

**THE EFFECT OF COMPUTERIZED ACCOUNTING SYSTEM ON
FINANCIAL REPORTING QUALITY AMONG FIRMS LISTED AT THE
NAIROBI SECURITIES EXCHANGE**

BY

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DECLARATION

This research project is my original work and it has not been presented and submitted to any in university or college for examination.

Signed



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

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DEDICATION

To my beloved brother, Ahmed Hassan Khailey who helped me in every way whether it is financial or encouragement and to my whole family.

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ABBREVIATIONS AND ACRONYMS

AFM	Association of Futures Markets
CAS	Computerized Accounting Systems
CBK	Central Bank of Kenya
CMA	Capital Market Authority
DASS	Delivery and Settlement System
FRQ	Financial Reporting Quality
ICT	Information and Communication technology
IFC	International Finance Corporation
NSE	Nairobi Securities Exchange

ABSTRACT

The overall objective of this study is to establish the effects of computerized accounting systems on the financial reports quality among firms listed at the NSE. A cross-section survey was adopted targeting 62 listed firms at the NSE and census was used. Information was sought from first hand sources and analyzed descriptively and inferentially. The study established that leadership quality had the largest beta ($\beta=.950$) that was significant ($p<0.05$), followed by corporate governance structure ($\beta=.757$, $p<0.05$) and lastly computerized accounting systems ($\beta=.402$, $p<0.05$). The study concludes the computerized accounting system has significant effect on financial reports quality among firms listed at the NSE. The study recommends that the senior managers among the listed firms in Kenya should demonstrate quality strategic leadership to support the quality of financial reports. The internal audit managers of the listed firms at NSE should strengthen the existing internal controls to enhance the quality of financial reports. The policy makers at the Capital Market Authority should stipulate strict regulations with regard to corporate governance and leadership of the listed firms to ensure credible financial reports are generated. The policy makers of the listed manufacturing firms in Kenya should strengthen the existing policies with regard to corporate governance and leadership among these firms.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The dynamic nature of the business environment in the current world that has been spearheaded by innovation as well as increased customer awareness has presented ample opportunities for change. The result is that business organizations in the 21st century is faced by a bug hurdle of increased competition, as well as highly unpredictable economic world. According to Susfa (2020), ICT is at the core and contributes significantly to the global change curve. The back and forth that results from the increased innovation as well as the use of ICT has also enhanced growth in information technology infrastructure where manual accounting systems are no longer sufficient for undertaking crucial business (Brecht & Martin, 1996). Computerized Accounting Systems have thus become the tool for revolutionizing processing and generating desired financial reports. The decision making has therefore been boosted as the chances of achieving the firm's goals are significantly increased (Manson, McCartney & Sherer, 2001).

Inaccuracy in financial reporting has been evident from a global perspective (Muinde, 2013). One of such cases where financial statements were manipulated include the Enron Company in US (Roman, 2010). The facts of the case included the malicious attempt by the senior management in the company to manipulate the accounting records and therefore the statements indicated that they made more money than they actually did. The use of computerized accounting systems has therefore been introduced handy in both the developing as well as the developed world, as these systems allow insignificant chances for manipulation as they offer the best quality in the market for recording, processing as well as in the analysis of the financial information.

The existing literature (Akinduko, 2000; Anao, 2002; Emmanuel, 2015) indicate that the sole purpose for accounting practice is to ensure that they determine the financial position of a company at any point in time. Therefore, any accounting system in a firm is designed to be able to process financial information in order to capture the activities of the organizations and come up with financial statements that would be useful to users of that accounting information (deSantis, 2010). In theory, the size of an organization has been found to influence the adequate volume as well as the complexity of accounting information that would put to use to enhance decision making at the top managerial level, in different departments such as purchasing, protection, hiring as well as investment. The aspect that the accounting function is integrated into all other departments in the organization, a renovation of the system should ideally begin with the accounting function, however, the technological function should well be included in the creation of an integrated conversion strategy. This therefore leads to an informed as well as a sustainable business improvement process as well as reporting systems.

1.1.1 Computerized Accounting System

Computerized accounting according to Muinde (2013) is the app of a computer-based software that is developed into a tool used for undertaking inputs, processing, storing as well as transforming data into fully fledged accounting information. Firms are thereby enhanced into an efficient way to develop reports as well as financial statements, which leads to improved performance and enhance quality of management reviews. Computerized Accounting Systems (CAS) would therefore be explained as a computer-based system that is responsible for the combination of accounting principles and concepts into a concept that is responsible of recording, processing, analyzing as well as the production of financial statements critical to users of such information in economic decision making (Gelinas, Sutton and Hunton, 2005). The art of

computerization uses less time in undertaking transaction and therefore improving the quality of financial reporting into an output that would be explained as accurate, timely as well as able to provide useful information (Alfred, 2014).

Manson, McCartney and Sherer (2001) in their study noted that the appropriateness and efficiency of information flow leads to quality decisions by the top management, which in turn helps to enhance the chances for achieving the strategic corporate objectives and corporate goals. The major benefits of the computerized accounting systems over manual systems include their ability to perform the various tasks in the accounting cycle automatically and the provision of built-in internal control functionalities to enhance accuracy and security of financial data as well as safeguarding assets against fraud (Mujat et al., 2013; DiVito, 2008; Stephens, 2006). As noted by Steckel (2011), the well built-in features as well as features integrated into the accounting software are extremely useful in the implementation of various preventive, detective, and corrective internal control measures in organizations. It is therefore given that both the private sector as well as the public sector, the developed as well as developing economies view computerization as an automobile mechanism that enhances effectiveness and efficiency in information flow to record, process and analyze financial data.

1.1.2 Financial Reporting Quality

The definition of financial reporting according to Horngren et al. (2011) is a process with a series of activities namely: identification, measuring, analyzation, preparation, interpretation as well as communication of information to business stakeholders. The financial statements are therefore particularly useful in the provision of information relating to assets, liabilities as well as owner's equity provided by the shareholders. It also indicates transactional changes or events that result into changes of assets, equity and liabilities. Higson (2003) also interpreted financial reporting as

a way of working with things that would result in the generation of accounting data as well as the communication of the data to both the internal as well as the external users of accounting information. Jacob and Madu (2009) on the other hand underscored financial reporting as a system used in the recording as well as the summary of business and financial transactions, the analysis as well as the verification and reporting of the results.

The observations made through the works of Romney (2010) was that financial information that has the ability of being compared with other companies that are similar or are in the same industry, is able to increase the value of information itself. It's therefore no wonder that Kieso, Weygandt and Warfield (2011) was of opinion that there exists a certain threshold in regard to quality of financial information such as relevance, comparability, completeness and timeliness; which should be adequately achieved. It is therefore clearly depicted that quality in terms of quality reporting must meet certain threshold as well as be in position to promote unique decisions as well as honest presentation which would match the number as well as the description in regard to the existing reality.

According to Abdulrazak (2013) accurate financial reporting is indicated by the ability of financial reports generated to indicate the true state of affairs of the company in terms of its assets, equity, profitability, provisions for bad debt among others. Independent auditors are also tasked with the responsibility of verifying the accounting position of the company and hence give the users an assurance that the financial statements generated by the company indicate the strengths and weaknesses of the company without bias or compromise to deceive or hoodwink users of the accounting information (Barako et al., 2013). Quality financial statements should therefore provide accurate reports that would be ascertained from the valuation part as well as in the analysis of the operational results. The benefits that accrue to a company that publishes

quality financial reports is far reaching as it becomes easier to market the company to potential investors and it becomes unlikely for huge volatility in the company's market share prices (Barako et al., 2013).

1.1.3 Computerized Accounting System and Quality Financial Reporting

Romney (2010) spell out that the idea behind the accuracy is supported by the fact that there is a more sophisticated manner in the inputting as well as in the manner of processing data that guarantees the quality of outputs. When spelt out in simple terms is that a computerized accounting system allows for minimum errors in the preparation as well as the generation of financial reports than when using manual accounting systems. Through a computerized accounting system, financial reports may be quickly accessible through an online system without delay, allowing for rapid decision-making. As a matter of delivery, a computerized accounting system has been pronounced to lead other forms of accounting systems. The users of accounting information tend to believe and rely more on financial reports generated through a computerized accounting system than other systems. A computerized accounting system is known in its ability to record all expenditures as well as income received by the company, liabilities among others. It enhances the accurate transfer of such transactional details to the general ledger which would enable the processing of the financial data and provide reliable reports for decision making.

The size of an organization is not a key issue in the determination of an accounting system (Welch & Short, 1987). However, the accounting system should be designed in such a manner that it is able to precisely and accurately collect, process as well as provide periodic reports in regard to the financial performance of the entity. Keating and Frumkin (2003) are clear that in most of the NGOs, there exists poor accounting systems that lead to the mismanagement of donors' funds. In order to captivate the consistent achievement of accurate and reliable financial

reporting in an organization, standards as well as a working system for accounting practices should be based on computerized accounting. Carol (2002) also supports the use of computerized accounting systems as she spells out it is easy as well as appropriate in undertaking accounting functions. According to McBride (2000) it is a lot more difficult for managers to convince statutory officials as well as potential managers through provision of profit and loss statements, statement of financial position, as well as customized reporting without the use of a computerized accounting system.

1.1.4 Nairobi Securities Exchange

The Nairobi Securities Exchange (NSE) which is referred as the exchange in this context was constituted in 1954 through the societies act as an association of stockbrokers. Its incorporation was in 1991. However, there has been a robust improvement as well as increase in the constitution of the exchange as more stockbrokers, investment banks, custodial institutions as well as credit rating agencies have emerged to support the activities of the exchange. The exchange engages in the trade of equities, bonds, preference shares, ordinary shares and financial derivatives (Ouma, 2017). There exist ten sectors in the exchange that form relevant bourses (NSE, 2017).

According to Okoth (2014) the exchange has undertaken quite a number of great achievements that include the attainment of an all-record high of 5030 points by the NSE 20-Share index. The exchange was able to establish a computerized delivery and settlement system (DASS) in 1994 and in 1996 it was able to record the highest issue of shares through the privatization of Kenya Airways, where a number exceeding 110,000 were in position to acquire a stake in the airline. On September 11, 2006, live trading was implemented (Okoth, 2014). NSE was able to upgrade its website as a way of boosting and enhancing its business in data vending in 2007. The

exchange was also innovative in the year 2009 as it was able to upload all government bonds on the Automated Trading Systems (ATS). It was eventually to change its name to Nairobi Securities Exchange in 2011 (Okoth, 2014). The exchange gained membership rights to the Board of Association of Futures Markets (AFM) as an associate member and it was able to be the first stock exchange in East and Central Africa to gain membership to World Federation of Exchanges in the year 2018.

The exchange has experienced several cases of financial statements inaccuracies in a number of listed firms. However, the case that stands out is the CMC Motors' case. The board as well as the top management of CMC Motors undertook under dealings of fleecing the company through operating offshore secret accounts used to wire money from the company (Matundura, 2014). The practices were against the prescribed conduct for listed firms as well as the strict requirements that had been established by the Capital Market Authority (CMA) in regard to arms-length transactions with the board and top management. The practices were also clear out of line from the laid down principles and procedures of institution accounting framework. Amyeko (2011) observed that financial information that is published by any firm is an essential commodity.

1.2 Research Problem

Computerized Accounting Systems (CAS) have been established to provide relevance as well as enhance faithful representative informational reports that would be used by management as well as other external users in order to make accurate decisions (Greuning, 2006). The positive feedback that the computerized accounting systems have been able to get from users of information has led to the notion that Computerized Accounting Systems is the “engine of growth” in firms as well as different organizations. The emergence of scandalous cases such as Enron Case, WorldCom among others have become a point of concern on the need for firms’ quality of financial reporting (Muhammad, 2019). The growth of information technology, have degenerated the use of manual accounting systems as firms that are concerned and keen on quality of their decisions have no longer room for inaccurate financial reports. Similarly, regulatory bodies have established requirements in most industries that computerized accounting systems have to be adopted before a firm is licensed to operate (Muhammad, 2019).

In arguing out the ideal situation on the goal for proper financial reporting, Choi and Pae (2011) undertook that it all boiled down to the provision of useful and reliable information that would provide an ample ground for decision making. Computerized accounting systems have been useful tools in performance appraisal of business organizations (banks) with a view of increasing confidence and enabling all the stakeholders build their trust in the organization. In any circumstance that an organization needs to appraise its performance, there is every need to obtain supporting information which should be accurate, relevant, precise and in a timely manner. The information therefore obtained should be presented in a manner that it should make it easy for comparison purposes with the previous period as well as with other similar organizations. The financial statements presented therefore should be objective and therefore other users of these

information should be in position to reduce the information gap between them and the managers who prepare such financial information.

However, the reality is that firms are preparing financial reports that only appeal to the shareholders and stakeholders but in actual sense, do not represent the actual position of the firms. Despite the fact that firms use the approved and required accounting standards in the preparation of these financial reports, the reports may be presented in different levels of quality. The accounting and reporting standards, may sometimes provide an opportunity for managers to undertake earnings management practices, that may wrongly misrepresent facts in the eyes of other users to financial statements. With the precedented increase in the number of firms listed at the NSE, it has become vital for the regulator to raise the question of not only on the compliance issues in preparation of the financial statements, but the ever-changing market and economic dynamics also demands for focus on the quality of the financial statements produced. The practice of financial reporting which is expected to provide understandable as well as uniform financial reports as per the legal and policy framework, enhanced by the accounting principles and standards, there still exists unfulfilled user needs. Bryce (2017) therefore stipulates that the existing accounting principles and standards, are still wanting as far as enhancing the production of quality financial statements and reports is concerned.

A study by Fracois and Kyle (2011) on the role of executive functional background & financial reporting choice in corporate firms only looked at reporting but not quality of financial reports, leaving a knowledge gap and a contextual gap. McFie (2009) in his study on financial reporting disclosure by listed companies in Kenya used primary data only which is perceived to be subjective and may not reveal the correct status of FRQ of the firms, thus, creating a methodology gap. The study by Marimuthu and Indraa (2009) obtained its sample size through

judgmental sampling while using only two variables. This created a knowledge gap and methodological gap. The study by Steccolini (2004) used annual reports as the only source of data. The annual reports are too legalistic and lack quality content, thus, the study faced knowledge and contextual gaps. Despite studies being conducted in this field, literature review revealed that inconsistent findings have been achieved while methodological and contextual gaps being identified. Further, some of these prior studies have not been conducted in the context of listed firms at the NSE in the study period advocated in this study. Other studies were done focusing on secondary data and not specifically primary data thus creating methodological gaps. This has created knowledge, research and empirical gaps that the current study sought to bridge by answering the following research question: what is the effects of computerized accounting systems on the financial reports quality among firms listed at the NSE?

1.3 Research Objectives

The overall objective of this study is to establish the effects of computerized accounting systems on the financial reports quality among firms listed at the NSE.

1.4 Value of the Study

The findings and recommendations of this study will help managers of different firms determine the best accounting practices and specifically, computerized accounting practices to adopt with the aim of not only improving nature but also quality of financial reports and statements prepared by the firms. The management of these firms as well as other managers in other organizations (for instance those registered by Kenya Association of Manufacturers and MSMEs) will have ample opportunity in understanding the importance in the preparation of high quality and reliable financial reports by having an operational computerized accounting system.

The findings and recommendations of this study are expected to make policy recommendations aimed at strengthening quality reporting in not only the listed firms but other organizations as well. This will enable policy regulators case example ICPAK, NSE and CMA to formulate policies that would improve financial management and reporting quality so as to make them competitive as listed companies. The study will also be beneficial to companies with as well as those without computerized accounting systems as the study will focus on pressure points that are critical for enhancing quality accounting reports.

Policy makers at the national government level through the respective ministries and state departments, will also find this study useful. They will be able to use the recommendations that will be provided in the study in the formulation of adequate as well as sound policies that will enhance preparation and presentation of quality financial reports that will instill confidence in investors (local and foreign) with a view of wooing and attracting FDI as well as local investment in firms listed at the NSE. The policies formulated will in turn enable the firms to improve their way of operating and presenting financial reports operational activities in order to enhance performance that would delude value to investors as well as other users of financial reports.

Having established gaps in research and knowledge from the literature reviews, it is hoped that the study will be impactful to future researchers, as it will be a source of new knowledge to researchers and academicians. It will also be a good source of enhancing literature review and a way of developing arguments to support or critique computerized accounting systems and quality financial reporting.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature related to the study. The chapter entails a theoretical review, review of computerized accounting, a review of financial reports quality, a review of computerized accounting and financial reports quality and the past empirical reviews.

2.2 Theoretical review

This study will be underpinned by the positive accounting theory, the systems theory and Resource based view theory.

2.2.1 Positive Accounting Theory (PAT)

This theory was developed by Watts and Zimmerman (1986) as they undertook to provide accurate prediction on the purpose as to which managers prefer given accounting methods. This theory postulates that the aspect that wherever financial statements are released, and it happens that these statements have abnormal or unexpected results, then the capital market responds proportionately by having a negative reaction on the prices of this company. The managers therefore in the quest to ensure that they present acceptable and predictable financial statements, strive to involve in earnings management, to produce financial reports that are positive in the eyes of the shareholders and potential investors in the firm (Watts & Zimmerman, 1986). The PAT theory therefore is the embodiment of what accounting is in the current form. It elucidates on the reasons as to why accountants do what they do, and the impact of such actions on people as well as on the resource's utilization by the firm (Mutai, 2014). The theory is therefore focused in the explanation as well as the prediction of the actual accounting practices. The theory

therefore emanated from various empirical studies that were crucially undertaken in the late 1960s (Ball & Brown, 1968).

According to an argument that was advanced by Abdulrazak (2013) PAT is the sole purpose why various accounting methods and policy decisions are undertaken in place of others. The theory also undertakes to provide an explanation on different cadre of organizations as some of the organizations undertake correction of contracts which would enable self-seeking individuals come into terms and accept to cooperate. These include employee contracts, supplier contracts among the others (Mutai, 2014). The specified contracts therefore are entangled with contract costs that include monitoring costs as well as evaluation costs, agency costs among other types of costs. According to PAT therefore, organizations are therefore looking for ways to reduce the contracting costs that would eventually influence the accounting policies adopted. PAT further delves that information contained in the financial reports could be under manipulation to certain degree in order to reflect a certain position as desired by the management (Oluoch, 2014). Ball and Brown (1968) therefore stipulates that the theory attempts to provide an explanation as well as the prediction actual accounting practices. The theory therefore encapsules accounting research in the capital markets as well as accounting options research.

This theory has been criticized for lacking a definite prescription. There is no standard provision of prescription in addition to not providing a system to enhance accounting practices. The theory is also critiqued that it lacks value as it presumes that all actions undertaken by the organization is motivated by self-gains and self-interests. There is therefore every chance that the theory fails to provide an accurate understanding of the scenario and have a biased prediction (Watts & Supreme, 1986).

The management are unduly advantaged as they possess information that other users do not have. It is therefore pretty easy for them to manipulate the financial statements in order to serve their own self-interests, in particular during the period of increased agency conflict between the shareholders and the management of the firm. Therefore, within this study, the PAT will provide ground for explaining the reason why management chose on an accounting method that was influenced to serve a certain self-interest and the existing relationship with the shareholders. In such an undertaking PAT advances contributions of three theories that become great significance to the study. The three theories were cited as bonus hypothesis theory, political motivation hypothesis as well as contractual motivation hypothesis (Abdulrazak, 2013; Mutai, 2014; & Oluoch, 2014). The theory is therefore keen to provide information on stock returns and thereby indicating a paradigm shift in the accounting and information presentation arena. This makes this theory even more relevant to this study which is focusing on firms listed at a stock exchange.

2.2.2 Systems Theory

Kaufmann (2015) was the proponent of this theory that seeks to express the historical adjustments of accounting systems as emanates from a dynamic process. Bertalanffy (2016) improved on the initial proposition as he suggested that things turn out to be connected in one way or the other. The general idea was that in order to obtain a clear understanding of a phenomenon, then the interconnectedness of phenomenon should be studied in order to understand the world. The systems theory is therefore undertaken by dividing a phenomenon, into its constituent parts. The next step is to provide an explanation that would explain the behavior of the properties for this component individually. It is from this point that the aggregate of all the explanations is brought together to provide an understanding of the whole. Though the

theory has been under ridicule, neglect among others, has been boosted by the emergence of computing as well as information theory.

This theory has been criticized for its lack of unification. The systems theory may not be considered as a single theory but an amalgamation of several theories that include contingency theory as well as decision theory. This lack of unification has been cited as one of the key limitations of the theory. The theory has also been criticized on account that the theory does not fall under category of modern theories as it is comprised of old theories amalgamated together. The theory is therefore considered to be too abstract that it becomes impractical. Therefore, it fails to indicate the precise relationship that exists between organization and social system.

The relevance of systems theory to this study emanates from the fact that the proposal by the theory attempts to model complex entities that results from multiple interactions of different phenomena as detailed in different structure and component. It then helps to concentrate on dynamics that define characteristics functions, properties as well as relationships central and crucial to the system. In this study, computerized accounting system is the complicated phenomenon that involves a computer-based system, comprised of accounting concepts in one hand, information systems concepts on the other hand, and amalgamate their functions with the view of processing, analyzing as well as producing financial information to users that would be crucial in economic decision making (Gelinis et al, 2005).

2.2.3 Resource Based View

The origin of Resource Based View (RBV) stems way back from past research in prior studies. Barney (1991) pioneered strategic factor markets engineered in expectations that emanates within the resource-based framework. The framework thereby developed by Barney (1991) is a

solid ground that can be used to build up current theories that emanate from dynamism brought about by constant changes in businesses. RBV in firms is premised on economic rent philosophy as well as on the view of business firms as collection of capabilities. The view developed for strategic decisions ensures that the RBV obtains coherence as well as collaborative mechanism that puts it ahead of any other mechanism in enhancing decision making (Kay, 2005).

The RBV stipulates the reason as to why firms that possess valuable, rare as well as inimitable resources would be in place to have better performance (Barney, 1995). The position held by Hoopes, Madsen and Walker (2003) sought to expand the works of Barney (1995) on RBV. They sought to have a wider view in regard to the differences and the reasons why performance differences between companies would be experienced, in a theory of competitive heterogeneity. The shortcoming of RBV is the lack of clarity on the subject matter as the lack of specificity on the boundary marks is a great impediment on undertaking impactful debate. It is therefore logical to invoke either definition-based logic on RBV or else invoke hypothesis-based logic. The culmination of the argument therefore suggests that resources are core basis for competitive heterogeneity (Hoopes et al. 2003). Competitive heterogeneity is therefore the glaring and impeccable differences that are experienced by a firm above its close competitors. The relevance of the theory is based on the fact that NGOs would require to enhance a superior performance by being endowed with superior resources to help it achieve on its vision and mission.

2.3 Determinants of Quality Financial Reports

There are a number of factors that would determine whether a firm registers quality financial reports. These factors may include presence of computerized accounting system, leadership quality, corporate governance structure and perhaps size of the firm may be a moderating factor

on the relationship. These factors are well elucidated and theoretical relationship with quality financial reports highlighted.

2.3.1 Computerized Accounting Systems

A Computerized Accounting Systems (CAS) is explained as a computer-based system that is responsible for the combination of accounting principles and concepts into a concept that is responsible of recording, processing, analyzing as well as the production of financial statements critical to users of such information in economic decision making (Gelinas, Sutton and Hunton, 2005). The art of computerization uses less time in undertaking transaction and therefore improving the quality of financial reporting into an output that would be explained as accurate, timely as well as able to provide useful information (Alfred, 2014). It therefore follows that computerized accounting system is expected to have positive effect on quality of accounting systems.

2.3.2 Leadership Quality

Leadership would be expressed as the process in which a person is able to achieve a desired goal through soliciting the support of others. The ability to ensure that one is able to rally other people in the common goal of achieving a certain objective is crucial in the success of any progressive strategy. It follows that the senior management for firms listed at the NSE should have leadership quality that helps to rally personnel responsible for preparation of various reports in ensuring that they deliver quality financial reports. The leadership quality of top-level managers is critical in ensuring that staff members join the rallying call to enhance quality and effective output. Murcia (2010) suggested that the more effective a company enhances its leadership quality, the more likely it incurs agency cost. The argument therefore follows that there is a direct relationship between leadership quality and FRQ.

2.3.3 Corporate Governance Structure

The governance structure is crucial in the determination of firms' performance. The oversight of management is a responsibility of board of directors on behalf of shareholders. According to agency theorists, board of directors are charged with the protection of the rights of the shareholders and as such they need to engage in effective oversight function. Usually, the board of directors includes a small number of senior members who are both executive and non-executive directors. The non-executive directors comprise outside members with expertise in certain fields of management usually experts, or respected persons, invited from the wider business community. These non-executive directors are usually responsible for driving certain organizational performance benchmarks (Poutziouris, Savva, & Hadjielias, 2015). Independence of directors is essential and therefore organizations tend to have a percentage of directors drawn from outside the organization and therefore able to enhance independence in execution of monitoring duty. The mix of male and female, young and old also enhances board independence. Monday and Nancy (2016) found that there was a positive and significant effect of board independence on FRQ. The findings therefore were crucial in pin pointing the need for independence of board of directors in enhancing the quality of financial reports (Cheng & Jaggi, 2000). Similarly, the existence of a well constituted audit committee with adequate meetings per year was crucial to enhance and improve quality of financial reports. It was also critical in enhancing elaborate execution of both internal as well as external audit. The perception from a well constituted audit committee, with a wealth of experience in accounting indicates credibility and forms a perception that the company is able to prepare acceptable and high-quality financial reports.

The structures of governance insulate the company's strategy and helps protect a firm against probable financial risks, reinforces its corporate pillars and drives revenues for better and sustained performance (Oudah, Jabeen, & Dixon, 2018). Johnson (2016) argues that the board functions as effectively as its composition. Depending on the size of the organisation, boards usually vary from an average of a single member to an average of ten members. Usually, the board of directors includes a small number of senior members who are both executive and non-executive directors.

Akeju and Babatunde (2017) in their study made findings to the effect that the greater the board size, the better the quality of financial reports. This observation had also been made through the works of Htay et al. (2013). Large sizes of board of directors were therefore found to have positive effect on FRQ and this might be as a result of obtaining a wealth of experience from the board of directors as well as the ability to execute their mandate effectively with the right size of board members (Haji & Ghazali, 2013). The independence of the board has therefore been earmarked as one of the most strategic tools in enhancing effective monitoring the management and a way of enhancing effective internal control (Carcello & Neal, 2003).

2.3.4 Size of the Firm

The size of a firm has been considered as one of the crucial aspect of organizations that influence managerial functions. Abdel-Kader and Luther (2008) highlighted the crucial nature of firm size. Different measures of firm size have been suggested and used by different scholars (Vijayakumar and Tamizhselvan, 2010; Akbas and Karaduman, 2012; Otieno, 2013). They include ratio of sales to total assets, total assets, sales, and market value of equity, total number of employees. In this study, firm size as a moderating variable will be measured by the ratio of sales to total assets because it is simple and easily understandable (Otieno, 2013).

The size of firms is crucial in determining the layers of managers placed in crucial positions of decision making, the organization structure adopted, as well as the ability of the firm to attract experienced and highly skilled individuals in management positions (Kandir, 2008). However, research studies have also associated large size of firms with inertia as it becomes more cumbersome to implement change in larger firms, there is also higher chances for resistance to change in these larger firms. However, there remains a great portion of studies that indicate that the larger the company the better the quality of financial reports (Agyei-Mensah, 2013); Ebrahimabadi & Asadi, 2016; & Monday and Nancy, 2016).

2.3.5 Profitability

The ability of a firm to generate resources in comparison to its revenue, operating costs, among others is determined by the use of profitability ratios. The profit margin ratios as well as return ratios are crucial in determining the rate of return, shareholders would expect from their investment in the firm. Examples of these ratios include Returns on Assets (ROA), Returns on Equity (ROE), Returns on invested Capital (ROIC) as well as Returns on Capital Employed (ROCE). The higher the profitability in a firm the higher the shareholders are interested and demand for higher quality reports that would provide them with sufficient information that would guide their decisions. Therefore, profitability has been indicated by Uyar et al. (2013), Takhtaei et al. (2014) and Al-Asiry (2017) to have a positive effect on performance.

2.4 Empirical Review

This section contains an empirical review of studies on the impact of computerized accounting systems on financial quality reports. Studies from a global, regional, and local perspective are presented in this review.

2.4.1 International Review

Kateeba (2000) in the mission to understand effect of governance and quality of financial reports as it related to NGOs in Kosovo indicated that more than 75% of the NGOs indicated that their main source of financing emanated from foreign donors. The study collected primary data from NGOs in Kosovo. A significant interplay was registered between the study variables.

Shiraj (2015) on the other hand undertook a study in Sri Lanka that sought to the adoption of computerized accounting systems on financial reporting practices for SMEs. The study was categorical in noting that knowledge on the existence of computerized accounting systems was crucial in determining presence and the rate of use of these systems. The use of computerized accounting systems among SMEs was only concentrated in firms that had a formation in form of board of governance and which processed a high number of transactions.

Sekyere et al., (2017) noted that there was a requirement for the use of computerized accounting system for listed banks in Ghana as a requirement from the regulator. However, the study was quick to point out that the nature and use of the system varied from one bank to the other. This was informed by the fact that each bank had different approach towards ensuring staff have been trained on use of computer.

In a similar study that was undertaken in Ghana for rural banks, where a survey design was employed in the study and 70 respondents were sampled from three rural banks in Ghana indicated that there was a direct interplay between study constructs (Opoku-Ware, 2015). Tarus and Kawasira (2015) cited that the use of computerized accounting system was one of the determinants, coupled by progressive adoption of governance structure. In a study by Murungi and Kayigamba (2015), a smaller percentage of 31% of the respondents agreed that

computerization increased the speed of processing financial statements. The study therefore recommended increased training of the employees on the use of computerized accounting system as a way of boosting and increasing quality reporting in the ministry.

Amveko (2011) intended to find the accuracy of financial reports, as well as the speed of processing the reports. The study therefore designed an interview guide that help to interview respondents and from which data collected was assessed for completeness and consistency. A direct and significant link was recorded relating to time taken to process financial statements, as well as accuracy of financial statements in enhancing quality of financial reports. Amongin (2015) used mixed-method analysis that was undertaken for Stanbic Bank, the Garden City Branch in Uganda. It was shown that banking entities which have embraced computer do offer quality services.

2.4.2 Local Review

In a study by Tarus, Muturi and Kwasira (2015), the use of simple random sampling singled out a sample size of 164 respondents. There was positive significant effect of computerized accounting, professional development as well as internal skills on quality of reports. Sugut (2014) focused on computerized system of accounts and its link with financial report quality. Noted was that accuracy, timeliness and speed of the computer is linked with the need to ensure financial information is of quality.

Sekyere et al. (2017) in their study established financial as well as non-financial value derived from adoption of computerized accounting system. The aspect of speed of execution helped to improve on time used, it also tended to ensure that less errors were reported as well as accuracy in the reports. The format and presentation of these reports were clear, concise and easier to read.

The system also improved on the manner in which archive files are stored and made it easy to retrieve such files when needed. The system also enhanced savings from tax element as capital allowances saved the tax costs, labour as well as audit costs went down significantly including clerical expenses and use of stationary.

In a study by Otieno and Oima (2013), survey design methodology was adopted to critically investigate public enterprises. The data collected indicated that only 36% of the public enterprises had implemented the computerized system with majority of the staff composition suffering from deficiency in required skills. Similarly, only 24% of the enterprises had a plan in executing and implementing computerized accounting system in place. 40% of the enterprises had not implemented the system and had no plan in place for such execution. The study found that adoption of computerized accounting does not help production of quality reports in public enterprises, because of lack of training and relevant skills in these enterprises.

2.5 Conceptual Framework

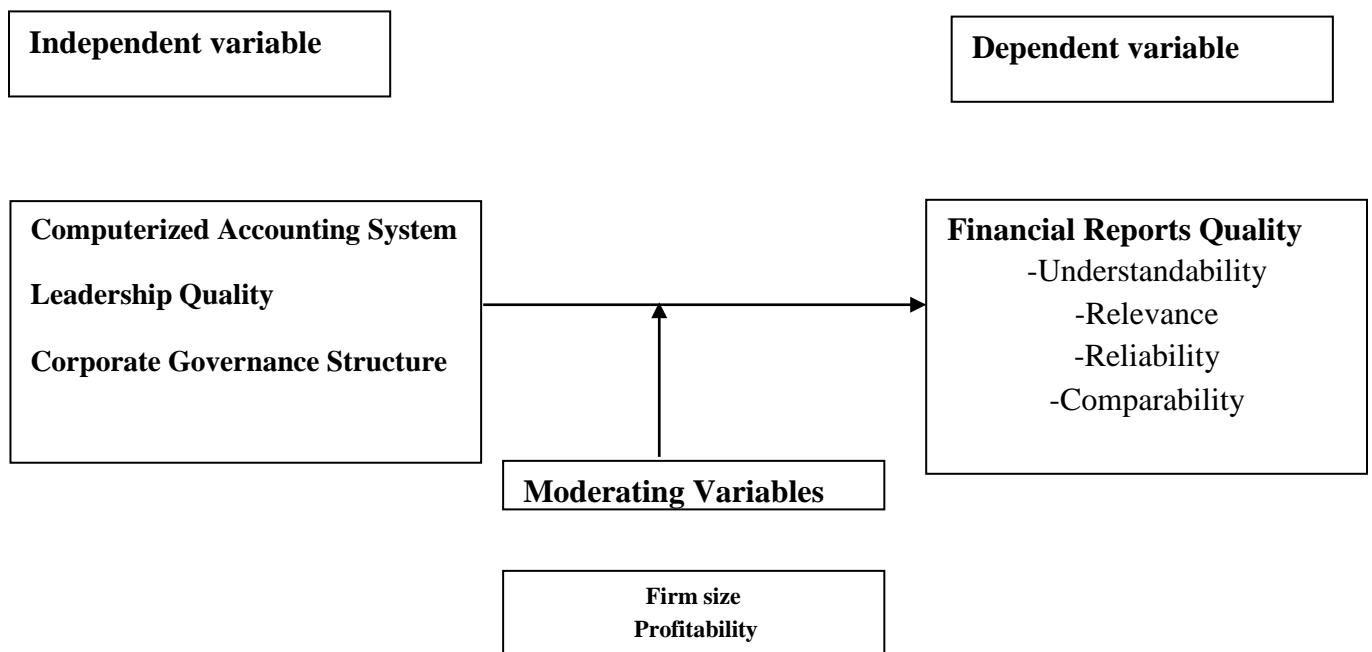


Figure 2.1: Conceptual Framework

2.6 Summary of Literature Review and Research Gaps

Despite the fact that computerized accounting systems are known for high efficiency, reliability and efficiency in processing of data, the system may not be useful to users unless they have the desired skills to operate the system as well as the right discipline to ensure that they do not undertake manipulation of such a system that would only mean that the output of such manipulated system would be inaccurate financial reports. There is also the need to ensure that feedback mechanism is employed in order to help deal with emerging issues in the use of computer systems as well as in enhancing development and improving accuracy in the output of the system. Majority of the empirical studies reviewed in this study, there is a general tendency of improvement in quality reports that emanates from the use of computerized accounting system. However, key among this study depends on the skills available to users. The learning and improvement of these skills among the users is as relevant as obtaining the system in the first place. The two are joined at the hip where a system without skilled users is a useless investment while skilled users without a system is also a waste of resources. The results from the view of the empirical studies indicate that use of computerized accounting systems have positive effect on quality of financial reports. However, this was only undertaken in firms that are led by profit as their goals. The studies in Kenya have been undertaken in government enterprises, NGOs, and on SMEs. This might be related to the fact that most studies assume that listed firms would be under obligation to use computerized system in preparation of their financial reports. However, the use of this systems varies from one organization to the other depending on the level of skills available, the corporate governance structure among other variables.

In the study by Fracois and Kyle (2011) on the role of executive functions in enhancing proper financial reporting choice in corporate firms, information obtained from 1990 to 2009 only looked at reporting but not quality in relation to one variable. Both knowledge and contextual gap is identified. McFie (2009) in his study on financial reporting disclosure by listed companies in Kenya primary used primary data only which is perceived to be subjective and may not reveal the correct status of FRQ of the firms. A methodology gap is established. The study by Marimuthu and Indraa (2009) obtained its sample size through judgmental sampling. The study further used two variables only. Both knowledge gap and methodological gap are identified. The study by Steccolini (2004) used annual reports as the only source of data. The annual reports are too legalistic and lack quality content. Both knowledge and contextual gaps are identified.

CHAPTER THREE:

RESEARCH METHODOLOGY

3.1 Introduction

This section presents the methodology that was adopted by this study. The chapter discusses the research design, research philosophy, sample size, data collection instruments and procedures, validity and reliability, data analysis and ethical considerations.

3.2 Research Design

Cooper and Schindler (2011) present research design as a planned system of research operations that are intended to provide answers to the research questions of the study. A cross-section survey was adopted in the study where data was collected across the respondents at a particular period in time. A survey approach was also undertaken in the study as listed firms were investigated in the study. The study also adopted an exploratory research design. Exploratory research design sought for new knowledge in a situation or phenomenon and therefore enlighten on new theories and knowledge (Kothari, 2011). Cross-section survey on the other hand examined the study respondents at a particular point in time across all the respondents. This was undertaken in the study as data was collected across respondents at the same time to identify the current existing knowledge (Hall, 2014).

3.3 Target Population

A total of 62 listed firms in Kenya were targeted. Census was adopted hence all these entities were covered. Within each of the targeted firms, the researcher sought to obtain primary data from the chief executive officer and a senior official in the accounting and finance department.

3.4 Data Collection

Information was obtained from first hand sources supported by questionnaire. The drop and pick later methodology were used for respondents in Nairobi County and its environs, and through mail/ through google forms for respondents in the rest of the country. Considering the prevailing Covid-19 pandemic and the containment measures currently in place, the researcher was biased to using mailed questionnaires aided by google forms. This made sure that the researcher was compliant to the containment regulations, avoid predisposing himself to risk of contracting the virus as well as fit into the new world order of social distancing. Within the targeted firms, the semi-structured questionnaires targeted the Chief Executive Officers and senior officials in the accounting and finance department.

The study used semi-structured questionnaire in collecting primary data. The questionnaire was divided into five parts where the first part composed of the preliminary section where the questionnaire was introduced to the respondent. The respondent then added background information in regard to the farm from which part two, three four and five was used to assess the study variables. A 5-point Likert scale was employed, where the respondent was required to identify the extent to which he/she agrees with each statement that describes a study variable. The points ranged from highly disagree, disagree, neutral, agree and highly agree. In order to ensure anonymity is maintained, the respondent was not allowed to write his/her own particulars that may end up specifically identifying the respondent such as the name, email address, phone details among others (Keller, 2005).

3.5 Data Analysis

The analysis of data refers to the synthesis of data collected through statistical avenues that would provide an impartial and objective understanding of the variables as explained by the data.

The data collected was first cleaned and assessed for completeness before undertaking any form of analysis. The determination of the relationship between the variables, F distribution statistics was employed to determine the significance of this relationship (Cooper & Schindler, 2011). Data was analyzed by the use of SPSS version 23. The adopted regression model is as set out below:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where;

Y = Financial Quality Reports (composite score of understandability, relevance, reliability and comparability rated on a 5-point Likert scale)

X₁ = Computerized accounting system

X₂ = Leadership Quality

X₃ = Corporate Governance Structure

β₁, β₂ and β₃ are the coefficients of X₁, X₂ and X₃ respectively.

β₀ is the Y intercept while ε is the error term.

3.5.1 Operationalization of Study Variables

Table 3.1: Operationalization of Study Variables

Objective	Variable	Tool of data collection	Measure
To determine computerized accounting systems on financial reports quality.	Independent	Questionnaire	Ordinal
To examine the effects of Leadership	Independent	Questionnaire	Ordinal
Financial reporting quality	Dependent	Questionnaire	Ordinal
To assess the effects of corporate governance Structure on financial reports quality.	Independent	Questionnaire	Ordinal

3.5.2 Diagnostic Tests

Diagnostic tests were undertaken in order to determine whether data collected for each variable complies with assumptions made for the specific variable in reference to the statistical test that would be carried out in the study. The tests that align with the four assumptions include normality test, multi- collinearity test and Heteroskedasticity Test.

3.5.2.1 Normality Test

Normality test is undertaken to determine whether the distribution of data forms a normal curve. According to Cooper and Schindler (2011) a normal curve is the statistical bell-shaped curve which may be determined by plotting the variables and observing whether the distribution is skewed or it is kurtotic. Skewness and kurtosis may therefore be used to determine normality but Shapiro-Wilk Test is preferred where the significance of the test above 0.05 would indicate that the variable is normally distributed and the vice versa. Variables that may fail normality test may be transformed by through standardization of the variables, or use of squares of the variables among others.

3.5.2.2 Multi-Collinearity Test

The test is based on the assumption that the independent variables should have no correlations between them. When independent variables are correlated with each other, statisticians refer to it as presence of Autocorrelations. The test is undertaken by the use of Variation Inflation Factors (VIF), where from standard practice, a VIF score of above 10 indicates that there are autocorrelations and therefore the independent variables are correlated. Presence of multi-collinearity in data indicates that the data is related to each other and therefore the two variables may be collapsed into one independent variable.

3.5.2.3 Heteroskedasticity Test

The test is used to indicate whether there is homoscedasticity in the data. This is the determination of whether the residuals have constant variance at every level of x . Residuals are explained as the difference between the observed values of dependent variables and the value of dependent variable that is predicted by the model after considering a certain value of independent variable (x). This means that the variance of residuals of the dependent variable have to be constant for data to be homoscedastic.

CHAPTER FOUR: DATA ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter is set out to detail the findings of analysis based on the objectives that guided the study. The analysis is divided into sections covering the response rate, descriptive statistics, diagnostic tests and inferential statistics as well as the discussions.

4.2 Response Rate

From the 62 questionnaires that were administered to the respondents drawn from the listed firms in Kenya, 49 of them were fully filled and returned being equal 70% response rate. This was in sync with Babbie (2010).

4.3 Descriptive Statistics

This section presents the findings of descriptive statistics that were determined through means and standard deviations based on the interpretation of the Likert scale. The value of means was generated and interpreted based on the Likert scale that had been converted into a continuous scale as follows: 1.00 -1.40 for strongly disagree 1; 2= disagree with scale interval of 1.50 – 2.40; 3 = neutral for scale intervals of 2.50 – 3.40; 4 = agree for interval scales of 3.50 – 4.4 and 5 = Strongly Agree and its interval scale is from 4.5 - 5.0. The subsequent sections detail the findings.

4.3.1 Quality of Financial Reports

Quality of financial reports was the dependent variable of the study and Table 4.1 gives an overview of the descriptive statistics.

Table 4.1: Quality of Financial Reports

	Mean	Std. Dev
The financial reports produced are highly understood by all users	3.80	.641
The firm has never received a qualified report from auditors	3.53	1.13
The financial reports have been capable of highlighting cases of fraud, and potential fraudulent transactions	3.60	.843
The reports include a realistic budget preparation	3.80	.714
There are very few cases (almost none) where a review of budget was necessitated	3.52	.647
The regulator has always been satisfied with the financial reports produced by the firm	3.78	.790
Investors in the firm have successfully relied on financial reports in making accurate investment decisions	3.75	.799
The financial reports have always been objective, presentable and relevant	3.51	1.03
The department involved with financial reports preparation have always received commendable words from the firm's top management	3.59	1.24
The firm have successfully relied on financial reports to make future and strategic plans for the company	3.66	1.11
Average	3.65	0.894

Source: Field Data (2021)

The results in Table 4.1 indicate the average value as (M=3.65), this means that respondents agreed on the fact that their listed firms produced quality financial reports. Some of the salient features of the financial reports in the studied firms include understandability of the reports by users (M=3.80), inclusion of realistic budget preparation (M=3.80) and the regulators being satisfied with the financial reports produced by the firm (M=3.78). Thus, the financial reports in the studied firms had significant quality.

4.3.2 Computerized Accounting Systems

Table 4.2 is a summary of the descriptive statistics on computerized accounting system in the studied firms.

Table 4.2: Computerized Accounting Systems

	Mean	Std. Dev
The firm uses a fully computerized accounting system	3.69	1.113
The firm computerized the accounting systems more than 5 years ago	3.51	1.193
There is zero chance of manipulating the financial system in the firm	3.53	.949
The firm has not experienced losses as a result of financial system manipulation	3.46	1.049
The company has invested heavily in developing a safe and secure computerized accounting system	3.84	1.019
The computerized system is able to sufficiently handle all financial transactions of the company adequately	3.69	.737
The computerized accounting system is easily compatible with other systems in the firm, such as production, manufacturing, marketing etc	3.68	.878
The accounting system is user friendly and understandable	3.56	.867
The use of the computerized accounting system has significantly reduced errors and improved speed of transactions	3.70	.642
The computerized accounting system is very secure with strong firewalls to keep cyber attackers at bay	3.90	1.024
The computerized accounting system has never been attacked by hackers	3.59	.980
The computerized accounting system provides value more than the costs of installing one	3.64	1.019
Average	3.65	.956

Source: Field Data (2021)

Table 4.2 gives the average value as (M=3.65), which implies that respondents agreed on the fact that computerized accounting system were in place in the studied firms. In particular,

respondents agreed that the computerized accounting system was very secure with strong firewalls to keep cyber attackers at bay (M=3.90) and that the company had invested heavily in developing a safe and secure computerized accounting system (M=3.84). Respondents further agreed that use of the computerized accounting system had significantly reduced errors and improved speed of transactions (M=3.70), the firm used a fully computerized accounting system (M=3.69) and that computerized system was able to sufficiently handle all financial transactions of the company adequately (M=3.69). Surprisingly, respondents moderately agreed (M=3.46) that the firm had not experienced losses as a result of financial system manipulation.

4.3.3 Leadership Quality

Table 4.3 gives a breakdown of the findings on leadership quality as one of the independent variables covered in the study.

Table 4.3: Leadership Quality

	Mean	Std. Dev
The firm leadership is committed to ensure that employees deliver appropriately	3.80	.641
The senior management in the firm supports the accounting department in producing quality reports	3.63	1.134
The management uses motivation tools effectively to ensure that goals and objectives are met	3.70	.843
The management supports effective training and workshops for personnel in finance and accounting department	3.80	.714
Senior managers are well qualified and experienced in determining the accuracy of financial reports	3.92	.647
The top management organizes periodical meetings with staff members in finance and accounting department	3.51	.897
Monitoring of budgets is constantly undertaken and corrective actions recommended as soon as possible	3.78	.908
Source documents are well and safely stored in organized formats	3.78	.908
The management is able to track and enhance compliance with strategic plans of the firm	3.75	.734
The management updates computerized accounting systems to incorporate modern security features in the system.	3.80	.927
Average	3.75	0.835

Source: Field Data (2021)

The results in Table 4.3 shows the value of average as (M=3.75), this implies that respondents were in agreement on the fact that there was quality leadership in their firm. These salient features of leadership that respondents agreed on include ensuring that managers are well qualified and experienced (M=3.92), commitment to ensure that employees delivered appropriately (M=3.80), support effective training and workshops (M=3.80) and updating computerized accounting systems to incorporate modern security features (M=3.80).

4.3.4 Corporate Governance Structure

Table 4.4 gives a breakdown of the findings of descriptive statistics on corporate governance structure.

Table 4.4: Corporate Governance Structure

	Mean	Std. Dev
The board of the firm has a financial committee that is composed of competent and experienced personnel in accountancy	3.87	.640
The CEO does not act as the Chairman of the board (No CEO duality)	3.66	1.051
There is no more than two-thirds of the board members belonging to the same gender	3.75	1.280
The board members are composed of experienced NEDs (Non-executive directors) in the industry.	3.60	1.045
The internal auditor of the firm sits at the finance board committee	3.90	1.356
The finance and accounts board committee meet at least 4 times per year	3.60	1.045
The board members support management in updating computerized accounting system	3.73	.707
The board is comprised of both experienced as well as young members	3.90	.888
There is appropriate diversity in board composition that improves decision making process	3.56	.977
Board meetings are always well attended by all members of the board	3.52	.798
Average	3.71	0.979

Source: Field Data (2021)

The findings in Table 4.4 give the value of average as (M=3.71), this infers that respondent agreed on the fact that their organization had put in place relevant corporate governance structures. Some of them include internal auditor of the firm sitting at the finance board committee (M=3.90) and the board being comprised of both experienced as well as young members (M=3.90). Furthermore, the board of the firm had a financial committee that was composed of competent and experienced personnel in accountancy (M=3.87), there was no more than two-thirds of the board members belonging to the same gender (M=3.75) and that the board members supported management in updating computerized accounting system (M=3.73).

4.4 Diagnostic Tests

4.4.1 Normality Test

Normality test is undertaken to determine whether the distribution of data forms a normal curve. According to Cooper and Schindler (2011) a normal curve is the statistical bell-shaped curve which may be determined by plotting the variables and observing whether the distribution is skewed or it is kurtotic. Table 4.5 gives a breakdown of the skewness and kurtosis findings that were used to test for normality in the data.

Table 4.5: Normality Test

	n	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
Computerized Accounting Systems	49	-.577	.340	.012	.668
Leadership Quality	49	-.230	.340	-.020	.668
Corporate Governance Structure	49	-.687	.340	.395	.668
Quality of Financial Reports	49	-1.413	.340	3.267	.668
Average	49	-0.727	0.34	0.914	0.668

Source: Field Data (2021)

Table 4.5 gives the mean value of Skewness as -0.727 while that of Kurtosis is given as 0.914. According to Kothari (2004), values of Skewness and Kurtosis within the range of – or +3 indicate absence of normality. Thus, the study assumes presence of normality in the data which is desirable.

4.4.2 Multicollinearity Test

The test is based on the assumption that the independent variables should have no correlations between them. When independent variables are correlated with each other, statisticians refer to it as presence of Autocorrelations. The test is undertaken by the use of Variation Inflation Factors (VIF), where from standard practice, a VIF score of above 10 indicates that there are autocorrelations and therefore the independent variables are correlated. Table 4.6 provides a summary of the findings.

Table 4.6: Multicollinearity Test

	Collinearity Statistics	
	Tolerance	VIF
Computerized Accounting Systems	.980	1.020
Leadership Quality	.852	1.174
Corporate Governance Structure	.841	1.189
Mean VIF	0.891	1.128

Source: Field Data (2021)

Table 4.6 gives the value of VIF as 1.128, with values 1.020, 1.174 and 1.189 for computerized accounting systems, leadership quality and corporate governance structure respectively. Since all the VIF values happen to be within the range of 1-10, it can be inferred that there was multicollinearity in the study.

4.4.3 Heteroskedasticity Test

The test is used to indicate whether there is homoscedasticity in the data. This is the determination of whether the residuals have constant variance at every level of x. Residuals are explained as the difference between the observed values of dependent variables and the value of dependent variable that is predicted by the model after considering a certain value of independent variable (x). This means that the variance of residuals of the dependent variable have to be

constant for data to be homoscedastic. Figure 4.1 is a scatterplot that was used to make inference on Heteroskedasticity.

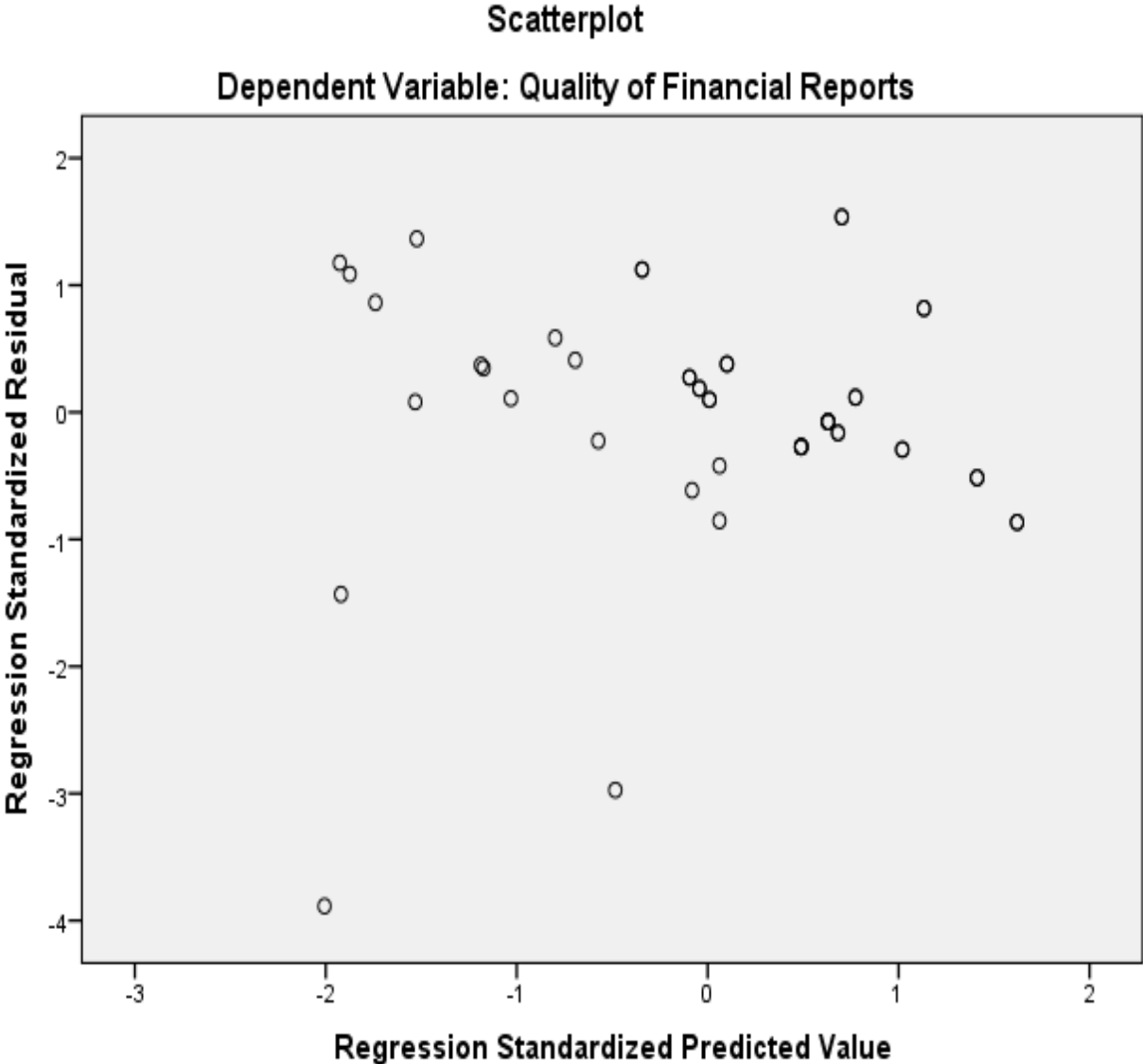


Figure 4.1: Heteroskedasticity Test

Source: Field Data (2021)

From Figure 4.1, no clearly established pattern can be noted in the distribution of the data points. This is clear indication of absence of Heteroskedasticity. Thus, the presence of Homoskedasticity is assumed which is desired for regression modeling.

4.5 Correction Matrix

Table 4.7 gives a summary of the findings.

Table 4.7: Correction Matrix

		Quality of Financial Reports	Computerized Accounting Systems	Leadership Quality	Corporate Governance Structure
Quality of Financial Reports	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	49			
Computerized Accounting Systems	Pearson Correlation	.409	1		
	Sig. (2-tailed)	.043			
	N	49	49		
Leadership Quality	Pearson Correlation	.702	.081	1	
	Sig. (2-tailed)	.000	.579		
	N	49	49	49	
Corporate Governance Structure	Pearson Correlation	.723	.138	.384	1
	Sig. (2-tailed)	.000	.343	.006	
	N	49	49	49	49

Source: Field Data (2021)

While corporate governance structure ($r=.723$) and leadership quality ($r=.702$) all have a strong and positive relationship with quality of financial reporting among listed firms in Kenya, computerized accounting system ($r=.409$) has a moderate and positive relationship.

4.6 Regression Results

Table 4.8 gives the findings of the model summary.

Table 4.8: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.866	.749	.733	2.30954

Source: Field Data (2021)

From the findings in Table 4.8, the value of R square is given as .749, this means that 74.9% change in financial reporting quality among firms listed at the Nairobi Securities Exchange is explained by computerized accounting system. This means that aside from computerized

accounting system, there are still other factors with an effect on financial reporting quality of these firms that deserves further research. Table 4.9 gives the findings of ANOVA.

Table 4.9: ANOVA Findings

	Sum of Squares	df	Mean Square	F	Sig.
Regression	717.522	3	239.174	44.840	.000 ^b
Residual	240.029	45	5.334		
Total	957.551	48			

Source: Field Data (2021)

F=44.840, p<0.05 overall model significant. Table 4.10 is an overview of the regression beta coefficients and significance.

Table 4.10: Coefficients and Significance

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	26.093	6.844		3.813	.000
Computerized Accounting Systems	.402	.121	.126	3.322	.002
Leadership Quality	.950	.153	.501	6.201	.000
Corporate Governance Structure	.757	.112	.548	6.734	.000

Source: Field Data (2021)

Table 4.10 is used to predict the effect of computerized accounting system affects financial reporting quality. From the results, leadership quality had the largest beta ($\beta=.950$) that was significant ($p<0.05$), followed by corporate governance structure ($\beta=.757$, $p<0.05$) and lastly computerized accounting systems ($\beta=.402$, $p<0.05$). This infers that computerized accounting system has significant effect on financial reporting quality among firms listed at the Nairobi Securities Exchange.

4.7 Discussion

The study showed that the studied listed firms had put in place computerized accounting system (M=3.65). This means that the studied organizations had moved away from manual to computerized accounting. In other words, accounting processes and activities were conducted through the computer. The study acknowledged that the adoption of CAS has significantly contributed towards the quality of financial reporting ($\beta=.402$, $p<0.05$). However, the contribution of the computerized accounting system towards the quality of financial reporting did not outweigh that of quality leadership and the corporate governance structures that had been put in place. These findings are consistent with Alfred (2014) who shared that the art of computerization uses less time in undertaking transaction and therefore improving the quality of financial reporting into an output that would be explained as accurate, timely as well as able to provide useful information.

The study noted that there was quality leadership in the studied firms (M=3.75). This means that there was sound leadership in the studied firms which is a challenge for most firms. Poor leadership has been the cause of many corporate failures around the world including Uchumi, Tusksys and the Nakumatt Supermarket as relevant examples in Kenya. The study showed that adherence to quality leadership had significantly enhanced the quality of financial reporting among the listed firms in Kenya ($\beta=.950$, $p<0.05$). In fact, it is leadership quality that had the largest beta, which means that it greatly contribute towards the quality of financial reporting more than other variables covered in this study. These findings are strongly supported by Keating and Frumkins (2003) who said that leadership is enhanced by having in place an independent board. Sloan (2001) suggested that financial reports form the first source of independence and the basic indicator for the performance of company managers. Murcia (2010)

suggested that the more effective a company enhances its leadership quality, the more likely it incurs agency cost

The results showed that the studied firms had in place corporate governance structures ($M=3.71$), which include relevant boards, the management and shareholders and how they interact with each other for success of the firm. The study observed that the corporate governance structures in place have significantly contributed towards the quality of financial reporting of the listed firms in Kenya ($\beta=.757$, $p<0.05$). In fact, the contribution of corporate governance structures towards the quality of financial reporting was far above that of computerized accounting system. The findings agree with Oudah, Jabeen and Dixon (2018) who noted that governance structure of any firm insulates the company's strategy and helps protect a firm against probable financial risks, reinforces its corporate pillars and drives revenues for better and sustained performance.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The processed evidence of the inquiry are summarized in this chapter with a recap of the main concern. The recommendations are raised as well as limiting aspects and suggestions that warrant further research.

5.2 Summary

The link between CAS and financial performance was explored by this inquiry. The study observed that the studied listed firms had put in place CAS. The study acknowledged that the adoption of CAS has significantly contributed towards making sure that financially generated reports were of high quality.

The study further noted that there was quality leadership in the studied firms. This means that there was sound leadership in the studied firms which is a challenge for most firms. The study also showed that adherence to quality leadership had significantly enhanced the quality of financial reporting among the listed firms in Kenya. In fact, it is leadership quality that had the largest beta, which means that it greatly contributes towards the quality of financial reporting more than other variables covered in this study.

The results showed that corporate governance structures were in place, which include relevant boards, the management and shareholders and how they interact with each other for success of the firm. The study observed that the corporate governance structures in place have significantly contributed towards the quality of financial reporting of the listed firms in Kenya. In fact, the contribution of corporate governance structures towards the quality of financial reporting was far above that of computerized accounting system.

5.3 Conclusion

Financial reporting quality is critical for the firm that strives to remain competitive in the industry of operation. There are different parties that rely I on the financial information reported by the firm, especially those listed on a security exchange. In particular, investors and shareholders do rely on these financial reports to make judgment on whether to commit funds in the firm to run the operations. Thus, presenting credible and accurate financial reports to these users is an important step towards ensuring that informed decisions are made. This is where financial reporting quality comes in as an important parameter that influence the decisions made by investors and shareholders of the firm.

Financial reporting quality is predicted by a number of variables. The quality of leadership in the firm is important when it comes to reports and financial information published by the firm. Ethical leaders will always drive some sense of ethics in financial reporting which would trickle down impacting the quality of the financial reports prepared. One major role of a leader is to train followers so that quality output is generated. When employees are properly trained, this will minimize the errors committed when preparing financial reporting thus significantly impacting on quality of the reports.

Corporate governance is equally important when it comes to the quality of financial reporting. The board of directors is an oversight body that checks the actions undertaken by the management to ensure they are well aligned with the interests of the shareholders. The constitution and diversity of the board is important as far as quality financial reporting is concerned. Weak corporate governance can be a good ground for management to engage in such practices as earnings management which can have severe implications on the quality of financial reports. All financial reports prepared by the firm are usually approved by the board after they

have been audited. The board can leverage on this signatory role to ensure that only quality financial reports are validated.

Adoption of computerized accounting system is important factor that contributes towards the quality of financial reporting in the firm. As compared to a manual system of accounting that is characterized by a lot of paper work, a computerized accounting system is associated with timeliness which is an important parameter of financial reporting quality. The effectiveness of the computerized accounting system depends on the level of security in an organization. Keeping such a computerized accounting system to be secure can contribute towards quality financial reports.

5.4 Recommendations for Management, Policy and Practice

The senior managers of listed entities should demonstrate quality strategic leadership to support the quality of financial reports. The management of the listed firms should be appropriately rewarded (both financially and non-financially) so as to minimize conflict of interest with shareholders. The internal audit managers of the listed firms at NSE should strengthen the existing internal controls to enhance the quality of financial reports.

The policy makers at the Capital Market Authority (CMA) should stipulate strict regulations with regard to corporate governance and leadership of the listed firms to ensure credible financial reports are generated. The regulatory bodies of the respective firms of the listed firms including the Central Bank of Kenya for listed commercial banks and Kenya Association for Manufacturers for the listed manufacturing firms should come up with strict guidelines on financial reporting by the member firms. The policy makers of the listed manufacturing firms in

Kenya should strengthen the existing policies with regard to corporate governance and leadership among these firms.

5.5 Limitations of the Study

The study focused on determining the effects of computerized accounting system on financial reports quality among firms listed at the NSE. Listed entities were covered in this entity. The time scope covered a period of 6 years from 2015 to 2020. There were 68 firms listed at the NSE as of the period 2015 to 2019 in the different categories crafted by the NSE. It was anticipated that with the Covid-19 pandemic control and containment measures currently in place, collection of primary data using the researcher administered method of data collection was infeasible. This is despite the fact that this method is perceived as the best method of collecting data using questionnaires. To address this challenge, the researcher used mailed questionnaires to identified respondents and made follow up to ensure that all questionnaires administered were filled and returned.

5.6 Areas for Further Research

Further studies should be conducted to link computerized accounting system on other constructs like earnings management. The focus of future studies should be in different contexts like the public sector including the counties in Kenya away from the listed manufacturing firms. Further studies can be conducted using advanced methodologies for instance panel data or time series. This will require collection of data from secondary sources.

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APPENDICES

Appendix I: Companies Listed at the NSE

1. Eaagads Ltd Ord 1.25 AIM
2. Kakuzi Plc Ord.5.00
3. Kapchorua Tea Co. Ltd Ord Ord 5.00 AIM
4. The Limuru Tea Co. Plc Ord 20.00AIMS
5. Sasini Plc Ord 1.00
6. Williamson Tea Kenya Ltd Ord 5.00 AIM
7. Car & General (K) Ltd Ord 5.00
8. ABSA Bank Kenya Plc Ord 0.50
9. BK Group Plc Ord 0.80
10. Diamond Trust Bank Kenya Ltd Ord 4.00
11. Equity Group Holdings Plc Ord 0.50
12. HF Group Plc Ord 5.00
13. I&M Holdings Plc Ord 1.00
14. KCB Group Plc Ord 1.00
15. National Bank of Kenya Ltd Ord 5.00
16. NCBA Group Plc Ord 5.00
17. Stanbic Holdings Plc ord.5.00
18. Standard Chartered Bank Kenya Ltd Ord 5.00
19. The Co-operative Bank of Kenya Ltd Ord 1.00
20. Deacons (East Africa) Plc Ord 2.50AIMS
21. Eveready East Africa Ltd Ord.1.00
22. Express Kenya Plc Ord 5.00AIMS

23. Kenya Airways Ltd Ord 1.00
24. Longhorn Publishers Plc Ord 1.00AIMS
25. Nairobi Business Ventures Ltd Ord. 1.00GEMS
26. Nation Media Group Plc Ord. 2.50
27. Sameer Africa Plc Ord 5.00
28. Standard Group Plc Ord 5.00
29. TPS Eastern Africa Ltd Ord 1.00
30. Uchumi Supermarket Plc Ord 5.00
31. WPP Scangroup Plc Ord 1.00
32. ARM Cement Plc Ord 1.00
33. Bamburi Cement Ltd Ord 5.00
34. Crown Paints Kenya Plc Ord 5.00
35. E.A.Cables Ltd Ord 0.50
36. E.A.Portland Cement Co. Ltd Ord 5.00
37. KenGen Co. Plc Ord. 2.50
38. Kenya Power & Lighting Co Plc Ord 2.50
39. Total Kenya Ltd Ord 5.00
40. Umeme Ltd Ord 0.50
41. Britam Holdings Plc Ord 0.10
42. CIC Insurance Group Ltd ord.1.00
43. Jubilee Holdings Ltd Ord 5.00
44. Kenya Re Insurance Corporation Ltd Ord 2.50
45. Liberty Kenya Holdings Ltd Ord.1.00

46. Sanlam Kenya Plc Ord 5.00
47. Centum Investment Co Plc Ord 0.50
48. Home Afrika Ltd Ord 1.00
49. Kurwitu Ventures Ltd Ord 100.00
50. Olympia Capital Holdings ltd Ord 5.00
51. Trans-Century Plc Ord 0.50AIMS
52. Nairobi Securities Exchange Plc Ord 4.00
53. B.O.C Kenya Plc Ord 5.00
54. British American Tobacco Kenya Plc Ord 10.00
55. Carbacid Investments Ltd Ord 1.00
56. East African Breweries Ltd Ord 2.00
57. Flame Tree Group Holdings Ltd Ord 0.825
58. Kenya Orchards Ltd Ord 5.00 AIM
59. Mumias Sugar Co. Ltd Ord 2.00
60. Unga Group Ltd Ord 5.00
61. Safaricom Plc Ord 0.05
62. NEW GOLD ETF

Source: NSE (2020)

Appendix II: Questionnaire

TITLE: The Effect of Computerized Accounting System on Financial Reporting Quality among Firms Listed at NSE.

Name of the Firm.....

SECTION A: QUALITY OF FINANCIAL REPORTS

1. Kindly State the extent to which you agree with each of the statements in regard to quality of financial reports in the firm.

Use the scale 1=highly disagree, 2=disagree, 3-neutral, 4-agree and 5-highly agree

	1	2	3	4	5
The financial reports produced are highly understood by all users					
The firm has never received a qualified report from auditors					
The financial reports have been capable of highlighting cases of fraud, and potential fraudulent transactions					
The reports include a realistic budget preparation					
There are very few cases (almost none) where a review of budget was necessitated					
The regulator has always been satisfied with the financial reports produced by the firm					
Investors in the firm have successfully relied on financial reports in making accurate investment decisions					
The financial reports have always been objective, presentable and relevant					
The department involved with financial reports preparation have always received commendable					

words from the firm's top management					
The firm have successfully relied on financial reports to make future and strategic plans for the company					

SECTION B: COMPUTERIZED ACCOUNTING SYSTEMS

Use the scale 1=highly disagree, 2=disagree, 3-neutral, 4-agree and 5-highly agree

	1	2	3	4	5
The firm uses a fully computerized accounting system					
The firm computerized the accounting systems more than 5 years ago					
There is zero chance of manipulating the financial system in the firm					
The firm has not experienced losses as a result of financial system manipulation					
The company has invested heavily in developing a safe and secure computerized accounting system					
The computerized system is able to sufficiently handle all financial transactions of the company adequately					
The computerized accounting system is easily compatible with other systems in the firm, such as production, manufacturing, marketing etc					
The accounting system is user friendly and understandable					
The use of the computerized accounting system has significantly reduced errors and improved speed of transactions					
The computerized accounting system is very secure with strong firewalls to keep cyber attackers at bay					

The computerized accounting system has never been attacked by hackers					
The computerized accounting system provides value more than the costs of installing one					

SECTION C: LEADERSHIP QUALITY

Use the scale 1=highly disagree, 2=disagree, 3=neutral, 4=agree and 5=highly agree

	1	2	3	4	5
The firm leadership is committed to ensure that employees deliver appropriately					
The senior management in the firm supports the accounting department in producing quality reports					
The management uses motivation tools effectively to ensure that goals and objectives are met					
The management supports effective training and workshops for personnel in finance and accounting department					
Senior managers are well qualified and experienced in determining the accuracy of financial reports					
The top management organizes periodical meetings with staff members in finance and accounting department					
Monitoring of budgets is constantly undertaken and corrective actions recommended as soon as possible					
Source documents are well and safely stored in organized formats					
The management is able to track and enhance compliance with strategic plans of the firm					
The management updates					

computerized accounting systems to incorporate modern security features in the system.					
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SECTION D: CORPORATE GOVERNANCE STRUCTURE

Use the scale 1=highly disagree, 2=disagree, 3-neutral, 4-agree and 5-highly agree

	1	2	3	4	5
The board of the firm has a financial committee that is composed of competent and experienced personnel in accountancy					
The CEO does not act as the Chairman of the board (No CEO duality)					
There is no more than two-thirds of the board members belonging to the same gender					
The board members are composed of experienced NEDs (Non-executive directors) in the industry.					
The internal auditor of the firm sits at the finance board committee					
The finance and accounts board committee meet at least 4 times per year					
The board members support management in updating computerized accounting system					
The board is comprised of both experienced as well as young members					
There is appropriate diversity in board composition that improves decision making process					
Board meetings are always well attended by all members of the board					

END!

Thank You!