigner firms from 21 countries that negotiate assets in the North American capital market, the study found out that firms applying IAS from 21 countries generally evidence less earnings management, more timely loss recognition, and more value relevance of accounting amounts than do matched sample firms applying non-U.S. domestic standards. Differences in accounting quality between the two groups of firms in the period before the IAS firms adopt IAS do not account for the post adoption differences. Firms applying IAS generally evidence an improvement in accounting quality between the pre- and post adoption periods. Thus the findings demonstrated that voluntary adopters exhibit decreased income smoothing and increased timeliness of loss recognition after adoption. However, voluntary adopters choose to adopt IFRSs and thus are likely to have stronger incentives to report higher

quality accounting numbers (Soderstrom and Sun 2007; Daske, Hail, Leuz, and Verdi 2008).

Devalle, Onali and Magarini (2010) analyzed the value relevance of 3721 companies listed in the Frankfurt, Madrid, Paris, London and Milan Stock Exchanges, in the period 2002 to 2007. The evidence shows that an increase occurred in the value relevance of the accounting income and of the equity for the German and French firms after the IFRSs adoption. A decrease occurred in the value relevance of the accounting income and an increase in the equity in the Italian firms' reports. In the sample of the Spanish companies, a significant increase occurred in the value relevance of the book value of the equity, while for firms of the United Kingdom there was a decrease.

Okafor and Ogiedu (2011) conducted a study to examine the potential effects of the adoption and implementation of IFRSs in Nigeria from the perspective of stakeholders. It presents the results from a questionnaire survey of a sample of accounting lecturers, auditors and accountants. The data were analyzed using the Chi Square. The study found that International Financial Reporting Standards have the potential for yielding greater benefits than current GAAP, improve business performance management and impact on other business functions apart from financial reporting. The study also finds that IFRSs adoption will add to financial reporting complexities and increase compliance with accounting standards. The study recommends that management should start making comprehensive plans ahead of IFRSs adoption.

Outa (2011) conducted a study to establish if the adoption of International Financial Reporting Standards (IFRSs) in Kenya has been associated with higher accounting

quality for listed companies. The methodology was based on prior literature definition of metrics of accounting quality mainly earnings management, timely loss recognition and value relevance. The study differs from the previous ones by overcoming difficulties in controlling for confounding factors faced in previous studies which could have led to less reliable results. Three out of the eight metrics indicated that quality had marginally improved while five indicated that it had marginally declined. These mixed outcomes are very much in line with findings in other studies and the study contributes to the debate by explaining why accounting quality outcomes are still not consistent with IFRS promises in spite of improved test.

Ahmed et al. (2012) undertook a study to provide evidence on the preliminary effects of mandatory adoption of International Financial Reporting Standards (IFRSs) on accounting quality. The study was conducted on a broad set of firms from 20 countries that adopted IFRSs in 2005 relative to a benchmark group of firms from countries that did not adopt IFRSs matched on the strength of legal enforcement, industry, size, book-to-market, and accounting performance. Relative to these benchmark firms, the study found out that IFRSs firms exhibit significant increases in income smoothing and aggressive reporting of accruals, and a significant decrease in timeliness of loss recognition; however the study did not find significant differences across IFRSs and benchmark firms in meeting or beating earnings targets. These findings contrast with findings in earlier studies (for instance Barth et al. 2008) which suggest that IFRSs adoption leads to increased accounting quality.

Jansson et al. (2012) investigated whether the implementation of International Financial Reporting Standards (IFRSs) had increased accounting quality. The paper employs a measure of accounting quality that is based on the use of accounting information, namely, the performance of financial analysts. The sample encompassed nearly 2,500 publicly traded firms, all followed by analysts, from 1996-2009. The sample covered five European countries (Sweden, Netherlands, France, Germany and the United Kingdom (the UK), each with different legal and accounting traditions. The study used quantile regressions to estimate the impact of IFRSs while simultaneously considering that most prediction errors are small and are most likely random and unaffected by the accounting standard being followed. The results suggest that IFRSs have had no effect on analysts' average ability to accurately forecast firms' earnings per share. In all countries except the UK, IFRSs have led to higher consistency in analyst forecasts. The impact of IFRSs is not more pronounced in firms that are more affected by their asset measurement methods. The results suggest that in countries where prior GAAP differ from IFRSs, IFRSs may have the effect of presenting more consistent but not more accurate pictures of firms for analysts.

Based on a sample of 58 German firms of high technology, which negotiated their assets in the North American market and changed the accounting standard from the IFRSs to U.S. GAAP in 2005, Lin, Riccardi and Wang (2012) found that the accounting numbers reported according to the IFRSs present, in general, greater volume of earnings management, lesser conservatism and value relevance than the reports based on U.S. GAAP. On the other hand, Tsalavoutas, André and Evans (2012) presented evidence that

the value relevance of the net income and the book value of the equity did not change with the IFRSs adoption in Greece.

Bova and Pereira (2012) did a study on the determinants and consequences of heterogeneous IFRSs Compliance Levels Following Mandatory IFRSs Adoption with evidence from a developing country- Kenya. The study empirically evaluated these IFRSs adoption using both private and public-traded firm observations from Kenya. The analysis took advantage of a unique dataset involving firm-specific measurements of IFRSs compliance. The study found out that while both private and public firms are required to adhere to IFRSs, public, rather than private firms, exhibit greater IFRSs compliance. Highlighting the influence of capital market openness, we find that foreign ownership is positively and significantly correlated with IFRSs compliance. Probing the underlying causal relationship, additional analysis suggests that greater foreign ownership leads to greater IFRSs compliance. Examining the effects of IFRSs compliance, higher compliance is positively associated with share turnover. Overall, the evidence illustrates both the importance of economic incentives in shaping IFRS compliance and the capital market benefits to being compliant with IFRS in a low enforcement country.

Paulo et al. (2013) for instance conducted a study to investigate the impact of the adoption of international financial reporting standards on the quality of accounting information of the Brazilian and European public firms, in the period between 2000 and 2011. Empirical technical models, such as persistence, conservatism, earnings management and accruals errors, were used to reach the proposed objective. The results showed that the quality of accounting information has not significantly improved

comparing the period before and after the adoption of the IFRSs in Brazil or Europe. They concluded that the adoption of international accounting standards, both in Brazil and Europe, did not increase the quality of the accounting information, on average.

Mabruk (2013) conducted a study to establish if the adoption of International Financial Reporting Standards (IFRSs) by SMEs in Nairobi County has been associated with higher accounting reports quality. The study analyzed a target population of 150 Enterprises in small and medium enterprises in Nairobi County with the assumption that they had adopted the IFRSs in their accounting practice. The study measured the reaction of the respondents when IFRSs was introduced where most of the respondents felt that the introduction of IFRSs was stressful. The results of the correlation analysis showed that there was a positive significant relationship between the relevance and quality of accounting reports of SMEs with the application of IFRSs. The same applied to faithful representation on quality of accounting reports of SMEs. The study also employed multiple regression analysis where understandability had positive and significant relationship between with quality of accounting reports with the adoption of IFRSs. The study concluded adopting IFRSs is a very big move for the firms, accounting regulatory body and the government in Kenya because the benefits are more than the demerits as discussed earlier in this report.

2.5 Summary of the Literature Review

The agency theory explains that the adoption of IFRSs would ensure that managers give quality accounting information and reports to the shareholders to reduce agency problems. Signaling theory also argues that the adoption of IFRSs gives a positive signal

to investors as information asymmetry and agency costs tend to diminish. The Positive accounting theory also seeks to explain why accountants make various accounting choice. These theoretical explanations differ and there lacks a clear theoretical explanation as to why firms adopt IFRSs in their organizations.

A review of the empirical literature also shows mixed findings on the relationship between IFRSs and quality of accounting information. There are competing arguments, whether mandatory IFRSs adoption results in an increase or a decrease in accounting quality is an empirical question that still needs to be investigated in many other economies. A review of these studies also shows that there lacks empirical evidence on the relationship between IFRSs and quality of accounting information and more so in SACCOs. This study therefore seeks to establish the effect of adoption of International Financial Reporting Standards on the quality of accounting information with a focus on Deposit Taking Saccos in Nairobi County.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter looked at the research methods that were employed in the study in order to achieve the objectives of the study. This chapter covers the research design adopted, population of study, data collection instrument and data analysis procedures.

3.2 Research Design

Research design is the blueprint that enables the investigator to come up with solutions to problems and guides her/him in the various stages of the research (Nachmias & Nachmias, 2004). The study adopted descriptive research design. Robson (2002) points out that descriptive study portrays an accurate profile of persons, events or situation. Chandran (2004) also states descriptive study describes the existing conditions and attitudes through observation and interpretation techniques. The descriptive design was appropriate for this study since it helped in collecting data in order to answer the questions of the current status and describe the nature of existing conditions of the subject under study. Descriptive research design also facilitated the use of a questionnaire to collect both quantitative and qualitative data for the study. Its advantage is that it is used extensively to describe behavior, attitude, characteristic and values (Mugenda & Mugenda, 2003).

3.3 Target Population

A population is defined as a complete set of individuals, case or objects with some common observable characteristic (Mugenda & Mugenda 2003). The target population

was deposit taking SACCOs in Nairobi County, and that were dully registered with SASRA. There were 34 deposit taking SACCOs in Nairobi County, and this formed the population of the study.

The study adopted a census study approach. According to Cooper & Schindler (2007) a census is feasible when the population is small and necessary when the elements are quite different from each other. When the population is small and variable, any sample we draw may not be representative of the population from which it is drawn. Therefore since the target population for this study was small and variable, it was appropriate for researcher to choose census method to be used because the population was small and the institutions were easily accessible, hence the sample size was all the 34 deposit taking SACCOS in Nairobi County.

3.4 Data Collection

Data collection refers to the methodology and the instruments that the researcher will use during the data collection process (Kothari, 2008). The researcher collected primary data. The data was collected using a questionnaire. The questionnaire had both closed and open-ended questions. The closed ended questions enabled the researcher to collect quantitative data while open-ended questions enabled the researcher to collect qualitative data. The respondents to the questionnaire were the managers of the Saccos.

Questionnaires were considered for the study since they provide a high degree of data standardization, they ere relatively quick to collect information from people in a non-threatening way and they were cheap to administer. According to Kombo and Tromp (2006), a self-administered questionnaire is the only way to elicit self report on people's

opinion, attitudes, beliefs and values. Mugenda and Mugenda (1999) acknowledge that questionnaires give a detailed answer to complex problems.

3.4.1 Data Validity and Reliability

Pilot test was conducted to detect weakness in design and instrumentation and to provide alternative data for selection of a probability sample (Mugenda & Mugenda, 2008). A pre-test of the questionnaire was carried out prior to the actual data collection. The developed questionnaire was checked for its validity and reliability through pilot testing.

Reliability test measures the internal consistency of the questionnaire. Mugenda and Mugenda (2003) defined reliability as a measure of the degree to which a research instrument yields consistent results or data after repeated trials. An instrument is reliable when it can measure a variable accurately and obtain the same results over a period of time. A pre-test helped the researcher identify the most likely source of errors and hence modify the questionnaire before the actual study. Reliability test also helped establish the internal consistency of the instrument. Reliability was calculated with the help of Statistical Package for Social Sciences (SPSS). Cronbach's alpha was used whereby a coefficient of above 0.7 implied that the instruments were sufficiently reliable for the measurement. The objectives of pre-testing was to allow for modification of various questions in order to rephrase, clarify and or clear up any shortcomings in the questionnaires before administering them to the actual respondents. It helped the researcher to correct inconsistencies arising from the instruments, which ensured that they measure what was intended.

Validity involve how accurately the data obtained represents the variables of the study while reliability refers to the degree to which a research instrument yields consistent results or data after repeated trials to establish its reliability (Saunders, Lewis & Thornhill, 2003). The term validity indicates the degree to which an instrument measures the construct under investigation. For a data collection instrument to be considered valid, the content selected and included must be relevant to the need or gap established. Validity of the questionnaire was established by the research and supervisor reviewing the items. Before the actual study, the instruments were discussed with supervisors. The feedback from the supervisors and the experts helped in modifying the instruments. This ensured that the questionnaire collects reliable information and also improves the response rate.

3.5 Data Analysis

According to Mugenda (2008), data analysis is the process of bringing order, structure and meaning to the mass of information collected. The data collected by the questionnaire was edited, coded, entered into Statistical Package for Social Sciences (SPSS) which also aided in the data analysis. This study was expected to generate qualitative and quantitative data. The quantitative data analyzed using descriptive and inferential statistics. The qualitative data was generated from the open ended questions and was categorized in themes in accordance with research objectives and reported in narrative form along with quantitative presentation.

Both descriptive and inferential statistics were adopted for the study. The quantitative data was analyzed by using descriptive statistics which included frequency distribution

tables and measures of central tendency (the mean), measures of variability (standard deviation) and measures of relative frequencies. The inferential statistics included a regression model which established the relationship between variables. Data was presented using tables, charts and graphs. The model took the following form:

$$Y = \beta_0 + \beta_1 \chi_1 + \beta_2 \chi_2 + \beta_3 \chi_3 + \epsilon$$

Where: Y = Quality of Accounting information

χ_1 = Comparability

χ_2 = Uniformity

χ_3 = Transparency

β_0 = the constant

β_1 - β_3 = the regression coefficient or change included in Y by each χ_i

ϵ = error term

The independent variable is the adoption of IFRSs which was measured by transparency, uniformity and comparability of financial statements. The dependent variable is the quality of accounting information which was measured by timeliness, relevance and understandability.

Table 3.1 Operationalization of Research Variables

Independent Variable	Indicators
Adoption of IFRSs	<ul style="list-style-type: none">• Uniformity• Comparability• Transparency
Dependent Variable	
Quality of Accounting information	<ul style="list-style-type: none">• Timeliness• Relevance• Understandability• Reliability

The data was also tested for multi-collinearity and autocorrelation. To check for multi-collinearity, the study obtained a correlation matrix between all independent variables. The test for multi-collinearity is significant for the fact that, it gives abnormal R-Squared value along with spurious regression coefficient value with large standard error estimates. This test could be the first step in detecting a solution for improving the regression model for variables which are highly correlated.

The significance of the variables in the regression model was measured or determined by the p value; whereby, if the p value of the variable is 0.05 (5%) and below while the variable was deemed insignificant where the p value co-efficient of the variable is above 0.05. The beta explained whether the relationship between the dependent and the independent variable was high or low, positive or negative; this was revealed by the value of the beta co-efficient. The study conducted F- test to establish the significance of the independent variables while ANOVA was conducted to test the appropriateness of the model as whole.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the results and findings as analyzed from the data collected. The main objective of this study was to investigate the effect of adoption of International Financial Reporting Standards on the quality of accounting information of deposit taking SACCOS in Nairobi County. The responses were analyzed using both descriptive and inferential statistics and results were presented in tables, pie charts and bar graphs.

4.2 Response Rate

Table 4.1 Response Rate

Response Rate	Frequency	Percentage
Response Rate	29	85.3
None Response	5	14.7
Total	40	100.0

The study targeted 34 respondents from deposit taking SACCOS in Nairobi County whereby a total of 29 questionnaires were successfully filled in time for data analysis. This represented 85.3% of the total respondents. According to Mugenda and Mugenda (2003) a 50 percent response rate is adequate, 60 percent good and above 70 percent rated very well. The response rate of 85.3% was therefore considered appropriate to derive the inferences regarding the objectives of the research.

4.3 Demographic Information

The researcher found it important to establish the general information of the respondents since it forms the basis under which the study can rightfully access the relevant information. The general information presented respondents issues such as number of years worked and designation in the organization.

4.3.1 Duration of Operation

This section sought to determine the number of years the SACCO had been in operation.

The findings are presented in Figure 4.1 below.

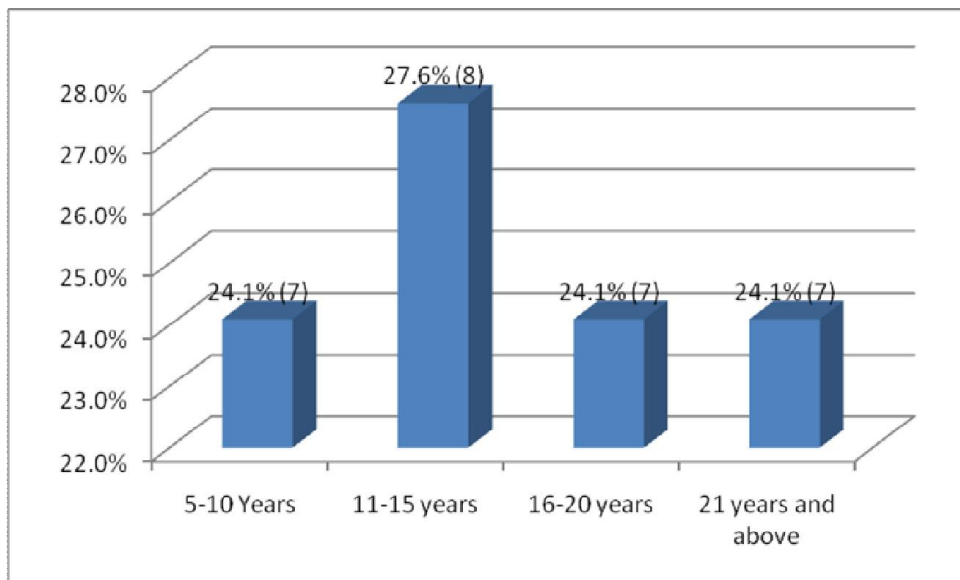


Figure 4.1: Duration of Operations

The study findings in Figure 4.1 show that 27.6% of the respondents indicated that their organizations had been in operation for 11-15 years. On the other hand, 24.1% of the respondents indicated that their organization had been in operation for 5-10 years, 16-20 years and 21 years and above respectively.

4.3.2 Designation of the Respondent

The respondents were asked to indicate their position or designation in their SACCO. The results are as presented in Table 4.2.

Table 4.2: Designation of the Respondent

Designation	Frequency	Percent
Accounting/Financial Officer	21	72.4
Operations	8	27.6
Total	29	100.0

The results shows that majority of the respondents (72.4%) who took part in the study were accounting and financial officers and managers in their respective SACCOs while 27.6% were in the general operations officers and managers in the SACCOs. The fact that majority of the respondents were in the accounting and Finance departments improves the reliability of the information given since majority of the respondents interacted regularly with IFRSs.

4.4 Adoption of IFRS

In this section the study sought to establish the reasons that prompted the organization to adopt IFRSs; the challenges they experienced in the adoption of IFRSs, how the adoption of IFRSs changed the presentation of the financial statements in the organization.

4.4.1 Whether the SACCOs Have Adopted IFRS

Table 4.3: Whether the SACCOs Have Adopted IFRSs

Responses	Frequency	Percent
Yes	29	100.0
No	0	0
Total	29	100.0

Results in Table 4.3 above shows that all the respondents 29 (100%) agreed that their organizations had adopted the International Financial Reporting Standards.

4.4.2 Reasons the Organization Adopt IFRSs

Table 4.4 Reasons the Organization Adopt IFRSs

Reasons	Frequency	Percent
Financial reporting incentives	24	82.8
Requirement by the tax system	23	79.3
Policy regulation by SASRA	25	86.2
Need for market efficiency	25	86.2
Need for improved transparency	26	89.7
Need for quality accounting reports	24	82.8

The study findings in table 4.4 above show that the need to improve transparency was a major reason that prompted the SACCOs to adopt the IFRSs as revealed by 89.7% of the respondents. Further, 86.2% of the respondents indicated that policy regulation by SASRA and need for market efficiency, respectively prompted their SACCOs to adopt the IFRSs; 82.8% also cited financial reporting incentives and need for quality accounting reports, respectively while 79.3% revealed that requirement by the tax system prompted their SACCOs to adopt the IFRSs.

4.4.3 Challenges in the Adoption of IFRSs

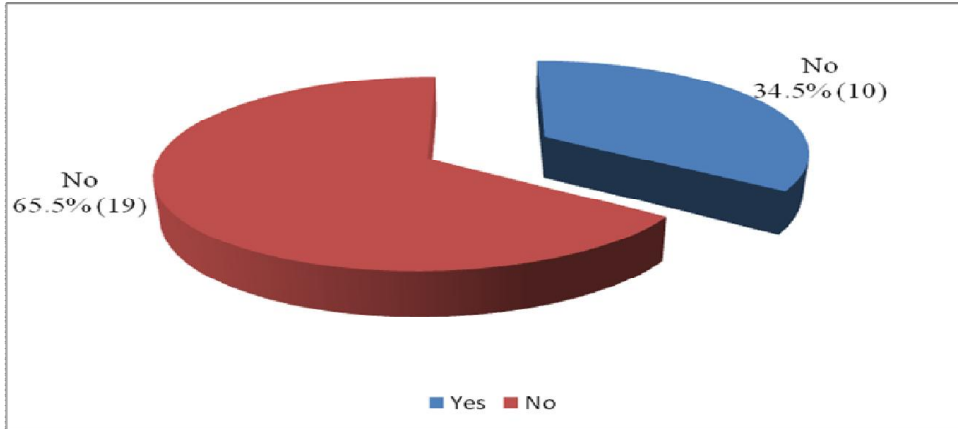


Figure 4.2: Challenges in the Adoption of IFRSs

The study results in Figure 4.2 shows that majority of the respondents (65.5%) indicated that their SACCOs did not experience challenges in the adoption of IFRSs. However, 34.5% of the respondents reported that their SACCOs experienced challenges in the adoption of IFRSs.

The respondents further stated the challenges their SACCOs experienced in the adoption of IFRSs which included lack of competent staff, use of ERP which are not compliant with IFRSs, insufficient resources, lack of proper guidance in the implementation of IFRSs, lack of top management support, reluctance and lack of knowledge from employees, ignorance towards IFRSs, problem of changeover from ministry of co-operatives to supervision from SASRA and formulation of reports in ERP.

4.4.4 Adoption of IFRSs in the SACCOs

Table 4.5: Adoption of IFRSs in the SACCOs

Statements	Mean	Std. Deviation
The financial statements of the SACCOs are comparable with those of other institutions that have IFRSs	4.10	.409
The SACCOs are transparent and honest in disclosure and presentation of financial statements	4.48	.574
The presentation of accounting information is uniform with other institutions	4.17	.468

Majority of the respondents revealed that their organization was transparent and honest in disclosure and presentation of financial statements after the adoption of IFRSs and that the presentation of accounting information was uniform with other institutions which had adopted IFRSs; this is shown by a mean score of 4.48 and 4.17 respectively. The respondents further agreed that the financial statements of the SACCOs were comparable with those of other institutions that have adopted IFRSs; this is shown by a mean score 4.10 on the likert scale.

4.5 IFRSs and Accounting Information

In this section, the study sought to establish the respondents' level of agreement on the various statements on the effect of adoption of International Financial Reporting Standards on the quality of accounting information of deposit taking SACCOs. The findings are presented below.

4.5.1 Adoption of IFRSs and Accounting Information

Table 4.6: Adoption of IFRSs and Accounting Information

	Mean	Std. Deviation
The adoption of IFRSs in our organization has improved the timely preparation of financial statements and related disclosures.	4.28	.591
The adoption of IFRSs in our organization has improved the timely presentation of financial statements and related disclosures.	3.90	.489
The adoption of IFRSs in our organization has improved the reliability of the information provided in the financial statements and related disclosures	4.04	.429
The adoption of IFRSs in our organization has improved the understandability of the information provided in the financial statements and related disclosures	4.03	.566
The adoption of IFRSs in our organization has improved the relevance of accounting information provided in the financial statements and related disclosures.	4.17	.468

The study shows that majority of the respondents agreed that adoption of IFRSs in the SACCOs had improved the timely preparation of financial statements and related disclosures and had also improved the relevance of accounting information provided in the financial statements and related disclosures; this is shown by mean scored of 4.28 and 4.17 respectively. The respondents also agreed that the adoption of IFRSs in the SACCOs had improved the reliability of the information provided in the financial statements and related disclosures; improved the understandability of the information provided in the financial statements and related disclosures; and also improved the timely preparation and presentation of financial statements and related disclosures; this is shown by mean scores of 4.04, 4.03 and 3.90 respectively.

4.5.2 Other Benefits of Adoption of IFRSs

The study further sought to establish the other benefits derived from the adoption of IFRSs. The respondents revealed that they included efficiency in service delivery, maintaining standards, fast decision making because all information required is readily available, ease in benchmarking, good reports/improved quality, high data integrity, innovativeness, increased deposits/ savings from the public, uniformity in presentation of financial statements. Other benefits includes meeting the standards of SASRA, Accurate and timely reporting decisions, reliability to the external stakeholders, and also acts as an indicator to ascertain the position of Sacco.

4.5.3 Extent Adoption of IFRSs Improved Quality of the Accounting Information

In this section the study sought to establish the extent to which the adoption of IFRSs has improved the quality of the accounting information in SACCOs. The findings are presented in Figure 4.3 below.

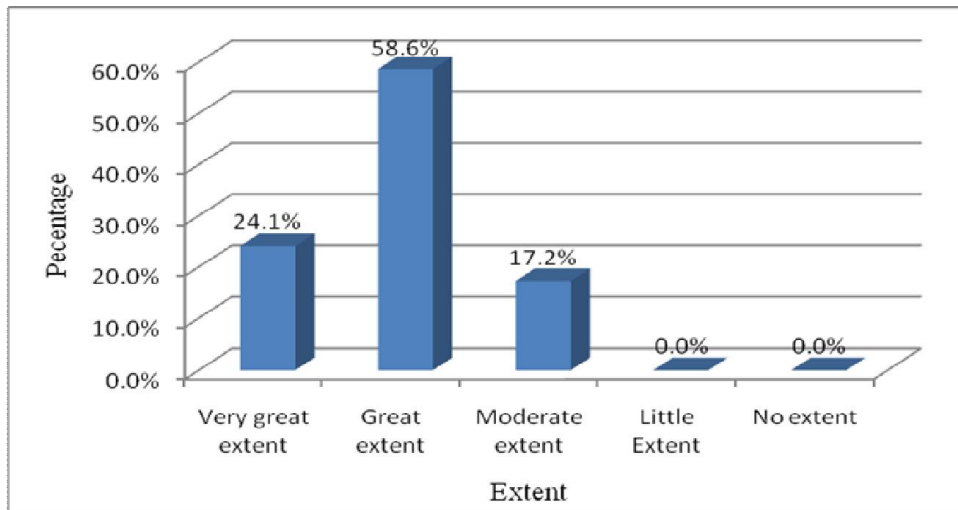


Figure 4.3: Extent Adoption of IFRSs Improved Quality of the Accounting Information

Results in Figure 4.2 above shows that majority of the respondents (58.6%) reported that the adoption of IFRSs improved quality of the accounting information to a great extent while 24.1% revealed to a very great extent. However, 17.2% indicated that the adoption of IFRSs improved quality of the accounting information to a moderate extent.

4.6 Regression Analysis

A regression analysis was conducted to establish the form of relationship between the adoption of International Financial Reporting Standards and the quality of accounting information of deposit taking SACCOS in Nairobi County. The results are presented below.

Table 4.7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.852(a)	0.725	0.695	0.08791

a Predictors: (Constant), Uniformity, Comparability, Transparency

The R² is called the coefficient of determination and tells us how adoption of IFRSs in deposit taking SACCOs varied with the quality of accounting information (Uniformity, Comparability and Transparency). The results show that the value of adjusted R² is 0.695. This implies that, there was a variation of 69.5% between adoption of IFRSs and quality of accounting information. This means that, uniformity, comparability and transparency explained 69.5% of quality of accounting information in the deposit taking SACCOs, at a confidence level of 95%.

Table 4.8 ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.387	3	.462	1.375	0.003
	Residual	8.406	25	.336		
	Total	9.793	28			

a Predictors: (Constant), Uniformity, Comparability, Transparency

b Dependent Variable: Quality of Accounting Information

The study used ANOVA to establish the significance of the regression model from which an f-significance value of $p=0.003$ was established. This shows that the regression model has a 0.3% likelihood or probability of giving a wrong prediction. This therefore means that the regression model has a confidence level of over 95% hence high reliability of the results.

Table 4.9 Coefficients Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.918	1.570		1.859	0.075
	Uniformity	0.306	.277	0.212	1.105	0.029
	Comparability	0.297	.197	0.288	1.506	0.045
	Transparency	0.308	.236	0.244	1.307	0.003

a Dependent Variable: Quality of Accounting Information

The study shows that there was a positive association between adoption of IFRSs and all the three study variables as shown: uniformity (0.306), comparability (0.297), and

transparency (0.308). From the regression model, the following regression equation was established:

$$Y = 2.918 + 0.306X_1 + 0.297X_2 + 0.308X_3$$

The study further established that there is a significant relationship between adoption of IFRSs in the SACCOs and all the three variables as shown by the p values: uniformity $p=0.029<0.05$), comparability ($p=0.045<0.05$), transparency ($p=0.003<0.05$).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings, conclusions, limitations of the study, recommendations and suggestions for further research.

5.2 Summary of the Findings

The study found out that all the sampled deposit taking SACCOS in Nairobi County had adopted the International Financial Reporting Standards. Majority of the respondents revealed that they had adopted IFRSs so as to improve transparency, due to policy regulation by SASRA, need for market efficiency, financial reporting incentives, need for quality accounting reports, and due to requirement by the tax system, in that order.

However, a number of the respondents revealed that their SACCOs experienced challenges in the adoption of IFRSs. Some of the challenges highlighted includes lack of competent staff, use of ERP which do not conform to IFRSs , insufficient resources , lack of proper guidance on implementation of IFRSs , lack of support from top management , reluctance and lack of knowledge on the part of employees , problem of changeover from ministry of co-operatives to supervision by SASRA and formulation of reports in ERP.

The study found out that as a result of adoption of IFRSs, majority of the SACCOs were transparent and honest in disclosure and presentation of financial statements and that the presentation of accounting information was uniform with other institutions which had

adopted IFRSs. Moreover, the financial statements of the SACCOs were comparable with those of other institutions that have adopted IFRSs.

Majority of the respondents agreed that adoption of IFRSs in the SACCOs had improved the timely preparation and presentation of financial statements and related disclosures and has also improved the relevance of accounting information provided in the financial statements and related disclosures. The respondents also agreed that the adoption of IFRSs in the SACCOs has improved the reliability of the information provided in the financial statements and related disclosures; it has also improved the understandability of the information provided in the financial statements and related disclosures. On overall, majority of the respondents agreed that the adoption of IFRSs improved quality of the accounting information to a great extent.

The study also established that there were other benefits achieved by the deposit taking SACCOs as a result of adoption of IFRSs such as fast decision making because all information required is readily available, ease in benchmarking, high data integrity, innovativeness, increased deposits/ savings from the public, accurate and timely reporting decisions and reliability to the external stakeholders.

5.3 Conclusions

The study concludes that majority of the deposit taking SACCOS in Nairobi County had adopted the International Financial Reporting Standards. This was prompted by the need to improve transparency in the presentation of the financial statements, need for market efficiency, to tap the financial reporting incentives, need for quality accounting reports, and need to meet the policy regulations by SASRA and tax requirements.

The study also concludes that SACCOs experienced challenges in the adoption of IFRSs. They included lack of competent staff, use of ERP which do not conform to IFRSs, insufficient resources, lack of proper guidance in implementation of IFRSs, lack of support from top management, reluctance and lack of knowledge on the part of employees, ignorance towards IFRSs, problem of changeover from Ministry of cooperatives to supervision from SASRA and formulation of reports in ERP.

The study found out that as a result of adoption of IFRSs, majority of the SACCOs were transparent and honest in disclosure and presentation of financial statements and that the presentation of accounting information was uniform with other institutions which had adopted IFRSs. Moreover, the financial statements of the SACCOs were comparable with those of other institutions that have adopted IFRSs.

It can also be concluded that adoption of IFRSs in the SACCOs had improved the timely preparation and presentation of financial statements and related disclosures, it had improved the relevance of accounting information provided in the financial statements and related disclosures, it had also improved the reliability of the information provided in the financial statements and related disclosures; improved the understandability of the information provided in the financial statements and related disclosures. The adoption of IFRSs by the deposit taking SACCOs as a result of adoption of IFRSs has other benefits such as fast decision making because all information required is readily available, ease in benchmarking, high data integrity, increased deposits and savings from the public and increased trust and confidence from the external stakeholders.

5.4 Recommendations

The study recommends that IFRSs should be fully complied with and more accounting standards that can improve business performance should be adopted. The business practices and procedures should be reviewed continuously with the aim to ensure that all the laid down IFRSs are adhered to and followed.

Relevant institutions such as SASRA and other regulatory bodies should expedite actions towards ensuring that all SACCOs adopt the IFRSs. This will also bring up Kenya to the global practice where countries are converging to the International Financial Reporting Standards, which is known to be richer and wider in scope and coverage thus ensuring quality accounting information.

Due to experienced challenges such as lack of competent staff, lack of top management support and ignorance from employees; there is need for the SACCOs to ensure that they employ competent staff who can ensure efficiency in the adoption and implementation of IFRSs. There is also need for increased training so that both the management and the general employees understand the importance of adoption of IFRSs to SACCOs.

5.5 Limitations

The researcher experienced some challenges that could have limited the achievement of the study objectives. One of the limitations was lack of cooperation from the respondents in terms of availing the information in time, some never responded. Some of the SACCOs were unwilling to give information. However, the researcher overcomes this

challenge by informing the management of the SACCOs on the actual purpose of the study.

On other cases, the employees feared to give information about their organization since some were not allowed to give information while others would not want to be associated with any repercussions of giving such information because they may be victimized by Management. In order to ensure that such occurrences were not experienced, all identities of each respondent were concealed. This entailed using questionnaires that was not prompt the disclosure of lots of one's identity. The researcher also assured the respondents and the SACCOs management at large that the information would be used for academic purposes only.

5.6 Suggestion for Further Research

The results presented show the effect of adoption of International Financial Reporting Standards on the quality of accounting information of deposit taking SACCOS in Nairobi County. The researcher suggests that it is relevant to analyze the adoption of the IFRSs in a wider sample, incorporating other institutional and organizational characteristics of the firms related to each specific economic environment, as well as macroeconomic effects that interfere in the behavior of the earnings reported by the firms. It is recommended, additionally, that other characteristics related to accounting information be evaluated in future studies, and also try to control the effects of other variables that may interfere in the information quality such as firm's economic environment, the main capital sources, capital market maturity etc.

The researcher also recommends that a replica study be conducted on other financial institutions such as the MFIs and the commercial banks to ascertain effect of adoption of International Financial Reporting Standards on the quality of accounting information of deposit taking SACCOS in Nairobi County. This would give a more conclusive answer on the adoption of IFRSs.

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APPENDICES

Appendix I: Questionnaire

This questionnaire seeks to collect data on Deposit Taking SACCOs in Nairobi County that shall assist in the study seeks of the relationship between the adoption of International Financial Reporting Standards and the quality of accounting information for SACCOs in Nairobi County. Your cooperation in responding to the questions and feedback is valued and highly appreciated.

Section A: Demographic Information

1. Name of the institution: _____
2. How many years has this institution been in operation in Kenya? _____ Years
3. Name of the respondent: _____
4. Designation of the respondent: _____

Section B: Adoption of IFRSs

Please tick appropriately or write down your answer in the space provided

1. Has your organization adopted IFRS? Yes () No ()
2. If answer to (1) above is yes, what prompted your organization to adopt IFRSs?

Reasons	Yes	No
i). Financial Reporting Incentives	()	()
ii). Requirement by the tax system	()	()

- iii). Policy regulation by SASRA () ()
- iv). Need for market efficiency () ()
- v). Need for improved transparency () ()
- vi). Need for quality accounting reports () ()
- vii). Others (Please specify).....

3. (a) Did your organization experience any challenges in the adoption of IFRSs?

Yes () No ()

(b). If yes, Specify

- (i)
- (ii).....
- (iii).....

4. To what extent do you agree with the following statements on adoption of IFRSs in your organization. Use a scale of 1 to 5 where 1 is strongly disagree, 2 is disagree, 3 is Neutral, 4 is agree and 5 is Strongly agree

Statements on Adoption	1	2	3	4	5
Our organization's financial statements are comparable with those of other institutions that have adopted IFRSs					
Our organization is transparent and honest in disclosure and presentation of financial statements					
The presentation of our accounting information is uniform with those of other institutions that have adopted IFRSs					

Section C: IFRS and Accounting Information

1. To what extent do you agree with the following statements on adoption of IFRS and the accounting in your organization? Use a scale of 1 to 5 where 1 is strongly disagree, 2 is disagree, 3 is Neutral, 4 is agree and 5 is Strongly agree

IFRS and Accounting Information	1	2	3	4	5
The adoption of IFRSs in our organization has improved the timely preparation of financial statements and related disclosures.					
The adoption of IFRSs in our organization has improved the timely presentation of financial statements and related disclosures.					
The adoption of IFRSs in our organization has improved the reliability of the information provided in the financial statements and related disclosures					
The adoption of IFRSs in our organization has improved the understandability of the information provided in the financial statements and related disclosures					
The adoption of IFRSs in our organization has improved the relevance of accounting information provided in the financial statements and related disclosures.					

- b). What other benefits has your organization achieved as a result of adoption of IFRSs?

- (i).....
- (ii).....
- (iii).....

2. On overall, to what extent has the adoption of IFRSs improved the quality of the accounting information in your organization?

- To a very great extent () To a great extent ()
- To a moderate extent () To a little extent ()
- To no extent ()

THANK YOU FOR PARTICIPATION

Appendix II: List of Deposit Taking SACCOs in Nairobi County

1. AFYA SACCO
2. AIRPORTS SACCO
3. ASILI SACCO
4. CHAI SACCO
5. CHUNA SACCO
6. COMOCO SACCO
7. FUNDILIMA SACCO
8. HARAMBEE SACCO
9. HAZINA SACCO
10. JAMII SACCO
11. KENPIPE SACCO
12. KENVERSITY SACCO
13. KENYA BANKERS SACCO
14. KENYA POLICE SACCO
15. KINGDOM SACCO
16. MAGEREZA SACCO
17. MAISHA BORA SACCO
18. MWALIMU NATIONAL SACCO
19. MWITO SACCO
20. NACICO SACCO
21. NAFKA SACCO
22. NAKU SACCO 23. NASEFU SACCO

24. NATION STAFF SACCO
25. ORTHODOX SACCO
26. SAFARICOM SACCO
27. SHERIA SACCO
28. STIMA SACCO
29. TEMBO SACCO
30. UKULIMA SACCO
31. UNITED NATIONS SACCO
32. WANAANGA SACCO
33. WANANDEGE SACCO
34. WAUMINI SACCO