THERELATIONSHIP BETWEEN INTERNATIONAL FINANCIAL REPORTING STANDARDS AND QUALITY OF FINANCIAL REPORTING OF LISTED COMPANIES IN KENYA

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DECLARATION

This research project is my original work and has not been presented for a degree award in any other 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

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LIST OF ABBREVIATIONS

BVS	Book Value per Share
CEOs	Chief Executive Officers
CMA	Capital Markets Authority
EC	European Commission
ED	Exposure Draft
EU	European Union
EPS	Earnings Per Share
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
ICPAK	Institute of Certified Public Accountants of Kenya
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
KAS	Kenya Accounting Standards
QFR	Quality of financial reporting
NSE	Nairobi Securities Exchange
SAPs	Structural Adjustments Programs
SMEs	Small and Medium Enterprises
ROSC	Reports on Observance of Standards and Codes
UNCTAD	United Nations Conference on Trade and Development

ABSTRACT

Investors rely on information supplied through annual financial reports for their investments and other decision-making needs. Quality financial reports create efficiency in the allocation of resources in the capital market. This study examined the quality of financial reporting practices by companies listed at Nairobi Securities Exchange following the adoption of IFRS. It assessed their implementation, amendments, revisions, improvements and adoption of new IFRS. It also examined the impact of factors internal to the business environment including company size, leverage, return on equity and liquidity on the quality of financial reporting of listed companies in the Nairobi Securities Exchange. Data was obtained for 60 firms listed in the Nairobi Securities Exchange for five years from secondary data sources, which included NSE handbook and companies' websites. It was analyzed using mean scores, standard deviation, correlation matrix and analysis of variance. The results of the study indicate the quality of financial reporting mean for the period was 3.81611confirming a marginal improvement in the quality of financial reporting compared to 2011 mean (3.7546). This confirms that adoption of new IFRS, amendments; revisions and improvements do improve the quality of financial reporting though the improvement was not significant.

Keywords: Quality of financial reporting. Economic decisions, International Financial Reporting Standards.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Financial reports contain information needed by investors and other users to enable them make informed economic decisions. Quality financial reports are vital for users who require them not only for investments but also for decisions of economic nature. The usefulness of financial reports are confirmed when they can embody the economic realities of the organization in terms of relevance, reliability, comparability and presented in a form that can be easily understood. (IASB, 2015). Efficient resources allocation could be achieved with help of qualitative financial reports, which ensure more disclosures of information that subsequently lead to reduction in prices of securities (Spice et al., 2001). Among the principal aims of financial reporting is the assistance it accords its users to predict the returns on their investment. The stock returns of an investor's investment in the securities market is affected by the financial information provided by management.

The bulk of literature in financial reporting lay emphasis on economic based models of disclosure by bringing to the fore financial reporting and aligning them to economic outcomes (Verrecia, 2001). The graving for quality financial reporting can be linked to information asymmetry where the CEOs are not only privy to higher quality but also higher quantity information about business than both the shareholders and debt holders. Agency theory problem thus arise where the management of listed companies is more privileged to access better information about their companies than the shareowners. Information asymmetry and agency conflict can adversely distort the optimal allocation of resources the capital markets.

Considering information asymmetry and the agency problem, it became absolutely necessary to put in place a financial reporting system that would require companies to report all material information, financial or otherwise concerning its financial performance.

Many jurisdictions developed local financial reporting systems that were mostly rule-based. In 1973, IASC was formed and it began releasing IAS in the same year. Following a successful restructuring in 2001, its successor, IASB, devoted its resources towards instituting single set of superior quality global accounting standards that could assure transparency as well as allow comparison in general purpose financial statements (IASB, 2015). These standards were to unify financial reporting on the international scene consequently increasing cross-border trade. These standards effectively came to be known as IFRS. A vast majority of countries either require or have permitted use of IFRS, while others, particularly big economies, have set timelines for their adoption.

Kenya has one securities exchange market namely, Nairobi Securities Exchange. All the companies in its listing are mandatorily required to use IFRS for their financial reports covering the period ended on 31 Dec 1999 and onwards. There is also a set of IFRS that have specifically been designed for the financial reporting by small and medium enterprises. IFRS, having been made mandatory for use in reporting by the listed companies, this study aims to establish whether there is evidence to suggest improvement in quality of financial reports.

1.1.1 International Financial Reporting Standards

IFRS are set of accounting standards with a high quality threshold and designed for ease of use in general purpose financial reporting. They are standards, interpretations and guidelines adopted by IASB. They are meant to encourage professional judgment and provide relief against bogging down with lengthy rules (Ahmed & Courtis, 2005). They were instituted courtesy of the initiatives advanced by the private sector and focused on harmonizing and internationalization of financial reporting resulting from increased regional economic integration and expansion of businesses on the global scene.

Successful implementation of IFRS would assure timely supply and transparency of information and consequently creating an effective flow of information among all the stakeholders (Bushman & Smith, 2001). These standards eliminate the need to prepare different versions of financial statements effectively providing reprieve to multinational organizations (Healy & Palepu, 2001).

Managers now days face a number of decisions to make regarding the information that will fulfill the needs of users. Where firms pursue different accounting policies, considerable differences may result when firms follow such different policies that may cause outstanding differences in financial reports among similar firms in the industry. The design of the accounting standards is such that they can facilitate objective preparation and presentation of financial reports. Towards this end, players in accounting field are encouraged to apply these standards for general-purpose financial statements besides other financial reporting. Accounting regulatory bodies have to publish and promote their use.

IFRS is premised on the Conceptual Framework that sets the basis for their formulation, application and the generation of a guide, that would allow for the use of judgment in order to reduce accounting differences. The ultimate objective of IFRS is to facilitate consistency in the treatment of events and of accounting methods over time (IASB, 2014).

IFRS have been adopted for financial reporting in Kenya and all listed companies in the NSE report under it.

1.1.2 Quality of Financial Reporting

Accounting quality is derived from IASB framework where attributes such as relevance, reliability, understandability and comparability (IASB)are the principal elements. The board creates an impression financial statements with these attributes can justifiably be considered to be of good quality.

Accounting quality according to Chen et al., (2010), is extent to which financial statements depicts actual economic situation that is prevailing. It is imperative that financial reporting should essentially supply high quality financial reports about economic entities that would reveal more information and be of prime benefit to decision makers (FASB, 2014: IASB, 2015). The quality thresholds of financial reporting will have a bearing on investors and other players in their investment, lending or other considerations for resource allocations. Ultimately, this will create an impact on the overall market efficiency (FASB, 2014: IASB, 2015).

Usefulness of accounting information depends on the prevailing needs at a specified time and how it can be used to solve the particular problems. To fulfill this, it must be reported within the confines of inherent qualities. The application of objective and qualitative characteristics

often lead to improved financial reporting process with enhanced significance to create an impact in decision-making (IASB, 2015). Measuring the quality and usefulness of accounting information is important because apart from enhancing the quality of economic decisions making for users, they also enhance the overall market efficiency. The QFR is measured effectively by taking the scores of fundamental as well as of enhancing qualitative characteristics, which together form the basis of decision usefulness as defined in Exposure Draft (IASB, 2015). ED identifies fundamental qualitative characteristics as relevance and faithful representation. These essentially determine what should be included in financial reports while enhancing qualitative characteristics improve decision usefulness. Company size, leverage, liquidity and profitability also influence the QFRs of firms.

1.1.3 International Financial Reporting Standards and the Quality of Financial Reporting

Several theories explain the relationship between adoption of IFRS and their effects on financial reports. They attempt to highlight the objectives of the firm and how firms should fulfill their obligations. This study looks at the main theories that have influenced the evolution of the quality of financial reporting together with players that affect such reporting of listed companies, in this case, IFRS. Using the public interest theory, Watts & Zimmerman(1979) concur with the need for regulation to cushion the public against the effects of the capital market failure. Such regulations aim at resolving capital market inefficiencies and in the process help to solve the crisis. The theory allude that the accounting profession is motivated by the desire to dominate the standard setting process so as to provide assurance that their input is substantially incorporated more than those of other key

players since it is required to generate and provide audit assurance of future general purpose financial reports (Peltzman,1976).

The justification for exerting control over not only the reporting and auditing but also assurance requirements is informed more by the need to ensure that they retain most features of the existing financial reporting practice. The heightened calls for harmonization of financial reporting aim at protecting the concerns of the investing public. This is achieved by boosting the reliability of capital markets, lowering the capital cost of domestic firms with international listing and offloading the costs of national standard setting. This has been achieved by the formulation of IFRS, the implementation of which has resulted in tremendous quality improvements in financial reporting, improvement in efficiency of the listed firms in the securities exchange, greater transparency of results and understandability, lowered costs of capital to the companies, higher share prices and increased investor confidence due to better information quality.

Various studies have indicated that for organizations to achieve quality financial reporting and overall organizational efficiency there is not only the need to have a reliable system of financial reporting in place but also effective implementation. Quality of financial reporting relies on effective decision-making mechanisms guided by relevance, timeliness, completeness and comparability of financial information.

The concept of QFR is actualized through implementation of IFRS (Barth et al., 2008). This places greater responsibility on the companies to adopt these standards and ensure compliance with regulation and legislation. Compliance level will determine the volume of investments and the level of risk preference by both individuals as well as institutional

investors. In Kenya where IFRS has been adopted as a system of financial reporting, strong corporate governance is enforced. Quality financial reporting resulting from this adoption imposes discipline on firm managers to maximize returns to the firms. High benchmarks set for listed firms in the Nairobi Securities Exchange make them less susceptible to political pressures in comparison to when local standards were in use; they benefit from continued local implementation, alignment with the local circumstances and the propensity of raising the accounting standards to the optimum levels (UNCTAD, 2006). In addition, there is enhanced ease to secure cross-border listing and comparison of financial data across the national borders become much easier so that access to new investment opportunities encourage more capital accumulation and flows (UNCTAD, 2006). With this adoption, local markets have more confidence to woo foreign investors, seek merger partners besides attracting potential financial credit.

1.1.4 Listed Companies in Kenya

Listed companies in Kenya have their securities traded at the NSE. Begun in 1954, NSE comprises of 64 companies (As at 31st April, 2016). The vast majority of these companies open their doors to additional foreign investment, including but not limited to multinational subsidiaries. In a significant change of policy and consistent with a landmark decision made in 1998, ICPAK adopted IAS for use for financial reporting in Kenya. Consequent to this decision, all listed companies without exception, were mandatorily required to adopt IAS for use in financial reporting effective 1st January 1999.

The need for IFRS in Kenya was motivated by the increased interest in capital markets and the increased interest in companies' financial statements (ROSC, 2001). Considering this development, NSE was entrusted to develop and regulate operations of the market to ensure efficient trading. Listed companies have benchmarks that require them to be financially strong to ensure economic growth of a country. Several investors in Kenya acting on this signal developed strong faith on the listed Companies to generate favorable and predictable returns on their investments. As providers of risk capital, they are mostly in constant need of timely and reliable information from financial reports, given that they cannot usually access them directly due to information asymmetry. Such a financial reporting system, which meets the needs of these investors, could be reasonably expected to satisfy other users because of universality of needs (IASB, 2015).

NSE listed companies are drawn from different sectors of the economy and are categorized according to industry base. These include agricultural and manufacturing industries, investment, services, Telecommunications, financial and allied among others. In total there were 64 companies listed at NSE as at 30th April, 2016, (Appendix 1). Firms seek listing for varied reasons but mainly motivated by their desire to raise more capital for expansion, improve the level of governance of the company and acquire entry into a new market segment (Hope& Kang, 2009).

Prior to 1999, the accounting system in use was KAS designated as GAAP. This system was largely incorporated from IAS and ISA and aligned to fit in the Kenyan environment. The decision to fully shift to IFRS was triggered by the difficult economic scenarios into which the country had plunged in which there were conspicuous bank failures among others. By then, audited financial reports did not reflect the economic reality neither were early warning

signs evident since most of the audited banks went under immediately after the audits (ROSC, 2001). This, coupled with the privatization of public corporations following the SAPs (common in early 1990s) injected a greater urgency to have in place a financial reporting system that could be relied on to faithfully portray the true economic position of the organizations and stir a vibrant securities market. By technical release No. 4of the council of ICPAK, Kenya adopted IAS (now IFRS) as the financial reporting standards in Kenya and effectively making it mandatory that all companies in NSE use IFRS for their financial reporting.

Considering the underlying concern for QFR of listed companies at NSE, the multiplier effect such reporting should impact on the country's economic activity, financial strength of companies and corporate governance, this project will consider the financial reporting system adopted. It will also consider the various forms that it takes in NSE listed companies and how adoption of IFRS can be a key determinant in quality financial reporting.

1.2 Research Problem

The IAS requires an objective assessment of the impacts of IFRS adoption and implementation in particular countries. This adoption calls for an exhaustive study to understand and fully appreciate the resulting benefits or otherwise to the economy in terms of the financial reporting quality. In view of this, significant debate among various stakeholders and interest groups has raged from the time IASB came into existence and begun an aggressive promulgation of IFRS. Supporters base their arguments on the expected improvement in financial reporting quality where investors are the direct beneficiaries (Daske et al., 2008). Opponents justify their arguments by asserting that uniform set of accounting standards may not effectively fit different environments and cannot command

general improvements to the earnings quality because of the uniqueness that is inherent in different countries (Soderstrom & Sun, 2007).

The extensive disclosure requirements impose on listed firms significant marginal costs in comparison with their non-listed peers, which have leeways in respect of the use of IFRS thus creating a competitive edge over NSE firms. IFRS has an international dimension which does not align it to economic or political settings of any particular country (Chuna & Taylor, 2008) so the calls for analysis of IFRS implementation on a per country study is welcome (Nobes, 2006). Consistent with this, a great number of research works has revealed existence of actors that dictate the level of the QFR in an organization, IFRS and its implementation being one of them (OECD, policy framework for investment, 2015).

Evidently, empirical studies conducted by different researchers show mixed results on the success or the contrary of the various jurisdictions adopting IFRS. In their study on Investigation of Adopting IFRS, evidence from Morocco, Omar et al., (2014) found favor in the choice of adoption of IFRS. Studies done by Barth et al., (2008) led them to conclude that firms, which adopted IFRS voluntarily, had less earnings management. Further, they found out that these firms could more timely recognize loss and had greater value relevance of accounting income. A study done by Outa (2011) on impact of IFRS adoption on accounting quality of listed companies in Kenya, led him to conclude that there was no significant improvement in accounting quality contrary to IFRS expectations.

Many studies have focused on voluntary or mandatory adoption, evolution and the success in implementation of IFRS. More studies on the benefits and challenges inherent in them have been carried out but over-rally, documentation on association of IFRS and the quality of

financial reporting is still very scanty. Further limitation of prior empirical studies on the local scene is the fact that these studies have solely focused on comparing periods immediately preceding and succeeding adoption of IFRS. For Kenyan context these researches are no longer in synch with the situation obtaining considering that it is more than a decade since Kenya adopted IFRS and since then many IFRS policy changes have come to the fore and no study so far has focused on them effectively making this study the first in respect of these circumstances. Owing to the inconclusive evidence of prior literature findings, this study seeks to establish relationship that subsists between IFRS implementation and policy changes on QFR of listed companies. In particular, the research seeks to study the interpretations of IFRS, their continuous amendments, revisions, improvements and the levels of knowledge and skills ingrained in the preparers, auditors and regulators that on the aggregate determine the contribution of IFRS to the quality of QFR in the country.

This study is tailored at answering the following research question;

Is there any significant relationship between adoption of IFRS and the quality of financial reporting of listed companies in Kenya?

1.3 Research Objective

To determine the relationship between adoption of IFRS and QFR of NSE listed companies.

1.4 Value of the study

This study contributes to literature by examining whether quality of financial reporting has had an improvement with the mandatory adoption of IFRS in Kenya. It relies on the latest contributions in global as well as local literature and extends such literature. In particular, the study will help in the construction of an exhaustive measurement system to determine the

QFR based on qualitative characteristics in fulfillment of the request by IASB in the 2015 exposure draft. Consequently, it will update prior research on qualitative characteristics such as the one done by Jonas and Blanchet (2000). It will also provide references for researchers with interest in conceptual frameworks and international financial reporting standards for quality financial reporting by companies in Kenya as they conduct studies and research on other related topics. The findings will enable the accounting standards regulation and implementation body in Kenya, professionals in the accounting fields, firms and researchers to ensure preparation, production and reporting of accurate and reliable financial reports. It will help managers and accountants to come up with consistent accounting policies that are reliable for adoption by the industry.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the theories relevant to the study area, determinants of the quality of financial reporting and several studies on the adoption of IFRS around the globe and locally.

2.2 Theoretical Review

A large body of theoretical literature exists viewing choice of accounting standard as important determinant of quality of financial reporting. These theories are significant steps towards the development of systematic framework for the emergence of IFRS. This section will describe the theories that help in enhancing the understanding of the choice of accounting standards.

2.2.1 Institutional Theory

Advanced by Irvine (1999),it asserts that various external and internal forces exert pressure on organizations and in reaction triggers processes that creates homogeneity in the long run. DiMaggio and Powell (1983) categorized them into three and refer to them as isomorphism namely; mimetic, coercive and normative. Under coercive isomorphism, forces acting in the external environment including regulation have great influence on institutional choice Irvine, (1999). Under mimetic isomorphism, organizations have a tendency to copy the behavior of their successful counterparts. Notably, organizations are more inclined to copy peers that are more powerful particularly when uncertainty is pervasive in the environment. An introduction of a new accounting standard creates an uncertainty especially during its implementation phase. This uncertainty is evident among companies and the regulatory

bodies. However, organizations that are more powerful will have the determination to effect the changes and in the process set in motion reactionary moves by its peers that are tempted to follow suit. In fact, these powerful organizations are the ones, which introduce changes within the institutional.

Uncertainty drives accounting practice towards standardization. In the context of the current study, jurisdictions across the world adopted IFRS, because of the established procedures of diligent due processes involved in the creation of accounting standards, which were superior to local GAAPs in most countries around the world. This can explain the motivation by Kenya to bond its financial reporting to IFRS, formulated by IASB considered in this context, as the powerful peer.

Normative isomorphism applies when individuals drawn from environments characterized by similar cultural settings and similar economic affiliations opt to work in a familiar environmental dispensation. Such settings gradually create a common understanding of normal behavior. Institutions that employ workers from a common labor market find themselves reeling from the inability to embrace new approaches to problem solving (DiMaggio and Powell, 1983).

Thus, these explanations help our understanding of accounting standards within different countries. These include the fact that listed companies in Kenya constitute a relatively smaller group and constantly face uncertainty when implementing accounting standards. Accordingly, firms and the accounting regulatory body will search for leaders or role models in this field from whom to copy. By a combination of factors IFRS gradually become the benchmark and more developed. The delay by some countries to adopt IFRS is explained

effectively through normative isomorphism. Subsequent issue of new financial reporting standards is guided by the need to improve the operational practices already in the market as is ably embedded in mimetic isomorphism.

2.2.2 Resource Based Theory

This theory was developed by Rummelt & Wernerfelt (1984) and advanced by Armit & Schoemaker (1993). It views the firm as a repository of resources that comprise of both physical and human capital. It is incumbent upon the manager to build up the resource capacity of the company and combine them in optimal proportions to derive the full benefits from them. This resource capacity of the company can be developed over a long time as it involves complex interaction of physical as well as human capital (Grant, 1991).

The theory contributes immensely to our wealth of accounting choices within organizations and by extension accounting standards within a country. By extrapolating the concept of the company to that of a national accounting standard setting or for the case of Kenya, standards regulatory body, we discover that the preparation of reporting standards depends on resource capacity of the country. It is a process that requires enormous resources to facilitate the development of accounting standards that are not only in harmony with those of other standard-setting bodies around the world but also guarantee quality of financial reports and win investor confidence. Huge investments consequently are needed in terms of human capacity development as well as financial resources. Considering the relative huge resource requirements this course will inevitably involve, ICPAK, as a member of IFAC finds it prudent and cost effective to jointly work with IASB to develop IFRS.

2.2.3 Agency Theory

Advanced by Fama& Jensen (1976), this theory acknowledges that managers, standing in a privileged position of being the custodians of the company's information and being privy to better information of the company, can be reasonably expected to disseminate it to the principal and other users. Contrary to the expectations of many, even though the company and its management choose accounting principles, the management out of intense self-interest manipulates the process so that they may fail to disclose important information to the owners and other users. This can only attest to the norm that people often make choices that are motivated by individual's ambition and geared to the fulfillment of their own needs.

The adoption of IFRS for financial reporting in Kenya eliminates the opportunities for making alternative judgments with respect to different situations and in the process avoids opportunistic tendencies by managers and directors thus ensuring reduction in information asymmetry.

2.3 Determinants of the Quality of Financial Reporting

Accounting quality can be explained as extent to which financial statement information provides all information and accurately about the underlying economic situation (IASB, 2015). The determinant of QFR is operationalization of qualitative characteristics. Others are leverage, size, liquidity and the profitability of the firms. These are explained as follows:

2.3.1 Operationalization of Qualitative Characteristics

The quality of financial reporting is determined by both fundamental and enhancing qualitative characteristics that basically, determine decision usefulness as presented in the Exposure Draft (IASB, 2015). Relevance and faithful representation constitute fundamental

characteristics. They essentially determine content of financial reporting information. Information is considered relevant if it can influence economic decision needs of users by way of making evaluations of the past, present or future events. Information is also relevant when it helps to either confirm, correct or reject past evaluations.

Financial reports can be considered as having predictive value where such reports enable users to base their future expectations on them (IASB,2015). Management makes predictions about their anticipations of the company's future possibilities using the predictive value of financial reports. Due to access of private information, management makes use of it to generate forecasts, which may not be accessible by other stakeholders (Bartov & Mohanran, 2004). Relevance of annual financial reports is further enhanced when they help to reveal information regarding the available business opportunities and risks faced. This is actualized when the financial information is complemented by non-financial information when making forecasts about business potentials and risks as it provides insights of future prospects of the company.

When information contained in annual reports provides retrospective feedback to the users about past transactions or events, their expectations either will be confirmed or changed (Blanchet, 2000). Information in annual reports is considered relevant when it has confirmatory value. This is achieved when financial reporting information can confirm or change past or present expectations that were derived from past evaluations (IASB, 2015). Blanchet further explains, the section of the annual reports that deals with management, decision, and analysis section generally provides information with confirmatory value.

The second qualitative characteristic according to the ED is faithful representation. If information in annual reports is to accurately represent economic situation it claims to reflect, it has to be complete, neutral and free from any significant errors (IASB, 2015). Maines & Wahan (2006) see the annual report as an important pre-requisite for considering the accounting information to be reliable and faithfully presented. Corporate governance increases the responsibility of accurate representation of accounting information. Enhancing qualitative characteristics equally improve decision usefulness of information in annual financial reports**.** They include understandability, comparability, timeliness and verifiability.

Users achieve understandability when information provided in financial statements can facilitate easier and better understanding. To realize this, it must be clear, precise and characterized. It is measured by considering items that values transparency and clarity of the information contained in annual reports (IASB, 2015). Information that is classified has a better and organized presentation in the annual report. Clear and well-organized annual report is usually in a format that can clearly indicate where to access particular information (Jonas & Blanchet, 2000). Comprehensive disclosure information with notes to balance sheet and income statement, may help to explain and provide insights of earnings figures (Berreta & Bozzolan, 2004).

Additionally, use of narrative explanations and existence of tabular and graphical presentations collectively increase the understandability of information by clearly showing the relationships and ensuring conciseness (IASB, 2015). Careful selection of simple words and sentences enhances clarity of content for easier understandability. However, when it is inevitable to include complex matters in the financial statements because of their significance

in economic decision, they should not be excluded on the premise that their level of difficulty may be too high to be understood by a certain section of users (IASB, 2015).

Comparability is inherent when users can distinguish similarities and differences between and among items (FASB, 2014; IASB, 2015). It is measured based on consistency. This means using the same accounting policy and accounting procedures, throughout the accounting period within the business entity or using same accounting policy and principles in all the business entities for the same period. Earnings figures are useful in evaluating the performance of the company over time (Cole et al., 2007).

Timeliness involves availing information to relevant players in time to be able to add value in their decision-making process (IASB, 2015). By timeliness, we mean the time that is needed to avail the information vital for decision-making (IASB, 2015). Timeliness of annual reports influences QFR and is measured by considering the time taken by the auditor to sign auditor's report after the end of the year.

Verifiability is where knowledgeable yet independent observers reach consensus though not totally agreeing that a particular depiction gives an accurate picture of the overall situation (IASB, 2015). It should provide reasonable degree of faith that accounting information has presented the clearest of situation plans to represent. Of importance is the guarantee if the person doing the measurement applied the measurement rule used objectively. It is measured by considering the extent of suppositions made, instruments used in the collection of information and any other relevant matters that reinforce information (IASB,2015).

2.3.2 Leverage

Several studies have revealed a direct relationship between debt-equity ratio and levels of disclosure. Highly indebted firms are more obliged to provide more disclosures of financial reports to satisfy the expectations of their creditors. They are normally under strict scrutiny by financial institutions that finance hence the tendency to disclose more financial reports (Owusu-Ansah, 1998).

2.3.3 Size

Firm size refers to the extent of the gap in of information asymmetry between insiders of company and capital market. It is given by value of net assets. Ashbaugh (2001) asserts that decision to report under IFRS is related directly to size of company and additional issue of equity shares. The information about firm size influences decision-making process by the owners. Studies done by among others Owusu-Ansah (1998) has revealed a high degree of relationship between company size and the amount of disclosure. Most of these researchers justify their findings by the fact that larger companies are more endowed with the expertise and financial muscles to supply more and quality information than their smaller counterparts.

2.3.4 Profitability

Many empirical studies on level of relationship between security returns and the levels of disclosures reveal a positive relationship. According to studies by Agyei-Mensah (2012) on rural banks in Ghana, there exist a positive relationship between profitability volumes and disclosure levels. IAS 1 requires firms to disclose more information about their sources of earnings. Poor performing firms will have little incentives to adhere to requirements of this

standard. Contrarily, successful firms have more motivation to comply with this requirement as one way of announcing their managerial success.

2.3.5 Liquidity

This matches the current assets to the current liabilities of the firm with the view of establishing whether the firm can be able to cover its current liabilities as they fall due using the existing current assets. Firms associate their financial soundness with high disclosure level. The findings by Wallace et al (1994) indicate notable negative relationship between liquidity and levels of disclosure.

2.4 Empirical Studies

Several studies have been done both at the global as well as at the local levels to determine the relationship between adoption of IFRS and QFR of listed firms.

2.4.1 Global Studies

Abata (2015) did a study on impact of IFRS on Financial Reporting practices in Nigeria. He based his studies on corporate establishments in Nigeria. He collected data from a population of 50 employees of KPMG using structured questionnaire and analyzed it using mean scores, standard deviation and Pearson Chi-square analysis. He found IFRS provides better information for regulators (mean=4.72), Pearson Chi-square analysis =37.857, thus leading him to confirm that financial reports prepared under IFRS enhanced best practices in the corporate organizations. Further, he arrived at a Chi-square of 75.763 indicating cross-border compliance with IFRS promotes cross-border investments and improved performance of the companies.

Mensah (2013) set out to examine Adoption of IFRS in Ghana and Quality of Financial Statement Disclosures. The population of the study consisted of listed companies in Ghana between the periods 2006 and 2008. He adopted descriptive and regression analysis research methods resulting in a disclosure mean of 87.09% in the post-adoption period compared to 76.8% in the pre-adoption period. He concluded that adoption of IFRS generally reinforce accounting disclosure quality.

Ferdy, Geest & Suzanne (2009) set out to study QFR: measuring qualitative characteristics. They used a sample of 231 annual reports from companies listed in U.S, U.K and Dutch Securities Exchanges in 2005 and 2007. They measured all qualitative characteristics using two inter raters. They then tested the inter rater reliability coefficient by calculating Kripendorf's alpha in the process obtaining a value of .79 which is above .70. They concluded that the quality scores are reliable.

Ramanna & Sletten (2009) carried out a study on why countries adopt International Financial Reporting Standards. They studied variations in decisions to adopt IFRS. Using a stratified random sampling method 102, non-EU countries were picked from Deloitte's IASplus.com website. Chi-square was used to analyze data yielding a p-value of 0.053. The study findings show that more economically developed countries are less likely to adopt IFRS. Based on study findings, they concluded that the possibility of IFRS adoption by any given country is directly proportional IFRS users within its geographical region and with IFRS adopters among its trade partners.

Hope, Justin & Kang (2006) carried out studies to examine Empirical Evidence on Jurisdictions that Adopt IFRS. They used sample of 38 countries and employed the CIFAR index to determine transparency of accounting information and reporting approach. The results of the findings showed a negative CIFAR co-efficient which was marginally profound with a t-statistic of -1.95. In their conclusion, they found negative correlation between adoption of IFRS and investor protection.

2.4.2 Local Studies

Kipchoge (2015) set out to study effects of corporate attributes on international financial reporting standards disclosure levels, evidence from Kenyan listed firms. He employed a descriptive research design and made an observation of a sample of 30 firms using secondary data. The findings revealed positive significant relationship between liquidity and disclosure level with $\beta3 = 0.145$, $p < 0.022$. He concluded there is a considerable degree of relationship between liquidity and IFRS disclosure.

Kingwara (2015) studied the Effects of IFRS Adoption on Reporting Quality in Kenya. The sample population consisted of all companies in the list of Nairobi Securities Exchange between the periods 1994-2003. Research methods used include co-efficient for interactive terms of BVPS and EPS of 1.022(t-statistic15.351) and 3.48(t-statistic=14.355) pre-adoption and (t-statistic=1.161) and .0559(t-statistic=1.71) post-adoption respectively. He finds that the value relevance for reported earnings was incrementally higher for listed companies during the post-adoption period.

AbdulRazak (2011) carried out a study to examine Effects of Adopting IFRS on Quality of Accounting Reports of SMEs, in Nairobi County. In a survey study targeting 150 but with a

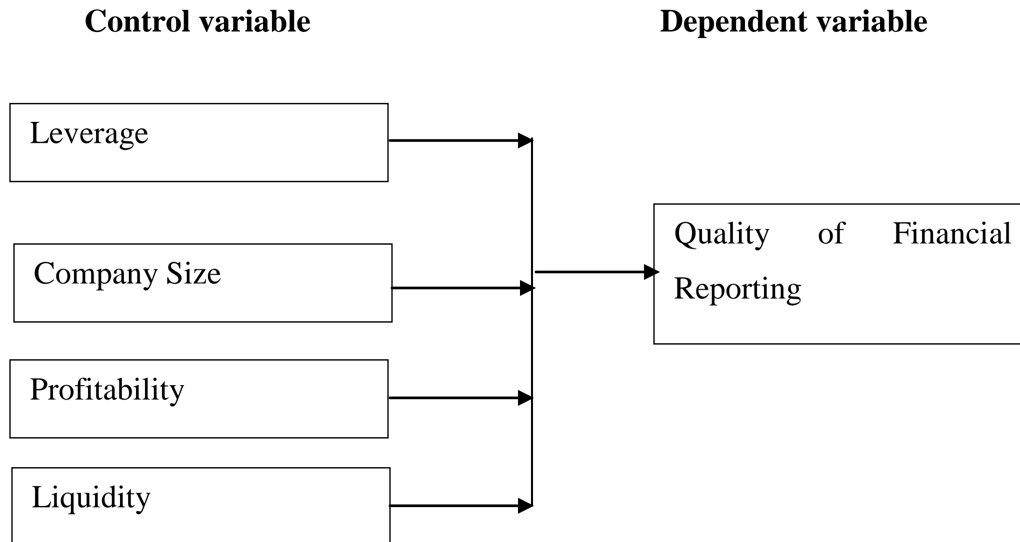
population of 90 firms in Nairobi City council, he employed multiple regression analysis which resulted in a β =0.198 with significance level of .0001with IFRS adoption. ANOVA revealed the value of F (36.994) with a significant level of .0001. Thus, he concluded adoption of IFRS provided positive relation between quality of accounting reports and the various independent variables. This confirms that firms adopting IFRS in Nairobi County and by extension the whole country benefit from transparent financial statements.

Olago (2011) set out to examine Effects of IFRS Adoption on Small and Medium Enterprises; A case study of Mombasa central business district. He made an observation of 39 firms using secondary and primary data and descriptive data analysis. The findings led him to conclude that IFRS reduces information asymmetry, improves performance and improves decision-making as well as improving comparability of financial statements.

Outa (2011)carried out a study on the impact of IFRS Adoption on Quality of Listed companies in Kenya. The population of the study comprised of listed companies between the periods 1994-2003. Research methods used consisted of regression models and the metrics of earnings management, timely loss recognition and value relevance. T-test was based on empirical distribution. The findings led him to conclude that listed companies, mandatorily required to apply IFRS, show less evidence of earnings management, more timely loss recognition and more value relevance of accounting amounts.

2.5 Conceptual Framework

Figure 2.1: Conceptual Framework



Source: Author 2016

The figure shows relationship between adoption of IFRS and QFR of listed firms. Mandatory adoption of IFRS, company size, profitability and firm leverage aggregately influence QFR of listed firms.

2.6 Summary of Literature Review

Many researches concerning compliance with IFRS have been done both in developed and in developing countries. Most of the studies done in developed countries have confirmed that adoption of IFRS does not significantly increase the QFR. However, in most developing countries including Kenya, the adoption of principled-based IFRS point to an improvement in transparency of results, higher value relevance and increased investor confidence due to better information for investors. Various mixed results have been experienced on whether adoption of IFRS improves accounting quality hence the need for a further examination between IFRS adoption and financial reporting quality.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1Introduction

This chapter describes the research design and explains researcher's overall plan for obtaining answers to research questions focused on study. It discusses data collection instruments and the procedures used and it explains and justifies the methods that were used in determining the validity and reliability of the data collection instruments. Finally, it describes the details of data analysis.

3.2 Research Design

This study used descriptive survey, which incorporates both the quantitative as well as the qualitative data to fulfill study objectives. Considering the relatively long period after Kenya adopted IFRS and keeping in mind the fact the Kenya was among the first countries to adopt IFRS, the measurement of QFR was effectively achieved by analysis of policy changes in context of reporting under IFRS. Suffice to say, IFRS provides flexibility regarding policy choice and requires disclosures and explanations of policy changes firms' annual reports to enhance comparability and understanding.

3.3 Population

The study involved a census of all companies listed in NSE between 2011 and 2015. It studied companies that were listed throughout the study period. Appendix I consists of different sectors of the economy.

3.4 Data Collection

The study used secondary data from NSE. It employed a census method of data collection that enumerated every company listed in NSE within the relevant period. This was justified by the relative small number of companies listed in the NSE. Data was obtained from NSE that covered the periods between 2011 and 2015. To capture the scores of the qualitative characteristics, this study used figures from financial as well as non-financial information from annual reports of companies. They were used to score the qualitative characteristics using a five score rating scale to score for each of the 21items in checklist of operational measures. A lower scale of 1 depicted low QFR but the quality of financial reporting gradually improved with increase in scale ultimately peaking at 5.

The standardized scores of both the fundamental and enhancing qualitative characteristics were calculated. Resulting scores of fundamental and enhancing characteristics were aggregated for the period 2011-2015. The scores on leverage were obtained by expressing current noncurrent liabilities in terms of net equity, return on equity were determined by expressing net profit in terms of net equity.

Company size was determined by taking natural logarithm of net assets while liquidity was measured by expressing current assets to current liabilities. Timeliness was measured using natural logarithm of the number of days taken by auditor to sign financial reports after year-end.

3.5 Validity and Reliability

The construct validity of the measurement tools developed was assured by basing the quality scores obtained on the empirical literature. In line with the definition of QFR this study

compared the results obtained and the decision-usefulness of financial reports basing on the perception as evidenced by compiled reports from stakeholders such as equity providers or lenders and investment analysts.

3.6 Data Analysis

Data collected was analyzed using quantitative, descriptive and qualitative approaches. To obtain these prescriptive statistics, the researcher used excel and SPSS statistical analysis software version 20. This study analyzed the impact of IFRS adoption on financial statements by use of mean scores, standard deviation and variance. It also used Pearson correlation coefficient to determine degree of association between the dependent and independent variables. Besides, multiple regression analysis models were employed. These were tested on linearity, multi co-linearity and normally distributed data. The variables that were used in the model were the essential elements of IFRS(dependent variable) and include; relevance, faithful representation, comparability, understandability and timeliness. Other variables which are firm specific included; Leverage, size, profitability and liquidity. The model took the following form;

$QFR = \beta_0 + \beta_1 LEV + \beta_2 SIZ + \beta_3 \pi + \beta_4 LIQ + \varepsilon$

QFR = Quality scores of both the fundamental and enhancing qualitative characteristics.

= R, FR,U,C,V&T

Where;

R = Relevance

F= Faithful representation

U= Understandability

C = Comparability

V = Verifiability

T = Timeliness.

And;

β_o= Constant

β_1, β_2, β_3& β_4= Coefficients;

SIZ = market value of net assets (sh.) at year-end.

LEV = noncurrent liabilities divided by book value of equity at year end

Π = Profitability (return on assets)

LIQ = Liquidity

ε= Error term

The results obtained from the regression analysis were presented in tables in chapter four.

Appendix II gives an overview of measured operational items used to score on both qualitative characteristics. It also gives measurement scales used to assess the value of each checklist item.

CHAPTER FOUR

DATA NALYSIS RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents study findings and discusses their interpretations. It provides details of the response rate, data validity, descriptive statistics and correlation analysis. Finally, discussion of the findings is provided at end of chapter.

4.2 Response Rate

The study intended to study a population of 64 firms listed at the NSE as at 31/04/2016 whose data was available for the periods between 2011 and 2015. However, data was consistently available for 60 listed companies implying that data for 4 listed companies was either unavailable completely or inadequate to be relevant for this study. Consequently, the response rate was determined at 93.7% and deemed adequate for analysis.

Table 4.1: Number of Firms &Year of Observations

Sample	2011	2012	2013	2014	2015
Total	60	60	60	60	60
No. of listed companies	64	64	64	64	64

4.3 Data Validity

This study was performed at 95% confidence level and the resultant standard error of estimate was 3.29%. This leads to the conclusion that the results of the data analyzed were thus valid and could reliably be used to draw the findings and effectively make conclusions of the study.

4.4 Descriptive Statistics

Table 4.2 gives descriptive statistics and distribution of variables.

Table 4.2: Descriptive Statistics

Descriptive Statistics

	N	Mean	Std. Deviation	Variance	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Quality of Financial Reporting	60	3.81611	.417534	.174	-2.417	.309	5.703	.608
Company Size	60	15.48536	2.319013	5.378	-1.865	.309	7.373	.608
Leverage	60	.38269	1.376378	1.894	-4.590	.309	30.280	.608
Return on equity	60	.13871	.232488	.054	-.803	.309	9.355	.608
Liquidity	60	1.69740	1.352223	1.829	1.930	.309	2.925	.608
Valid N (listwise)	60							

Source: Research findings

Table 4.2 presents the mean value, standard deviation, variance, skewness and kurtosis of quality of financial reporting on company size, leverage, return on equity and the liquidity levels of firm. On the average, the quality disclosure of financial reporting stood at 3.81611 and a standard deviation of 0.417534 with a variance of 0.174.The mean score for quality of financial reporting for 2011 determined using excel software was 3.7546. From this observation, the data values for study variables were least dispersed from their mean values as shown by a range of standard deviation values from 0.232488 to 2.319013. The range of the variance was 0.054 (return on equity) for variable with the least variance to 5.38.Liquidity ratio mean was 1.69740 and standard deviation was 1.352223. From this, can be concluded 1 unit of current assets can cover 1.69740 of current liabilities. The mean of

leverage was 0.38269 and standard deviation 1.3376378. Equally, this shows many firms in NSE were using more debts in their financing relative to equity. Company size mean logarithm was 15.48536, standard deviation 2.3190013 and variance of 5.378. Return on equity had mean 0.13871, standard deviation 0.232488 and variance 0.71 implying that performance of companies in NSE had a low variation.

All the study variables with the exception of liquidity were negatively skewed suggesting that their data values were spread negatively around their mean values. All variables had positive kurtosis values indicating a positive concentration around the mean.

4.5 Correlation Analysis

Table 4.3 contains the correlation analysis for the study variables.

Table 4.3: Correlation Analysis

Correlations

		Quality of Financial Reporting	Company Size	Leverage	Return on equity	Liquidity
Quality of Financial Reporting	Pearson Correlation	1	.331**	-.011	-.139	-.400**
	Sig. (2-tailed)		.010	.936	.290	.002
	N	60	60	60	60	60
Company Size	Pearson Correlation	.331**	1	.130	-.052	-.130
	Sig. (2-tailed)	.010		.321	.691	.322
	N	60	60	60	60	60
Leverage	Pearson Correlation	-.011	.130	1	.153	-.084
	Sig. (2-tailed)	.936	.321		.242	.523
	N	60	60	60	60	60
Return on equity	Pearson Correlation	-.139	-.052	.153	1	.229
	Sig. (2-tailed)	.290	.691	.242		.078
	N	60	60	60	60	60
Liquidity	Pearson Correlation	-.400**	-.130	-.084	.229	1
	Sig. (2-tailed)	.002	.322	.523	.078	
	N	60	60	60	60	60

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

A Pearson Correlation of 0.331 existed between quality of financial reporting and company size with a p value = 0.331 and a significance level of 0.10 > 0.001. It means that an expansion in the firm's size contributes to more qualitative financial reports but at less significant level. There was an insignificant negative correlation of 0.400 between liquidity and quality of financial reporting.

Table 4.4: Model Summary

The model summary is given in table 4.4.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.497[a]	.247	.192	.375329	.247	4.504	4	55	.003

a. Predictors: (Constant), Liquidity, Leverage, Company Size, Return on equity

The model summary has a value of R of 0.497 meaning considerable positive relationship exists between dependent and independent variables. R^2 value is 0.247; this implies the model explains all the variability of study data at a rate of 24.7%. The model of the study fits the data at a moderate rate of 24.7%.

The analysis of variance is given in table 4.5.

Table 4.5: Analysis of Variance

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	2.538	4	.634	4.504	.003[b]
1	Residual	7.748	55	.141		
	Total	10.286	59			

a. Dependent Variable: Quality of Financial Reporting

b. b. Predictors: (Constant), Liquidity, Leverage, Company Size, Return on equity

Source: Research findings

The F Statistic of the model 4.504 at 4 degrees of freedom and a significance level of 0.03 meaning that the significance levels among the variables was high. The implication is that there is at least 95% possibility that the relationship among the variables is not given to chance hence the model is relevant for the study.

Table 4.6: Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations		
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part
1	(Constant)	3.206	.348		9.217	.000	2.509	3.904			
	Company Size	.053	.021	.292	2.457	.017	.010	.096	.331	.314	.288
	Leverage	-.023	.037	-.075	-.620	.538	-.096	.051	-.011	-.083	-.073
	Return on equity	-.052	.220	-.029	-.238	.813	-.492	.388	-.139	-.032	-.028
	Liquidity	-.112	.038	-.362	-2.971	.004	-.187	-.036	-.400	-.372	-.348

a.Dependent Variable: Quality of Financial Reporting

Source: Research findings

From these findings, we conclude company size had positive but insignificant effect on quality of financial reporting ($\beta 2 = 0.292$, $p < 0.51$), confirming findings by Owusu-Ansah (2005) of positive influence by company size on IFRS disclosure level.

Liquidity, return on equity and leverage had ($\beta 2 = -0.362$, $p< 0.004$), ($\beta 2 =- 0.29$, $p < 0.813$) and ($\beta 2= -0.075$, $p< 0.538$) respectively.

Table 4.7 shows the models coefficients of the study.

Table 4.7: Coefficient Correlation

Coefficient Correlations[a]

Model			Liquidity	Leverage	Company Size	Return on equity
1	Correlations	Liquidity	1.000	.109	.106	-.239
		Leverage	.109	1.000	-.127	-.182
		Company Size	.106	-.127	1.000	.046
		Return on equity	-.239	-.182	.046	1.000
	Covariances	Liquidity	.001	.000	8.547E-005	-.002
		Leverage	.000	.001	-9.930E-005	-.001
		Company Size	8.547E-005	-9.930E-005	.000	.000
		Return on equity	-.002	-.001	.000	.048

a. Dependent Variable: Quality of Financial Reporting

Source: Research findings

Table 4.7 explains the variation in the dependent variable, quality of financial reporting, that can be attributed to changes in the independent variables. The value of constant β0 is 3.206 while the values of β1, β2, β3 & β4 are 0.053, -0.23, -0.52, and -.112 respectively.

From table 4.7 the regression model can take the following form;

$$\mathbf{Y = 3.206 + 0.624\beta_1 - 0.45\beta_2 + 0.382\beta_3 - 0.422\beta_4}$$

4.6 Interpretation of Research Findings

Basing on the analysis of adoption of new IFRS policy changes, revisions to standards, amendments and improvements to IFRS, this study presents results of findings about effects of attributes internal to business environment that influences QFR. Such firm specific attributes as firm size, leverage, return on equity and liquidity exhibit some relationship with QFR.

For period 2011 to 2015, mean quality score was 3.81611 and standard deviation of 0.417534. This mean indicates a marked improvement in QFR from adoption of new IFRS and compliance with their amendments, revisions and improvements as is prescribed by IASB through IFRS cycle improvements 2009-210, 2010-2012 and 2011-2013 and 2012-2014. It indicates that most of the firms in the listing of NSE have met the disclosure requirements as prescribed by IAS 1 and by this compliance more disclosures are given in the financial reports which in the process, satisfy the qualitative characteristics.

The study found that the independent variables (company size, leverage, return on equity and liquidity) exerted influence. Company size had positive influence on QFR while the other variables had negative influence. The independent variables used in the study explain 24.7% of the QFR and represented by R^2=0.247. The implication is that 75% of other actors not considered in this study explain QFR.

ANOVA statistics given in table 4.5 reveal a significance level of 0.003, F = 4.504 which is statistically significant while the coefficient of determination provides an explanation regarding the variation on dependent variable attributable to changes in independent variables.

From coefficients table, holding other factors constant, the dependent variable (quality of financial reporting) would be at 3.206. Consequently, a unit increase in company size($\beta_{1,}$)would cause an increase in reporting quality by 0.053 holding the other independent variables constant. A replication of this procedure with leverage (β_2) would result in the decrease in the financial reporting quality by 0.23 while with return on assets (β_3) and liquidity (β_4) results in reduction in QFR by 0.52 and 0.112 respectively.

At 5% level of significance and 95% confidence level, β_1, β_2, β_3 & β_4 had 0.017, 0.538, 0.813 & 0.004 significance respectively. β_1 had a positive but little significance with quality of financial reporting.

The above findings conform to research findings by Okuta (2011) that the financial reporting quality has not had a significant improvement with the adoption of IFRS. Owosu-Ansah (2005) found a positive but not significant relationship between company size and QFR. The research findings also conform to these finding.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter looks at findings, conclusion, recommendations, and limitations of study and suggests further researches on relationship between the adoption of IFRS and QFR among NSE listed companies.

5.2 Summary of the Findings

The objective of this study was to determine relationship between adoption of IFRS and the quality of financial reporting of listed companies in Nairobi Securities Exchange. To examine this relationship, the study used a rating score for 21 operational checklist items. The scores were based on the changes in IFRS, their amendments, improvements and adoption of new standards as issued by IASB and their effects on the QFR. It investigated the effects of four firm peculiar characteristics considered as independent variables; company size, leverage, return on equity and liquidity. Their selection was based on literature reviewed. The research focused on a five-year period, 2011-2015. The research heavily relied on secondary data from the internet sources, NSE handbook reports and the websites of the listed companies. Descriptive and inferential analysis were the key tools used for analysis.

From the findings, QFR mean for the period 2011 to 2015 was 3.84 and a standard deviation of 0.41734. These results indicate improvement in the QFR as compared to disclosure mean of 3.716 in 2011 considered in this study as the base year. This improvement was attributed to the continued adoption and compliance with new IFRS, their amendments and improvements to the existing standards. This confirms that most of the listed firms in NSE

are in compliance with the IAS 1 on disclosure requirements and fulfill the IASB's qualitative characteristics, both fundamental as well enhancing.

The regression results indicate that 24.7% (R^2) change in QFR could be explained by changes in independent variables. Analysis of variance was used to test the strength of the model and effects of adoption of IFRS on QFR of companies in NSE listings. The results support view that company size positively influences QFR.

Profitability (represented by return on equity) had negative influence on QFR proving consistence with Cerf's (1961) findings. Leverage and timeliness were also negatively associated with QFR. This study draws conclusion that adoption of IFRS generally improves the disclosure levels and QFR.

5.3 Conclusion

Drawing from the research findings presented in section four and the summary of findings, there is evidence that the adoption of IFRS and the continued compliance with new amendments and improvements to IFRS has improved the QFR though the improvement is not significant. All the firms studied indicated in their sections on significant accounting policies their compliance with IFRS throughout the period of study. This confirms the effectiveness of regulatory bodies in enforcing compliance with IFRS a result of which increases the quality of financial reporting. This is confirmed by the improvement in the mean of quality scores and the positive relationship between company size and quality of financial reporting. The study found a negative relationship between liquidity and quality of financial reporting. Over-ally, the improvement in quality of financial reports is not significant. This indicates that new standards, amendments and improvements to existing

ones do not substantially bring great differences in the approach to financial reporting and these changes mainly resulted in more disclosures thus more comparisons and understanding.

5.4 Recommendations of the study

The study recommends a wider application of IFRS to include large organizations operating in the country, which are currently not mandatorily required to use IFRS for their financial reporting. This would widen and expose second tier and small audit firms to specifics and details of IFRS. Large organizations such as co-operative societies and other entities not currently reporting under IFRS could be required to adopt IFRS in their reporting to achieve consistency in financial reporting in the economy.

Closer cooperation should be enhanced between the top management of companies, auditors and regulators to harmonize the impacts of IFRS and maximize the benefits of their adoption.

There is need for the accounting regulatory body, the enforcing body, internal as well as the external auditors to find a common approach to tackle the challenges of interpretations of new, improved or amended standards. Such a forum would facilitate simplification and a better understanding of the requirements of IFRS changes.

5.5 Limitations of the Study

The study sample comprised only of listed firms in NSE. Results that are more valid could be obtained if the population sample could be enlarged to include those companies not mandatorily required to use IFRS. The volume of information in the annual reports was too large to be effectively studied within a short run period. It is felt that much more time would have been needed to effectively exhaust all the details of the information contained. The

study period was also found the study period to be short and a ten-year period could have been preferred in order to arrive at more general conclusions.

The study found that there was inconsistent presentation of notes to financial statements because entities had flexibility as to the order in which they present the notes to the financial statements. IFRS should prescribe a uniform format that would ease the study and facilitate easier comparison.

5.6 Suggestions for Further Research

The study suggests further studies be done on influence of new and improved amendments to IFRS 2012-2014 cycle some of which have been adopted by the firms but whose impact is still under study by most of the companies, which have adopted them. This includes the study on the standards that have been earlier adopted by firms. It is further suggested that a replica of this study be done over a longer period to establish the trend of the effects of IFRS changes.

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APPENDICES

APPENDIX I: LISTED COMPANIES AT NAIROBI SECURITIES EXCHANGE

AGRICULTURAL

Eaagads Ltd

Kapchorua Tea Co. Ltd

Kakuzi

Limuru Tea Co. Ltd

Rea Vipingo Plantations Ltd

Sasini Ltd

Williamson Tea Kenya Ltd

AUTOMOBILES

Car and General (K) Ltd

Sameer Africa Ltd

Marshalls (E.A.) Ltd

BANKING

Barclays Bank Ltd

CFC Stanbic Holdings Ltd

I&M Holdings Ltd

Diamond Trust Bank Kenya Ltd

Housing Finance Co Ltd

Kenya Commercial Bank Ltd

National Bank of Kenya Ltd

NIC Bank Ltd

Standard Chartered Bank Ltd

Equity Bank Ltd

The Co-operative Bank of Kenya Ltd

COMMERCIAL AND SERVICES

Express Ltd

Kenya Airways Ltd

Nation Media Group

Standard Group Ltd

TPS Eastern Africa (Serena) Ltd

Scangroup Ltd

Uchumi Supermarket Ltd

Hutchings Biemer Ltd

Longhorn Kenya Ltd

Atlas Development and Support Services

CONSTRUCTION AND ALLIED

Athi River Mining

Bamburi Cement Ltd

Crown Berger Ltd

E.A.Cables Ltd

E.A.Portland Cement Ltd

ENERGY AND PETROLEUM

KenolKobil Ltd

KenGen Ltd

Kenya Power & Lighting Co Ltd

Umeme Ltd

INSURANCE

Jubilee Holdings Ltd

Pan Africa Insurance Holdings Ltd

Kenya Re-Insurance Corporation Ltd

Liberty Kenya Holdings Ltd

British-American Investments (Kenya) Ltd

CIC Insurance Group Ltd

INVESTMENT

Olympia Capital Holdings ltd

Centum Investment Co Ltd

Trans-century ltd

Home Afrika Ltd

Kurwitu Ventures

INVESMENT SERVICES

Nairobi Securities Exchange Ltd

MANUCTURING AND ALLIED

B.O.C Kenya Ltd

British American Tobacco Kenya Ltd

Carbacid Investments Ltd

East African Breweries Ltd

Mumias Sugar Co. Ltd

Unga Group Ltd

Eveready East Africa Ltd

Kenya Orchards Ltd

A.Baumann CO Ltd

Flame Tree Group Holdings Ltd

TELECOMMUNICATION AND TECHNOLOGY

Safaricom Ltd

Real Estate investment Trust

StanlibFahari I-REIT

https://www.nse.co.ke/listed-companies/list.html?

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APPENDIX II: OPERATIONAL MEASURES UTILIZED FOR THE QUALITATIVE CHARACTERISTICS

Relevance		
Check list no.	Checklist	Operationalization
R1	How does the presence of the forward- looking statements contribute to formation of expectations predictions of the future of company.	1 = Forward-looking information absent 2 = Forward-looking information is not significant 3 = Significant forward-looking information 4 = Very predictive 5 = Very predictive & aids in making expectations
R2	How does the presence of non-financial financial information complement financial information in terms of business opportunities and risks?	1 = Non-financial information is absent 2 = Little non-financial information to be of signicant help in forming expectations 3 = Noticeable non-financial information 4 = Useful non-financial information influential in developing expectations 5 = Non-financial information supplements financial information in developing expectations
R3	To what level has the company made use of fair value in place of historical cost	1 = Exclusively Historical cost 2 = Predominantly HC 3 = Balance FV/HC 4 = Predominantly FV 5 = Exclusively FV
R4	To what extent has the annual report given feedback to users on the impact of notable events and conspicuous transactions on the company?	1 = No feedback 2 = Negligible feedback on the past 3 = Feedback is present 4 = Feedback contribute confirmatory value of events and transactions 5 = Extensive feedback
Faithful representation		
F1	The annual report has clear explanations on the assumptions and estimates made	1 = Minor descriptions on estimations 2 = Only generalized explanations 3 = Specific explanation of estimations 4 = Specific explanation, formulas explained etc. 5 = Comprehensive argumentation
F2	The annual report has a clear explanation on what informs the choice of accounting principles.	1 = No explanation 2 = Brief explanation 3 = Moderate explanation 4 = More explanation and the consequences 5 = Very elaborate explanation
F3	To what extent has the company captured both the positive and the negative events?	1 = Brief mention in footnotes 2 = Emphasize given to positive events 3 = More importance attached to positive events, with some mention on negative events ; no negative events occurred 4 = Equal prominence on pos/neg. events 5 = The implication of positive as well as negative events is also explained
F4	Which type of auditors' opinion is included in the annual report?	1 = Adverse opinion 2 = Disclaimer of opinion 3 = Qualified opinion 4 = Unqualified opinion: Financial figures 5 = Unqualified opinion: Financial figures + internal control
F5	How much information does the company provide on corporate governance?	1 = Description of CG is lacking 2 = Limited, dedicated to a small section 3 = Dedicated to a significant section 4 = More sections dedicated to information on CG 5 = Very elaborate description of CG

Understandability		
U1	How have the annual reports been presented in a well- organized manner?	Judgment based on: - 1. complete table of contents – 2. headings – 3. order of components – summary/ conclusion at the end of each subsection
U2	Are the accompanying notes to the balance sheet and the income statements clear enough?	1 = No explanation 2 = Descriptions are very short, not easily understood. 3 = Explanation sufficiently describes the outcome 4 = Terms are explained , assumptions and judgments made also explained 5 = Significant simplifications of explanations.
U3	To what extent has graphs, charts and tables been used to clarify the presented information?	1 = Graphs on existent 2 = 1-3 graphs 3 = 4-7 graphs 4 = 8-12 graphs 5 = > 12 graphs
U4	To what extent has vocabularies technical language used in annual report easy to follow?	1 = Many vocabularies (industry), not explained 2 = Many vocabularies, minimal explanation 3 = Vocabulary is explained in text/ glossary 4 = Not much technical, or well explained 5 = Easy vocabulary, or extraordinary explanation
U5	How long is the glossary?	1 = No glossary 2 = Less than 1 page 3 = Approximately one page 4 = 1-2 pages 5 = > 2 pages
Comparability		
Checklist	checklist	Operationalization
C1	How do changes in accounting policies explain the effects of the change?	1 = No explanation 2 = Little explanation 3 = Sufficient explanation 4 = Sufficient explanation and consequences 5 = Very clear explanation
C2	To what extent have the notes to revisions in accounting estimates and judgments explain the impact of the revision?	1 = Revision without notes 2 = Revision with few notes 3 = No revision/ or clear notes 4 = Clear notes with impacts 5 = Very clear notes
C3	To what extent did the company restate the period's results to cater for the effect of the implementation of a policy change in accounting policy or revisions in accounting	1 = No adjustments 2 = Described adjustments 3 = Actual adjustments (one year) 4 = 2 years 5 = > 2 years + notes

	estimates?	
C4	How many years of comparison are providedfor the results of current accounting period with previous accounting periods?	1 = No comparison 2 = Only with previous year 3 = With 5 years 4 = 5 years + description of implications 5 = 10 years + description of implications
C5	How favourably does the company's annual reports compare with those of other organizations?	Judgment based on: 1. accounting policies 2. structure 3. manner in which events have been explained and overall comparability index of annual reports of other organizations
C6	To which degree have ratios and indices been used in the annual report?	1 = No ratios 2 = 1-3 ratios 3 = 4-6 ratios 4 = 7-10 ratios 5 = > 10 ratios
Timeliness		
Checklist no.	checklist	Operationalization
T1	How long did the auditor take to sign the auditors' report after the end of the financial year-end?	Natural logarithm of amount of days 1 = 1-1.99 2 = 2-2.99 3 = 3-3.99 4 = 4-4.99 5 = 5-5.99

APPENDIX III: SUMMARY OF STUDY VARIABLES

Y	X1	X2	X3	X4
2.7709	12.6197	0.5600	0.9700	5.8964
2.7809	14.4408	0.1450	-0.0120	4.9410
3.8029	14.4265	0.2575	0.1467	5.8249
2.2250	12.1300	0.2667	0.1998	1.8738
2.5208	14.5042	0.2667	0.2700	2.7560
3.7206	16.1456	0.2500	0.0356	1.3493
2.5500	15.7624	0.2550	0.0375	4.7241
3.4980	14.8051	1.0500	0.1367	1.1360
3.7544	14.7109	0.0180	0.0610	0.9700
3.8289	12.7578	0.0337	0.1198	0.6658
4.0335	16.2016	0.0622	0.2440	4.9296
3.9438	4.4532	0.7355	0.1480	1.0500
3.9243	17.3938	0.4575	0.2200	0.9874
3.8458	16.9524	0.2433	0.2300	1.0191
3.7988	16.7714	2.0640	0.1400	1.2566
4.0338	18.0878	0.2200	0.2225	1.0235
3.9708	16.2538	0.0657	0.0520	0.7222
3.9895	17.1274	0.7580	0.1980	1.0652
4.0834	17.5695	0.2500	0.2420	0.8447
4.2069	17.7579	0.3767	0.2560	1.0973
4.0808	17.8056	0.3940	0.2680	1.0500
3.7966	12.9387	0.9375	-0.5130	0.3325
4.1826	17.9184	-2.3460	-0.8980	1.3015
3.9101	15.8944	0.0166	0.2720	2.2568
3.7701	14.7604	0.3380	0.0440	1.1078
4.0424	16.3527	0.3540	0.0100	1.0817
3.8569	15.8942	0.0500	0.1160	2.8251
3.6424	14.7697	0.1140	0.0000	0.7545
3.8679	13.1218	0.3420	0.1400	1.1276
3.8181	12.7595	0.8800	0.0480	2.2156
4.0027	16.9075	1.5725	0.1440	1.0703
4.1506	17.3395	0.1725	0.1625	1.9738
4.0058	14.1020	0.1068	0.0840	1.3233
3.8625	15.0870	0.6800	0.1467	1.2209
4.2106	16.3059	0.6875	0.0083	1.3200
3.7464	15.9968	0.3260	-0.0440	1.0446
3.9737	19.1277	1.4180	0.0518	1.3389

3.9977	18.8996	1.8540	0.0960	1.1310
4.1180	18.3256	0.7800	0.2375	1.0439
3.9594	16.6527	0.3425	0.2300	1.2959
3.8621	16.0491	3.1020	0.0200	1.1310
4.0676	16.5603	1.0400	0.1600	0.9312
3.7208	15.3846	0.0000	0.1950	1.2692
3.9986	16.5260	1.2933	0.2320	0.5065
4.0818	16.2679	1.0750	0.1825	0.2315
3.6040	13.8472	1.6733	0.0668	0.2375
4.0168	18.1080	0.4900	0.1390	2.1691
4.1941	16.4676	0.8660	-0.0400	1.7762
3.9241	13.7408	-8.5100	0.1657	1.2356
3.4167	11.5814	0.0700	0.0080	1.6590
4.2100	14.1544	0.0687	0.2850	4.1765
3.9243	14.3518	0.0945	0.0920	1.3098
3.9333	16.1357	0.3320	0.3725	1.2883
4.0400	14.5830	0.1160	0.2025	4.9727
3.8400	17.1248	2.2200	0.6840	0.9258
3.8632	16.7258	0.3525	-0.0225	1.2635
3.8410	15.2662	0.1000	0.1000	2.2080
4.0485	13.1340	0.3080	0.1540	1.2792
4.0678	12.9475	0.4150	0.5750	0.6410
4.0338	18.3341	0.5000	0.2300	0.1652