ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARD FOR SMALL AND MEDIUM-SIZED ENTERPRISES AND ITS EFFECT ON THE QUALITY OF FINANCIAL REPORTING: THE CASE OF KIAMBU COUNTY

GICHURU HANNAH WAMBUI

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DECLARATION

This management research project is my own work, and I have not submitted it for an award at any university or institution of higher learning.

Signature ______________________ Date 23/11/22 ______________

Gichuru Hannah Wambui **D61/11625/2018**

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

Signature_ ____ Date: 23rd November 2022__________

Mr. Abdulatif Essajee

Lecturer, Department of Finance and Accounting

Faculty of Business & Management Sciences

University of Nairobi

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

LIST OF ABBREVIATIONS

ANOVA- Analysis of Variance

FASB- Financial Accounting Standards Board

GAAP- Generally Accepted Accounting Principles

IASB- International Accounting Standards Board

ICPAK- Institute of Certified Public Accountants of Kenya

IFRSs- International Financial Reporting Standards

IFRS for SMEs- International Financial Reporting Standards for Small and Medium-sized Entities

NSE- Nairobi Securities Exchange

SMEs- Small and Medium-sized Entities

SWOT- Strengths, Weaknesses, Opportunities and Threats

USA- United States of America

UK- United Kingdom

SACCO- Savings and Credit Cooperative

ABSTRACT

The goal of IFRS for SMEs is to simplify financial reporting on SMEs by generating high-quality financial statements that can help capital providers and other participants make sound economic decisions. This study examined the adoption of IFRS for SMEs and its effect on the quality of financial reporting in Kiambu County. It examined how SMEs operationalized the qualitative aspects of financial reporting using an attitudinal research design. The respondents of this study comprised of managers and loan officers of 14 SACCOs headquartered in Kiambu County and licensed by SASRA. The survey adopted the 21-item index for operationalization of qualitative characteristics (Beest, Braam, & Suzanne, 2009) for collection of data. Descriptive statistics, correlation analysis, and analysis of variance were used to analyze the data. The results of this study indicated that comparability has a positive and significant effect on quality of financial reporting (β= 0.281, $p<0.016$). Relevance, faithful representation, understandability and verifiability had (β = 0.065, $p< 0.546$), (β =0.112, $p < 0.287$), (β= 0.011, $p< 0.332$) and (β= 0.018, $p< 0.870$) respectively indicated a positive but insignificant effect on the quality of financial reporting. Timeliness (β = -0.023, $p< 0.830$) indicated a negative and insignificant effect on the quality of financial reporting. This confirms that the adoption of IFRS for SMES has improved the Quality of Financial Reporting though the improvement is not significant.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The usefulness of financial statements and reports can be affirmed when they exemplify the economic truths of an organization with regards to the qualitative scores intrinsic to financial statements; relevance, completeness, understandability, materiality, substance-over-form, timeliness, prudence, reliability, balance between cost and benefit, comparability and lastly undue cost or effort (IASB, 2015). The desire for quality financial information can be associated with the agency theory problem where management or owners of SMEs have access to better information about the entity as compared to other stakeholders. Information asymmetry is where management not only have access to higher quantity but also higher quality information about the business than other participants. In consideration of these two problems, it became essential for a financial reporting system to be put in place that will require SMEs to provide adequate financial reports (Ezekiel, 2016).

The establishment of International Financial Reporting Standards (IFRS) signaled a new beginning for various jurisdictions in terms of financial reporting. The knowledge of the anticipated advantages of using IFRS rather than National GAAPs ensured that the standard of financial statements would increase. Its adoption could help propel the convergence of accounting standards so as to enhance comparability and minimize the chances of having different reporting formats across global boundaries (Mutai , 2014).

In the past decade around the globe there has been a need for countries and jurisdictions to either converge their local accounting standards to IFRSs or directly adopt International Financial Reporting Standards. However, securities regulators guide this trend as IFRSs are meant to equally cater for the needs of limited liability entities whose securities trade in various national capital markets. This has expanded the complexity and scope of issues covered by IFRS. This complexity cascades to SMEs as a result, they have become vocal about the burden of complex standards on them as financial statement preparers and equally about the relevance of the information they provide to those who use their statements. As a result, the demand for IFRS for SMEs arose (South African Institute of Chartered Accountants, 2009).

In July 2009, concerns about financial reporting by smaller businesses led the International Accounting Standards Board (IASB) to establish IFRS for SMEs. Majority of the principles in the full version of IFRS for measuring and recognizing liabilities, assets, expenses and incomes have been abridged to suit the scale of smaller entities. While the amount of necessary disclosures has been significantly reduced, topics deemed irrelevant for SMEs are to be omitted. (Chege & Muturi, 2015)

The aim of this research is to evaluate how this standard's adoption has impacted the financial reporting quality of SMEs in Kiambu County. This will help the study find out how the standard has helped small entities improve on their reporting ability.

1.1.1 International Financial Reporting Standard for Small and Medium-sized Entities

IASB produced a set of accounting regulations for the preparation of a company's financial reports and statements known as the International Financial Reporting Standards (IFRS). The standards advanced were in consideration of public interest to be able to provide understandable, uniform and high-quality accounting standards.

The International Financial Reporting Standards are a set of accounting rules created by IASB for the purpose of preparing financial reports and statements for entities. In order to establish clear, consistent, and high-quality accounting standards, the standards were advanced with care for the public.As globalization of finance continues these standards will allow for investors to analyze and compare financial information made available to them in a meaningful manner hence resulting in informed decision-making (Solanke, Adinnu, & Alhassan, 2016)

IASB published the IFRS for SMEs to make financial reporting for SMEs easier globally. IASB released IFRS specific to SMEs in July 2009**.** This was a five-year cycle of growth that included broad-based global consultation. In 2015 amendments to the Standard were issued and in October 2015 the fully revised edition of the Standard was made available for fiscal periods commencing on as of 1 January 2017. An entity was allowed to undertake early application as long as they disclose that fact to its subscribers (IASB, 2015)

IFRS for SMEs is an independent framework that is well adapted to meeting the criteria and competences of smaller entities. In countries where there is no national GAAP, IFRS for SMEs provides a standard for institutions. One of the goals for the formation of the IFRS was to provide a replacement for jurisdictions that already had a specified national GAAP that would be applicable across different regions. One of the purposes of the IFRS was to create a replacement for jurisdictions that already had a national GAAP, with regulations that could be used across different regions. Once they grow into publicly accountable organizations it would be easy for the new organizations to move to full IFRS. It can be implemented for SMEs in any jurisdiction. It is up to the authorities within a jurisdiction to determine the businesses that can make use of the standard. However, it cannot be used by listed companies and financial institutions (Mahmood, Khan, Rehman, & Atta, 2018)

The IFRS for SMEs is a 230-paged document with 35 sections designed to generate financial statements for general purpose describing the current financial condition, operating results and cash flows of SMEs. It is geared to the capabilities and needs of smaller enterprises. The IFRS for SMEs is a simplification of the known national GAAPs and the full IFRS. In comparison to the entire set of IFRS, these simplifications make IFRS simpler and easier for SMEs. Some topics for SMEs have been excluded in the IFRS because they were unrelated to traditional SMEs, for example earnings per share as they are not listed entities, segmental reporting and interim financial reporting are excluded for SMEs in the standard. Many of the completely IFRS-related measurement and recognition concepts are simplified in the IFRS for SMEs. In terms of this criterion, SMEs, for example, require much fewer disclosures (3000 vs. 300). (Solanke, Adinnu, & Alhassan, 2016).

The IFRS for SME are focused on certain concepts and principles that lay the groundwork for the formulation, implementation, and creation of a guide that allows for judgment to be used to minimize accounting differences. IFRSs' key aim for SMEs is to facilitate continuity over time in the handling of accounting processes (Ezekiel, 2016).

1.1.2 Quality of Financial Reporting

The extent to which accounts and financial statements are representative of an entity's current financial circumstances is referred to as financial reporting quality. Financial statements in a SME are intended to give interested parties information about the aforementioned business' financial performance, cash flows, and financial position, according to Concepts and Pervasive Principles, Section 2 of the IFRS for SMEs. (IASB, 2015) The information shows the outcome of the management's stewardship, which is the extent of accountability of administration for the resources that are entrusted to them. The information must attain certain qualities as stipulated by the Standard for it to be sufficient for use. The following make up the qualities intrinsic to financial statements; understandability, reliability, completeness, materiality, prudence, substance-over-form, timeliness, comparability, balance between cost and benefit, relevance and lastly undue cost or effort (Solanke, Adinnu, & Alhassan, 2016). Quality financial statements according to IASB are supposed to have the aforementioned attributes for them to be deemed sufficient (Ezekiel, 2016).

It is necessary for financial reports to be of high quality as the information is relied upon for the mutual benefit of decision makers (IASB, 2015). The thresholds of quality for financial reporting will definitely have an effect on the players involved in SME lending, resource allocation and investment (IASB, 2015).

The usefulness of financial reports is dependent on the dominant needs during a particular period and how it can be put to use in order to solve specific problems within an SME. To fulfil this, reporting must be done within the limitations of the inherent qualities. The application of qualitative and objective characteristics most often leads to an enhanced reporting procedure with improved meaning to create a long-lasting impact in the decision-making of users. The quantifying of quality and usefulness of financial information is of importance as it helps in improving the quality of economic decision-making by users (Ezekiel, 2016).

According to the Exposure Draft (IASB, 2013), by combining the score of enhancing and fundamental qualitative qualities, the quality of financial reporting is determined which serves as the foundation for decision-making. The draft identifies fundamental qualitative characteristics as those that define the elements should be included in final accounting reports while enhancing qualitative characteristics seek to help improve decision-making (Ezekiel, 2016).

1.1.3 IFRS for SMEs and Quality of Financial Reporting

Several theories exist to explicate the relationship between the adoption of IFRS for SMEs and its effects on accounting reports. The public interest theory agrees to the fact that regulation is a necessity in order to guard and shield the public from the occurrence and effects of market failure. Accountants are expected to provide, generate, and guarantee audit assurance of general-purpose financial reporting, their professional drive is to ensure that they control the standard-setting procedure so that their contribution is highly valued rather than that of other participants (Ezekiel, 2016).

Agency theory agrees that managers of SMEs are at a privileged position of being custodians of an entity's financial information and could have better information about the entity's activities. It is anticipated that the managers will disseminate it to the principal and other users for decision-making. An SME and its management may come with accounting policies and procedures but a self-interested management will manipulate the process so that they do not avail the necessary information to the expecting users. Therefore, to combat such a problem, governance mechanisms and regulations such as IFRS for SMEs are established so as to limit and guide the amount and type of information that gets to the user (Bendickson, Muldoon, Liguori, & Davis, 2016).

According to the events-approach, accounting's aim is to furnish required knowledge about crucial economic transactions that will aid stakeholders in developing their own decision-making models (Sorter, 1969). High quality of financial reporting will result in reliable and better-informed decisions by users.

In order for SMEs to achieve organizational efficiency as well as high quality financial reporting effective implementation must be put in place as well as a reliable system of financial reporting. Financial reporting quality is highly dependent on decision-making mechanisms that are guided by timeliness, comparability, relevance, completeness and reliability of accounting information.

1.1.4 Small and Medium-sized Entities in Kiambu County

IFRS identifies SMEs as entities that do not trade in their country's stock-exchange hence have no public accountability. It equally implies that they deliver general-purpose financial statements to a wide array of users who may not be able to receive information personalized to their unique needs. (IASB, 2015).

In Kenya, SMEs are classified as an entity that has a yearly turnover of between KSh. 500000 and KSh. 5 million and have a worker base of 10 to 49 people. For a medium-sized enterprise the number of employees vary from 50-99 (Doughlas, Doughlas , Muturi, & Ochieng , 2017). The Board's description of SMEs does not provide quantitative size requirements for identifying a small or medium-sized organization since quantified size measurements that would be relevant and long-lasting in multiple jurisdictions are not feasible to create. A jurisdiction may choose to set quantitative conditions such as size when choosing the firms that should be permitted to use IFRS for SMEs. Before deciding that it can claim compliance with the standard, an individual will also need to determine whether it meets the concept of a SME in the standard (IASB, 2015).

According to the Economic Survey 2019, in Kenya, SMEs contribute greatly to the economy as in 2018 840,600 new jobs were created with over 80% of them being in the informal sector which positively impacts the country's GDP (KNBS K. N., 2019). It is advanced hat if IFRS for SMEs is used then the assurance in their financial statements would be boosted leading to better access to financing and enhanced comparability of business reports. A greater focus on accountability will help SMEs reach their full potential as engines of economic growth (Chege & Muturi, 2015).

Kiambu county is located to the North of Nairobi County. Its close proximity to the country's capital centre makes it an ideal place for SMEs to set up business. Kiambu County was the 3rd best county after Nairobi and Nakuru respectively during the period between 2013 and 2017 as it contributed approximately 5.5% of Kenya's GDP. Kiambu county has registered a total of 2647 SMEs that have helped boost the county's economy through generation of employment opportunities, adequate provision of goods and services and fostering innovation which has made the county to have a relatively high per-capita income in Kenya (Kiambu County, 2020).

1.2 Research Problem

For a long time, the concept of quality was applied to physical objects. As time passed, attention has been drawn to the intangible concepts such as quality of financial statements. Accounting is a part of business processes that seeks to transform the raw data recorded into a management product that can be used to inform its users decisions. Therefore, accounting results into information that have cost, price value and qualities that need to be put into consideration during studies (Renkas, Goncharenko, & Lukianets, 2016). The main aim of financial reporting is to ensure that entities deliver high-quality financial statements that can be beneficial in economic decision-making by capital providers and other participants. The information provided will help players make decisions on resource allocation, asset acquisition, and on making investments, ultimately improving market efficiency. Whereas accounting bodies insist on top-notch financial reports with regards to accounting one of the crucial issues is on how to measure and operationalize quality (Beest, Braam, & Suzanne, 2009).

Internationally, a similar study conducted in Northern Nigeria found that the majority of firms did not make accounting reports in complaisance with IFRS for SMES and that financial reporting practice was inadequate (Solanke, Adinnu, & Alhassan, 2016). In Pakistan, research findings indicated that there was a reasonable level of awareness amidst accountants with reference to IFRS for SMEs. The most important benefit of using the standard was thought to be high-quality financial information, while were the major challenges were lack of trained personnel as well as the implementation cost-burden of firms. It was determined that, in order for the standard to fulfill its goal, relevant professional and regulatory authorities must arrange training and development programs to raise awareness at both the country and firm-level. (Mahmood, Khan, Rehman, & Atta, 2018). According to a research conducted in Turkey to establish the determinants of IFRS adoption for SMEs, countries with lower market transparency and higher regulatory performance were more inclined to implement the norm early (Zahid & Simga-Mugan, 2019).

The availability of financing and the training of finance managers, according to a study conducted in Kenya on the factors influencing the implementation of IFRS for SMEs in Thika town, had an impact on the standard's uptake. The majority of respondents had little to no accounting training, which contributed to their low level of knowledge about IFRS for SMEs. This will have an impact on the caliber of reports produced by SME finance managers (Chege & Muturi, 2015). Omare (2015) in determining the challenges faced by SMEs in Kisii as they adopt the IFRS for SMEs identified inadequate accounting knowledge, lack of government goodwill, insufficient capital and lacklustre financial management as the major challenges. Many of the studies on the IFRS for SMEs focused on its acceptance and application, implementation issues, and influence on economic growth, but few looked at its impact on financial reporting quality.

This study seeks to determine whether IFRS for SMEs adoption has any effect on the quality of financial reporting for SMEs.-This study is tailored to answer the following research question, Is there relationship between the IFRS for SMEs adoption and the quality of financial reporting for SMEs in Kiambu County?

1.3 Research Objectives

The objective of this research is to determine whether IFRS for SMEs adoption has effect on the quality of financial reporting by SMEs in Kiambu County.

1.4 Value of the Study

The results of the study will help management and accountants to better rationalize resource allocation during the preparation of SME financial statements that are compliant with IFRS for SMEs.

The findings will also help inform ICPAK, the accounting standards implementation and regulation body in Kenya, to push for IFRS for SMEs adoption when SMEs are preparing and presenting financial statements.

Researchers with a keen interest in the quality of financial reporting and IFRS for SMEs will also have access to reference material from this study.

The findings will assist lenders and investors, in assessing the degree of confidence they can place on financial reports of SMEs that have been prepared in accordance with IFRS for SMEs criteria.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter examines literature relevant, empirical and theoretical, relating to the area of study research.

2.2 Theoretical Review

There is a large body of theoretical literature that views the adoption of accounting standards as an important determinant of the quality of financial reporting. In the following section, the theories that help improve the understanding of the choice of accounting standards are discussed.

2.2.1 Agency Theory

Akerlof (1970) highlights that agency theory is characterised by the following 3 factors: moral hazard, information asymmetry and adverse selection. Information asymmetry occurs when the agent due to their involvement in the daily operations of an entity have more information at their disposal than the principal. This may lead to a moral hazard where an agent exploits the information asymmetry for their own benefit. Adverse selection arises when there is inadequate amount of information to evaluate the efficiency and effectiveness of the agent. This model views the participants as logical individuals with the ability to evaluate future eventualities yet for any human it is expected that they will act according to their own specific preferences.

Managers being in a position of privilege by being the custodians of a firm's financial records could have better information about the entity's activities than the owners. It is anticipated that the managers will disseminate information to the owners and other users for decision-making. The owners may formulate accounting policies and procedures but the implementation may be manipulated by a self-interested management so that they do not avail the necessary information to the appropriate users. Therefore, to combat such a problem, governance mechanisms and regulations such as IFRS for SMEs are put in place so as to control the agent's actions.

IFRS for SMEs adoption by Kenyan SMEs eliminates the opportunistic tendencies by managers that may lead to information asymmetry and lead to agent-principal conflict within an entity.

2.2.2 Capture Theory of Regulation

This theory by Stigler (1971) postulates that to represent the needs of those who are meant to be subjected to laws and regulations, or the bureaucrats and politicians who draft or regulate them, laws are regularly and invariably 'captured' and abused. This theory assumes that regulation over periods of time serves the interest of the industry that is regulated (Posner, 1974).

It is argued that the primary beneficiaries of regulation are the concerned entity rather than the general public (Etzioni, 2009). SMEs do not engage in public accountability, it is arguable that IFRS for SMEs implementation is to benefit themselves and to strengthen their relationships with outsiders for their own edification.

2.2.3 Events Approach in Accounting Theory

According to Sorter's (1969) development and description of the events approach in accounting theory, accounting's purpose is to provide necessary information about significant economic events that will enable individual users to create their own decision-making models. This approach allows the user to combine weights and values and assign them to the event according to importance.

The accountant, on the other hand, would just give the consumer information about a specific economic event but not presume the decision model to be utilized. The income statement of the event method would therefore not reflect financial performance of an entity during a particular period, but would communicate transactions that led to the present state of the business. However, the decision on the most relevant and significant transactions is made in the user's mind depending on their needs. SMEs do not engage in public accountability therefore are allowed to prepare general-purpose accounting statements for users. This means that based on the information provided, users will interpret the data provided to inform their decisions based on their needs.

2.3 Determinants of the Quality of Financial Reporting of Small and Medium-sized Entities

The quality of financial reports can be described as the degree to which financial statements accurately inform users about the underlying economic situation within a firm (IASB, 2015). Operationalization of qualitative characteristics is a determinant of the quality of financial reporting. Others are access to financing, level of awareness and level of education.

2.3.1 Operationalization of Qualitative Characteristics of Financial Reporting

Financial reporting is a means of communication that entities may use to inform outsiders about the results of the events and transactions that transpired over a specific period of time. The expectation is that information provided will be useful in helping users gauge the financial health of an SME (Mbobo & Ntiedo, 2016). Accounting reports are essential tools for any SME since they inform the various stakeholders on how the business is performing. The quality of a financial report can be defined as high if financial standards adopted are utilized to enable the adequate establishment of the level of both financial performance and position in SMEs. The fundamental qualitative characteristics of accounting reports define the quality of an entity's financial statements while enhancing characteristics typify their ability to inform decision-making. Faithful representation and relevance constitute the fundamental characteristics that determine the content of financial reports (IASB, 2015).

Information is considered to be relevant if it has confirmatory value; either confirms, corrects or rejects previous assessments. When information in financial reports provides feedback to users about past events or transactions, their expectations will either be changed or confirmed. It is also considered relevant if it has predictive value and can influence the user's economic decisions by way of monitoring the past, current and future events (Jonas & Blanchet, 2000).

To faithfully represent transactions in annual reports, the information provided must represent accurately or reasonably the current economic situation of an entity. The annual reports must be comprehensive, objective, and free of bias (IASB, 2015). A concise and well-organized yearly report should clearly specify where to access needed information. Notes to the Statements of Comprehensive Income and Financial Position may help provide insights and explain the earnings figures (Jonas & Blanchet, 2000).

Enhancing characteristics help improve the usefulness of financial reports in decision-making once the fundamental characteristics have been defined. They include comparability, understandability, verifiability and timeliness (IASB, 2015). Decision-makers can deem information provided to them as understandable if they are able to comprehend their meaning (IASB, 2015). The information must be characterized and classified so as to make it easier to search for definite information. Graphic and tabular formats ought to clarify relationships and ensure precision hence improving understandability. Technical jargon should be avoided and where it is impossible to avoid, then a glossary should be included. (Beest, Braam, & Suzanne, 2009)

IASB (2015) defines comparability as inherent in enabling users to recognize differences and similarities between multiple organizations across several reporting periods. This implies that differing situations should be presented differently while for similar situations they should be presented in the same manner. The basis of its measurement is consistency, which means using the same accounting policies and procedures throughout the entire reporting period for an entity inorder to enhance comparability (Beest, Braam, & Suzanne, 2009).

Timeliness can be identified as availing information to users before it loses its potential to add value, impact and direct their decisions (IASB, 2015). It is the period of time necessary to make crucial information accessible. The duration of time needed for an external auditor to sign the auditor's report is used to calculate it (IASB, 2015).

Verifiability is when informed and impartial experts reach a consensus, but they do not completely accept that a specific representation provides an accurate representation of the overall conditions (IASB, 2015).

2.3.2 Level of Education

Zeghal & Mhedhbi (2006), imply that in the application of new accounting practices, education is a significant cornerstone. However, in academia there is a struggle of discerning the "where, how and when" of integrating IFRSs into today's accounting education (Akhter, 2013).

Mita & Husnah (2015), agree that decisions with regard to the adoption of accounting regulation are known to be strategic, requiring a high level of competence and education with expertise in understanding and passing professional judgment to necessitate adequate interpretation of the standard within the context of an entity. The expertise and professional judgment can only be acquired through higher education.

2.3.3 Awareness of the IFRS for SMEs

Many businesses do not understand the magnitude of the benefits that accrue as a result of adopting the standard. There is a clear indication that the lack of awareness inhibits SMEs from adopting the standard (Chege & Muturi, 2015).

Awareness ensures that entities are up-to-date with regulatory changes that may occur during the life of a business. This will be essential as businesses ought to adapt to any changes that might occur.

2.3.4 Access to Financing

Most SMEs are faced with the problem of inadequate funding in order to undertake its activities wholesomely. Most financial institutions are risk-averse and conservative. They consider SMEs to be high-risk with no dependable records and no collateral. This weakens the support they require for their operations and growth. IFRS for SMEs implementation augments the ability of these entities to access funding for their activities (Chege & Muturi, 2015).

Ikem, Chidi, & Titus(2013), assessed the importance of financial information in addressing SMEs' financial issues in Nigeria, concluding that there is a favorable association between SME access to finance and accounting practices. The higher the quality of financial information supplied by SMEs, the more funding opportunities they will have.

2.4 Empirical Studies

Several studies examining the relationship between IFRS for SME adoption and SMEs' financial reporting quality have been undertaken at both the global and local levels. These studies have been reviewed in a bid to establish existing literature gaps.

2.4.1 Global Studies

Mbawuni(2019) conducted a research in Ghana to evaluate the financial reporting quality of companies listed on the Ghana Stock Exchange. The study was conducted using a descriptive research design. A total of 37 publicly traded companies were included in the population, from which a sample of 20 was chosen. Secondary data from the Ghana Stock Exchange website was used as well as primary data obtained through the a structured questionnaire from the various company heads. The reports were found to be 51.01% relevant, 60.95% faithfully represented, 40.09% comparable, 19.75% of a timely nature and 50.1% understandable. The study concluded that financial reporting quality was moderate for the listed companies and needed improvement. This study's focus was listed companies instead of SMEs.

Ammar Zahid & Simga-Mugan in 2019 sought to analyse the determinants of IFRS and IFRS for SME adoption decision worldwide using a 145-country dataset. Countries with lower economic development, regulatory efficiency, and market openness were shown to be more likely to adopt IFRS for SMEs. It was also noted that the adoption of IFRS for SMEs was higher in common-law countries than in code-law countries.

Al-Khafaji (2018) conducted a survey of four Iraqi banks in 2016 investigating the effects of IFRS for SMEs application by SMEs on the quality of their financial statements. The banks that participated in the survey gave their opinion with regards to how they thought SMEs applied the standard with regards to limiting profit management practices, decreasing investor transaction costs and increasing market liquidity. The results revealed that there was a positive relationship between the application of IFRS for SMEs and the quality of financial statements. The findings affirmed that the application of IFRS for SMEs and the quality of financial statements had a positive relationship.It was concluded that the financial information acquired was of high quality and indeed reflected the financial realities of the entity and hence allowing banks to open up financing of SMEs, investors make informed decisions and also leading to easy international trade. It was found that the financial information acquired was of high quality and accurately reflected the company's economic realities, allowing banks to lend to SMEs, investors to make informed decisions, and international trade to flourish.

Gassen (2017) investigated how the IFRS for SMEs contributes to the progression of financial reporting in private enterprises. In order to understand the importance of IFRS for SMEs, the function of private firm reporting, and financial openness in their jurisdictions, he interviewed a sample of top accounting experts from 24 jurisdictions throughout the world. He found out that in some countries, the IFRS for SMEs was being used as a model for national regulatory reforms, influencing the level of financial reporting and openness among private companies.

Solanke, Adinnu, and Alhassan (2016) investigated the IFRS for SMEs adoption in North Central Nigeria. The study looked into the challenges, level of awareness, and willingness to adopt IFRS for SMEs. Their population was 556 SMEs that were registered with a sample of 307 SMEs spread out in 3 randomly selected states. The study employed a multiple regression model. The findings revealed that financial reporting quality in North-Central Nigeria is dismal. Most of the entities do not follow the IFRS for SMEs requirements. The main challenge that faced the SMEs in adoption was cost-constraint.

Beest, Braam, & Suzanne (2009) set out to study the quality of financial reporting using 231 yearly reports from listed companies in the USA, UK and Dutch Securities Exchange in 2005 and 2007 by measuring the qualitative characteristics. They devised a composite measuring instrument to assess the quality of financial reporting in a holistic way, based on fundamental and enhancing qualitative characteristics. Krippendorff's alpha was used to asses the tool's inter-rater reliability yielding a result of 0.79, which is greater than the needed 0.70. It was determined that a thorough measurement tool had been developed that would aid in the evaluation of financial reporting quality. This study developed a tool for measuring the quality of financial reporting which is an important tool that can be replicated for this study but from the perspective of an SME.

2.4.2 Local Studies

Ezekiel (2016) set out to establish the impact of adopting IFRSs on the quality of financial reporting in listed companies. The study employed a descriptive research design to substantiate the research objectives. The study targeted all companies that were listed at the NSE between 2011 and 2015. The Pearson correlation coefficient, descriptive analysis, and multiple regression were all used by the researcher. The findings of the study determined that the quality of financial reporting did improve though marginally from a mean of 3.7546 in 2011 to a mean of 3.8161 in 2015. Although the improvement was not significant, this did confirm that IFRS adoption had a favorable impact on the quality of financial reporting. The study was not specific to the IFRS on SMEs while its target population was limited companies. This study shall focus on the IFRS for SMEs.

In Nairobi County, Bare (2016) evaluated the level of accounting standard adoption and its impact on SMEs' financial performance. The research's population comprised of 868 professional SMEs while the sample size was 86 SMEs. Multiple regression was used to establish a relationship between accounting standard adoption and financial performance. An insignificant relationship between the variables was established. The accounting standards adoption affected SME performance adversely due to the extra costs that resulted from consultancy and training services. The study also established that accounting standards enhanced the reliability and relevance of SME financial reports. This study's focus was with regards to financial performance however the quality of financial reporting was is not considered.

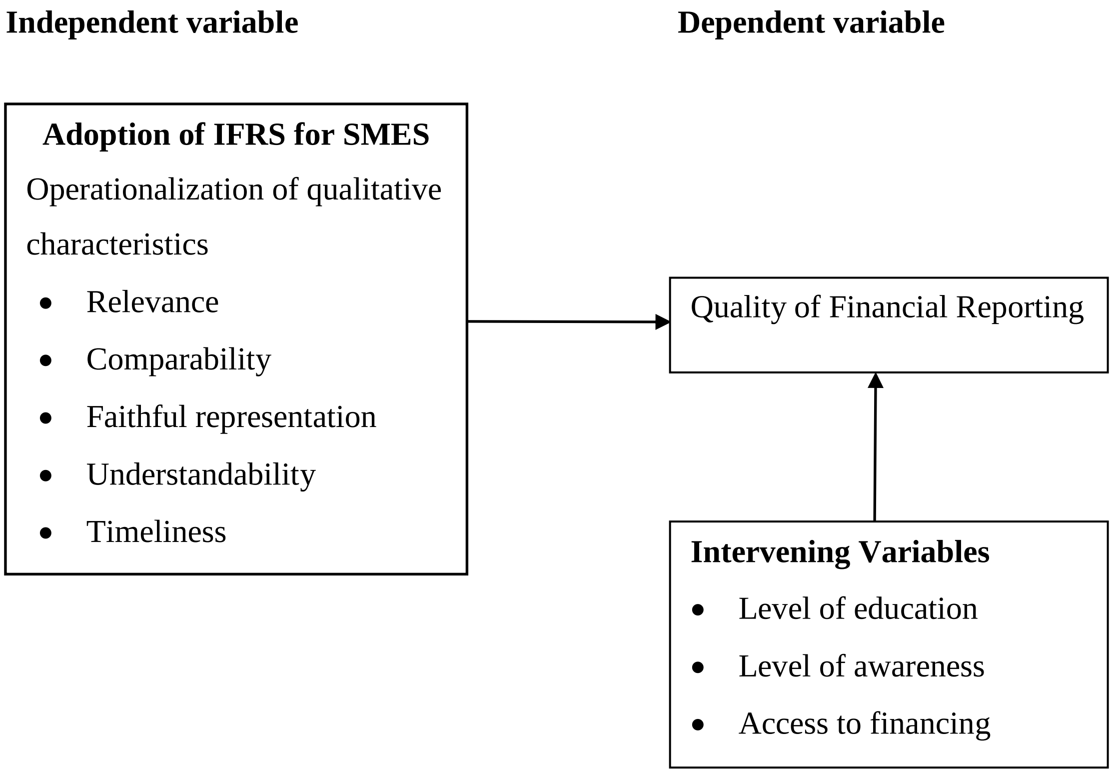
In a research to establish the factors that influence the implementation of IFRS for SMEs in Thika Town, Chege & Muturi(2015) using a sample of 120 SMEs selected from a population of 450 registered SMEs it was established that there was a favorable association between the availability of financing, the education of financial managers, IFRS for SMEs awareness, and IFRS for SMEs implementation. This study attempted to unravel the adoption of IFRS for SMEs within Kiambu County. However, the adoption of IFRS for SMEs and its impact on the quality of financial reporting by SMEs are not examined in this study.

Olango(2014) conducted a research in Mombasa's Central Business District on the effects of IFRS adoption on SMEs. The sample under the study comprised of 39 respondents who were individuals who were interested in the financial reporting of SMEs. The study's objectives were to look into capital availability and accessibility, financial report comparability, governance, and the impact of information variation on SME financial performance. In conclusion, it is apparent that IFRS for SMEs are a crucial component in SME performance. Multiple regression was used to analyze the data collected. The study's findings resulted in the conclusion that the adoption of IFRSs improved performance, improved decision-making, reduced information asymmetry, and improved financial statement comparability. The respondents in this study were not specific to the niche of study, as it involved people who were interested in financial reporting but not necessarily knowledgeable which makes the findings inadequate to draw conclusions from. The number of respondents is not representative of the area of study therefore not adequate to draw conclusions from.

Abdulrazak (2013) conducted research to examine the impact of IFRS adoption on the quality of SMEs' accounting reports in Nairobi County, a survey was conducted using a sample size of 70 SMEs picked from a population of 471 SMEs. He employed multiple regression analysis whose results led to the conclusion that the set of independent variables did contribute to the variance in the quality of SME accounting reports. According to the findings of a substantial positive correlation coefficient, the independent variables of comparability, understandability, relevance, faithful representation and timeliness have a positive relationship with the quality of accounting reports. It is a confirmation that firms adopting IFRSs in Nairobi County did benefit from transparent and clear financial statements. It focused on the adoption of IFRS 1 to 9 the study was carried out before the inception of IFRS for SMEs.

2.5 Conceptual Framework

Figure 2.1 Conceptual Framework



2.6 Summary of Literature Review

Many studies concerning the adoption of IFRSs have been carried out in developed and developing countries but little with regards to IFRS for SMEs. The majority of studies conducted in Kenya concern the implementation of IFRSs and their impact on the quality of financial reporting in Listed Companies. However, no research on IFRS for SMEs adoption and its impact on the quality of financial reporting in SMEs has been conducted to date, necessitating more investigation.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter elaborates on the research design employed in this study and the researcher's overall strategy for eliciting replies to study-specific research questions. It addresses techniques for data collection, describes and defends the approaches used in assessing the reliability and validity of the instruments for data collection. Finally, it explains the process of data analysis.

3.2 Research Design

Mugenda & Mugenda (2011) define research design as a study framework that aids in describing and streamlining the current condition of affairs. The research design serves as a plan for determining how to respond to the research questions.

This study adopted an attitudinal/affective survey designs. When data is needed to describe attitudes, feelings, and emotions concerning a phenomenon, the design is utilized. Affective survey is ideal for this research as the aim of the researcher is to gather information about individual opinions and beliefs. This design will equally help define the behaviour, attitude, perception and opinions of the respondents with regards to the quality of financial reporting in SMEs (Lavrakas, 2008).

3.3 Population of the Study

A population is a group of components or individuals that have at least one characteristic in common. Population also refers to the broader group a sample is drawn from (Mugenda & Mugenda, 2011). The target populace of this research comprised of SACCOs in Kiambu county that provide financing to SMEs in the county that will also serve as the sample population.

Kiambu County headquarters 14 SACCOs within the various sub-counties as shown in Appendix I. They are licensed and registered by the Sacco Societies Regulatory Authority (SASRA, 2021). The study adopted a census approach given the small size of the population.

The respondents of this study comprised of managers and loan officers of SACCOs that loan-seeking SMEs approach and present their financial statements to for evaluation of credit worthiness and authorization of credit facilities. SMEs use their financial statements to access funds from these establishments therefore loan officers and managers of SACCOs are in the best position to provide insight on the quality of financial reporting by SMEs.

3.4 Data Collection

Because of its ability to obtain data from the sample in a short amount of time, the study used a survey which was in the form of a questionnaire to collect primary data. There were two sections to the survey. The background information for the SME was covered in the first section. The second part of the survey adopted closed-ended questions. This helped facilitate the collection of accurate information. The survey was circulated to the participants at their work places. The survey adopted the 21-item index for operationalization of qualitative characteristics (Beest, Braam, & Suzanne, 2009).

3.5 Validity and Reliability

The participants were briefed on the study's need and significance early in advance. Their consent was required for their participation in order to provide their full cooperation. The respondents were offered advice on how to answer the researcher's questionnaire. This was done to verify that the information supplied is complete and accurate.

3.6 Data Analysis

This study used descriptive statistics to analyze the data. Standard deviations, mean, and other statistics were computed to aid in understanding the information. The data that was collected, edited and compiled to check for any inconsistencies that could occur during collection. It was then coded according to responses given and relationships assessed and presented using graphs, tables, and analysis done using SPSS.

The Pearson correlation coefficient was used to gauge the degree of association between the dependent and independent variables. While in establishing the relationship between the variables, multiple regression was used. The variables that will be used in the model are the essential elements.

A multiple-regression model employed for this study will take the following form;

$$Y = \beta 0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \varepsilon$$

Where;

Y= Dependent variable (quality of financial reporting)

Quality of Financial Reporting = The quality scores intrinsic to financial statements; understandability, comparability faithful representation, relevance, timeliness and verifiability.

And;

X_1 = Relevance

X_2 = Comparability

X_3 = Faithful representation

X_4 = Understandability

X_5 = Timeliness

X_6 = Verifiability

Where; X_1, X_2, X_3, X_4, X_5 and X_6 are representative of the operationalization of qualitative characteristics.

$\beta 0$ = Constant

β_1, β_2, β_3, β_4, β_5, β_6 = Coefficients

ε = Error term

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the findings of this study and further provides in-depth discourse on their interpretations.

4.2 Response Rate

The study intended to study a populace of 14 Saccos headquartered in Kiambu County that are registered and licensed by the Sacco Societies Regulatory Authority. All the 14 Saccos were able to partake of the study within the time duration provided for the study. 100 questionnaires out of the 112 questionnaires distributed were filled out and collected. The remaining 12 were deemed irrelevant for analysis as respondents were either completely unavailable or the information provided was inadequate.

4.3 Data Validity and Reliability

The significance level for this study was set at 95%.The Pearson Correlation Coefficient for every question was greater than the critical value of 0.1966 at 98 degrees of freedom therefore the results of the study are concluded to be valid.

A reliable study should have a Cronbach Alpha value exceeding 0.7. This study has a Cronbach value of 0.775.

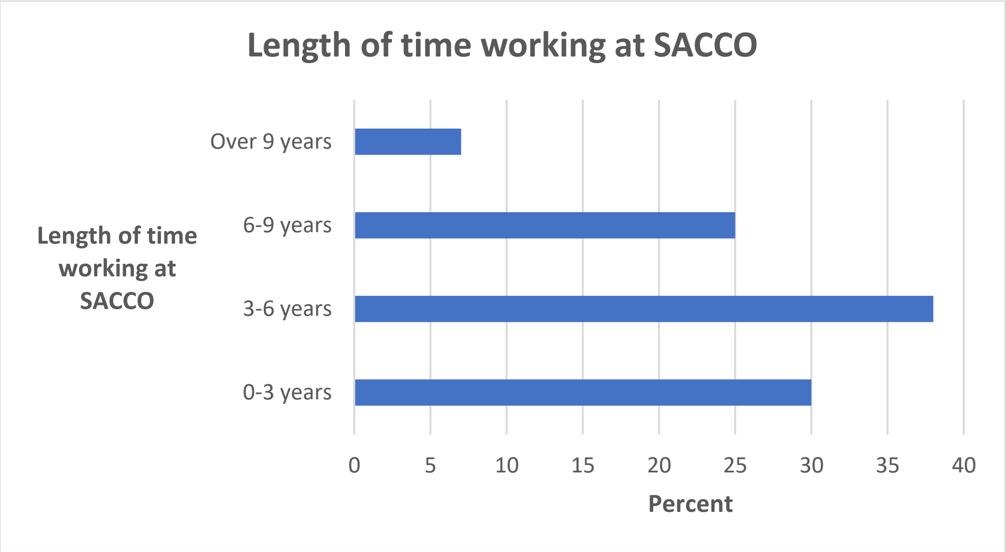
Table 4.1 Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.775	.777	25

Source: Research findings

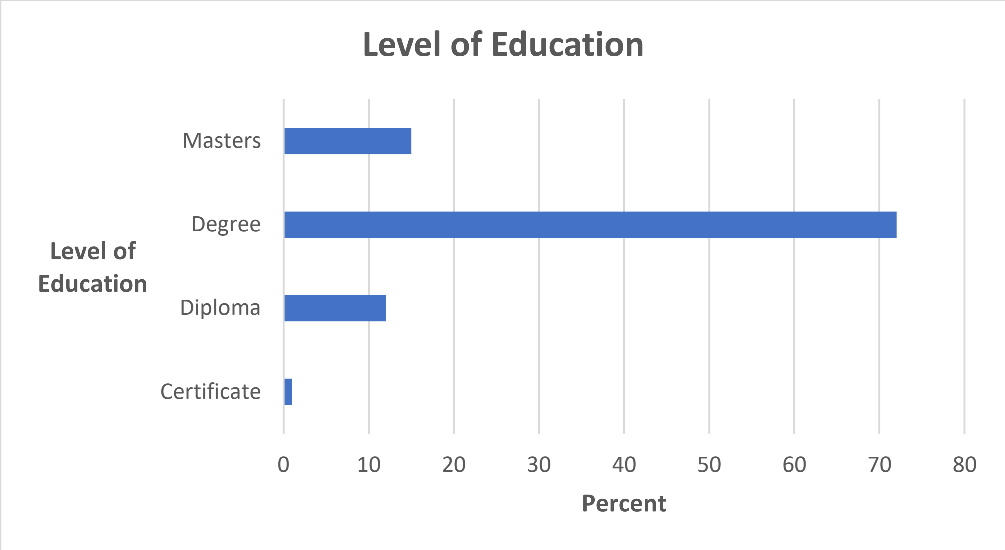
4.3 General information

Figure 4.1 The Length of Time Working for the SACCO



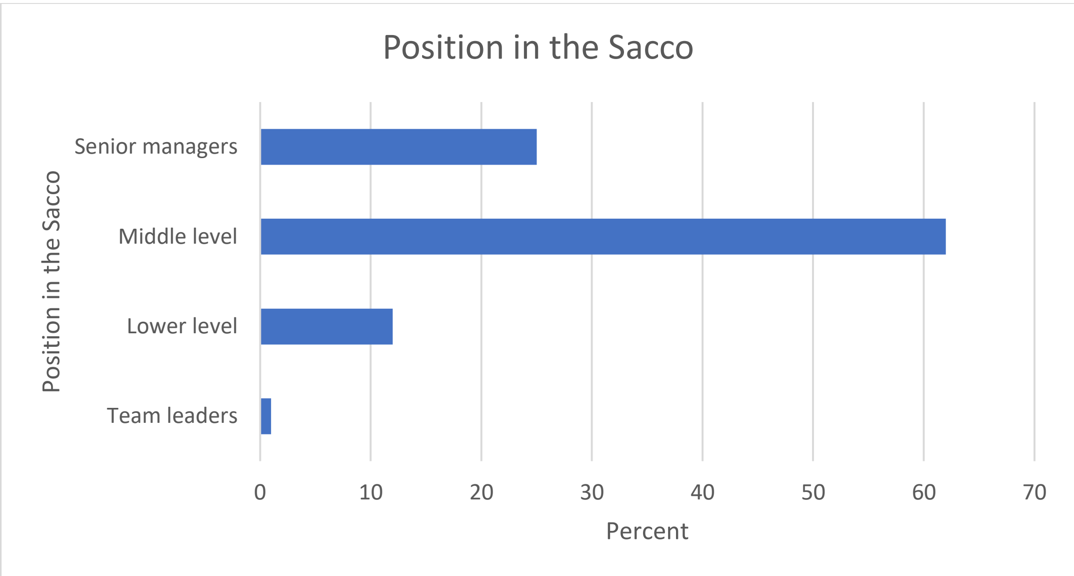
The length of time that each respondent had spent working at their specific SACCO was elicited from them as part of the study. The results show that 30% of respondents had worked for less than three years, 38% for three to six years, 25% for six to nine years, and 7% for more than nine years.

Figure 4.2 Level of Education



Respondents to the survey were asked to state their level of education while working at the Sacco. According to the data, 15% of the respondents had earned a Masters degree, 72% had a Bachelors degree, 13% had a Diploma, and only 1% had earned a Certificate.

Figure 4.3 Work Position in the SACCO



Respondents of the research were asked to indicate their work position at the Sacco. The findings show that 25% of respondents were senior managers; 62% were mid-level managers, 12% were low-level managers; and 1% were team officers.

4.4 Descriptive Statistics

Table 4.2 Descriptive Statistics

	N	Mean	Standard deviation	Variance	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Standard error	Statistic	Standard error
Quality of Financial Reporting	100	3.83	0.49838	0.248	-0.458	0.241	0.574	0.478
Relevance	100	4.0033	0.57928	0.336	-0.687	0.241	1.271	0.478
Faithful Representation	100	3.72	0.58165	0.338	-0.495	0.241	0.464	0.478
Comparability	100	3.8633	0.49768	0.248	0.022	0.241	0.02	0.478
Understandability	100	3.728	0.6027	0.363	-0.166	0.241	-0.309	0.478
Verifiability	100	3.82	0.70539	0.498	-0.281	0.241	-0.479	0.478
Timeliness	100	3.76	1.05524	1.114	-0.923	0.241	0.339	0.478
Valid N	100							

Source: Research findings

Table 4.2 above presents the mean value, standard deviation, skewness, variance and kurtosis of quality of financial reporting on the qualitative characteristics of relevance, faithful representation, comparability, understandability, verifiability and timeliness.

The average score for financial reporting quality was 3.83, with a standard deviation of 0.49838 and a variance of 0.248. With a standard deviation of 0.57928, the average mean score of relevance was 4.0033. The mean score of faithful representation was 3.72, with a standard deviation of 0.58165. The mean score for comparability stood at 3.8633 with a dispersion around the mean of 0.49768. The average score for understandability was 3.728, with a standard deviation of 0.6027. The mean score for verifiability was 3.82, with a standard deviation of 0.70539. For timeliness, standard deviation was 1.05524, with a mean score of 3.76. As a result, these figures can be trusted to represent the qualitative aspects of financial reporting in Kiambu county.

All the study variables with the exception of comparability were negatively skewed suggesting that their data values were spread negatively around their mean values. All variables had negative kurtosis hence platykurtic as values are less than 3 hence negative concentration around the mean.

4.5 Correlation analysis

Correlation analysis was used to establish the strength and direction of the association between the independent and dependent variables. The Pearson correlation coefficient was utilized to ascertain the direction and magnitude of association between the independent and dependent variables. The correlation coefficient ought to have a value that ranges between -1 and +1. When two variables have a correlation value of +1, it means they are fully correlated in a positive linear sense, meaning both variables increase at the same time. When they are perfectly correlated in a negative linear sense, however, just one variable increases while the other decreases.

Table 4.3 Correlation Analysis

		REL	FR	UND	COM	VER	TIME	QFR
QFR	Pearson Correlation	0.170	.252*	.280**	.387**	.211*	0.102	1
	Sig. (2-tailed)	0.091	0.011	0.005	0.000	0.035	0.312	
	N	100	100	100	100	100	100	100
*. Correlation is significant at the 0.05 level (2-tailed).								
**. Correlation is significant at the 0.01 level (2-tailed).								

The Pearson Correlation Coefficient was calculated to show the relationship between the variables, and the results are presented in Table 4.3. Financial reporting quality and qualitative financial statement characteristics have a Pearson correlation coefficient of less than 0.4, indicating a weak relationship between the independent and dependent variables.

4.6 Model summary

Table 4.4 Model summary

					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.425[a]	0.181	0.128	0.46542	0.181	3.420	6	93	0.004

a. Predictors: (Constant), TIME, FR, VER, REL, UND, COM

With a R value of 0.425, the model summary shows a considerable positive association between the dependent and independent variables. According to the R^2

value of 0.181, the model accounts for 18.1% of the variability in the study's data. The study's model fits the data at a rate of 18.1 percent. The adoption of IFRS for SMEs, according to the coefficient of determination, can only account for 18.1 percent of the variation in SMEs' financial reporting quality in the following metrics of relevance, faithful representation, verifiability, understandability, comparability, and timeliness, leaving 81.9 percent unaccounted for.

4.7 Analysis of Variance

ANOVA was used to evaluate how well the multi-linear regression model predicted the dependent variable.

Table 4.5 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.445	6	0.741	3.420	.004[b]
	Residual	20.145	93	0.217		
	Total	24.590	99			

a. Dependent Variable: QFR

b. Predictors: (Constant), TIME, FR, VER, REL, UND, COM

The findings in Table 4.5 demonstrate that the model significantly fits to accurately estimate the quality of financial reporting because of the significance level of $p=0.004<0.05$. As a result, each independent variable had an impact on the level of financial reporting. The model's F Statistic was 3.420 with 6 degrees of freedom and a significance level of 0.004, indicating that there was a high level of relevance between the variables. The model is appropriate for the study since it implies that there is at least a 95% likelihood that the relationship between the variables is not due to chance.

4.8 Regression model

To determine whether all of the independent variables could predict the dependent variable, a multiple regression was undertaken for all variables. The fitted model was produced from the coefficients, as shown in Table 4.6.

Table 4.6 Coefficients

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)	1.811	0.485		3.733	0.000	0.847	2.774			
	REL	0.056	0.093	0.065	0.606	0.546	-0.128	0.241	0.170	0.063	0.057
	COM	0.281	0.114	0.281	2.456	0.016	0.054	0.508	0.387	0.247	0.230
	FR	0.096	0.090	0.112	1.071	0.287	-0.082	0.275	0.252	0.110	0.101
	UND	0.092	0.094	0.111	0.976	0.332	-0.095	0.279	0.280	0.101	0.092
	TIME	-0.011	0.051	-0.023	-0.215	0.830	-0.113	0.091	0.102	-0.022	-0.020
	VER	0.013	0.077	0.018	0.164	0.870	-0.141	0.166	0.211	0.017	0.015

a. **Dependent Variable: QFR**

Therefore, the model can be defined as follows:

$$Y= 1.811 + 0.056\ X_1+ 0.281X_2 + 0.096\ X_3 + 0.092X_4 -0.011X_5+ 0.013\ X_6 + \varepsilon$$

The quality of financial reporting will be 1.811 according to the established regression equation, holding all variables (relevance, comparability, faithful representation, understandability, timeliness, and verifiability) constant zero. A unit increase in relevance will lead to a 0.056 increase in financial reporting quality, a unit increase in comparability will lead to a 0.281 increase in financial reporting quality, a unit increase in faithful representation will lead to a 0.096 increase in financial reporting quality, and a unit increase in understandability will lead to a 0.092 increase in financial reporting quality, unit increase in timeliness will result in a 0.011 drop in financial reporting quality, while a unit increase in verifiability will result in a 0.013 improvement in financial reporting quality assuming that all independent variables are held constant at zero;

From these findings, we conclude that comparability has a positive and substantial effect on financial reporting quality ($\beta = 0.281$, $p<0.016$). Relevance, faithful representation, understandability and verifiability had ($\beta = 0.065$, $p< 0.546$), ($\beta =0.112$, $p < 0.287$), ($\beta = 0.011$, $p< 0.332$) and ($\beta = 0.018$, $p< 0.870$) respectively indicating a positive but insignificant effect on the quality of financial reporting. Timeliness ($\beta = -0.023$, $p< 0.830$) indicating a negative and insignificant effect on the quality of financial reporting.

4.9 Interpretation of Research Findings

The objective of this study was to investigate the effect of adoption of IFRS for SMES on the quality of financial reporting in Kiambu County. Primary data was collected from questionnaires circulated to SASRA-regulated Saccos headquartered in Kiambu and analysed through SPSS version 27.

The quality of financial reporting will be 1.811 according to the established regression equation, holding all variables (relevance, comparability, faithful representation, understandability, timeliness, and verifiability) constant zero. A unit increase in relevance will lead to a 0.056 increase in financial reporting quality, a unit increase in comparability will lead to a 0.281 increase in financial reporting quality, a unit increase in faithful representation will lead to a 0.096 increase in financial reporting quality, and a unit increase in understandability will lead to a 0.092 increase in financial reporting quality, unit increase in timeliness will result in a 0.011 drop in financial reporting quality, while a unit increase in verifiability will result in a 0.013 improvement in financial reporting quality assuming that all independent variables are held constant at zero;

According to the study, the adoption of IFRS for SMEs only accounted for 18.1 percent of the variation in SMEs' financial reporting quality. However, the F statistic produced a P-value of (0.004<0.05), indicating that there is a significant correlation between the adoption of IFRS for SMEs and financial reporting quality.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The relationship between the adoption of IFRS for SMEs and the quality of financial reporting among SMEs in Kiambu County is examined in this chapter, along with the study's conclusions, recommendations, and limitations. It has also suggested areas for further research with regard to the variables.

5.2 Summary of the Findings

The study explored the of adoption of International Financial Reporting Standards for SMEs and its effect on SMEs quality of financial reporting in Kiambu County, Kenya. The data was obtained from managers and loan officers in the 14 SACCOs registered under SASRA and headquartered in Kiambu County. The survey adopted the 21-item index for operationalization of qualitative characteristics (Beest, Braam, & Suzanne, 2009). The reliability of the questionnaire was adequate with an overall Cronbach alpha coefficient of 0.775 respectively.

The average score for financial reporting quality was 3.83, with a standard deviation of 0.49838 and a variance of 0.248. With a standard deviation of 0.57928, the average score of relevance was 4.0033. The mean score for faithful representation was 3.72, with a standard deviation of 0.58165. The mean score for comparability stood at 3.8633 with a dispersion around the mean of 0.49768. The average score for understandability was 3.728, with a standard deviation of 0.6027. The mean score for verifiability was 3.82, with a standard deviation of 0.70539. For timeliness, standard deviation was 1.05524, with a mean score of 3.76.

All the study variables with the exception of comparability were negatively skewed suggesting that their data values were spread negatively around their mean values. All variables had negative kurtosis hence platykurtic as values are less than 3 hence negative concentration around the mean. The Pearson correlation coefficient between financial reporting quality and financial statement qualitative characteristics was less than 0.4, indicating a weak relationship between the independent and dependent variables.

The model summary has a R value of 0.425, indicating that the dependent and independent variables have a considerable positive relationship. The R^2 value is 0.181, implying that the model explains 18.1 percent of the variability in the study data. The F Statistic of the model 3.420 at 6 degrees of freedom and a significance level of 0.004 meaning that the significance levels among the variables was high.

5.3 Conclusion

Drawing from the research findings presented in chapter four and the summary of findings, there is evidence that the adoption of IFRS for SMES has improved the Quality of Financial Reporting though the improvement is not significant. From these findings, it can be concluded that comparability has a positive and substantial effect on financial reporting quality (β= 0.281, $p<0.016$), corroborating Abdulrazak's (2013) findings of a positive impact of comparability on financial reporting quality. Relevance, faithful representation, understandability and verifiability had (β = 0.065, $p< 0.546$), (β =0.112, $p < 0.287$), (β= 0.011, $p< 0.332$) and (β= 0.018, $p< 0.870$) respectively indicating a positive but insignificant effect on the quality of financial reporting. Timeliness ($\beta = -0.023$, $p < 0.830$) indicated a negative and negligible effect on the quality of financial reporting.

5.4 Recommendations of the Study

In light of the findings, the study recommends that in order to enhance the quality of financial reporting in Kiambu County, bodies such as ICPAK and other regulatory bodies within Kenya should be keen in enlightening SMEs on the benefits of adopting IFRS for SMEs and the impact it would have on the quality of financial statements produced. This can be done through organizing trainings that involve SME owners and their accountants respectively.

SMEs should be encouraged to enlist professional accountants as part of their staff to ensure that accounting is done with expert advice and worthy financial statements are produced by the SME. This will help increase their accessibility to finance.

5.5 Limitations of the Study

The study sample comprised only of registered SACCOs under SASRA. Results that are more valid could be obtained if the population sample could be enlarged to include banks that operate within the jurisdiction. The inconsistency of information presented in the annual reports by SMEs was found to be wanting as participants had difficulty in substantiating different aspects of the quality of financial reporting. It is felt in order to effectively and efficiently exhaust all details more time would have been needed.

5.6 Suggestions for Further Study

More studies should be done on: the adoption of IFRS for SMEs and effect on quality of financial reporting in other jurisdictions so as to be able to draw comparison within Kenya. Further studies should also be conducted on factors affecting the adoption of IFRS for SMEs in Kenya. A research to find out the challenges faced in adoption of IFRS for SMEs in Kenya. It is further suggested that a replica of this study be done after 10 years to establish the trend of the adoption of IFRS for SMEs and financial reporting quality in SMEs.

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APPENDICES

APPENDIX I: SACCOS HEADQUARTERED IN KIAMBU COUNTY

Sub-county Name	SACCO Name
Githunguri	1. Fariji Sacco Ltd 2. Githunguri Dairy and Community SACCO Ltd 3. Tai Sacco Ltd
Juja	1. Fundilima Sacco Ltd
Lari	1. Good Faith Sacco Ltd
Kiambaa	1. Joinas SACCO Ltd
Kiambu	1. Dimkes Sacco Ltd 2. Metropolitan Teachers Sacco Ltd 3. KUnity Sacco Ltd
Kikuyu	1. NRS SACCO Ltd
Ruiru	1. Jacaranda Sacco Ltd
Thika	1. Ammar Sacco Ltd (formerly known as All Churches Sacco) 2. Orient Sacco Ltd 3. Azima Sacco Ltd (formerly known as Kenya Canners Sacco)

APPENDIX II: QUESTIONNAIRE

My name is Hannah Wambui Gichuru, and I'm a student at the University of Nairobi pursuing a Master's in Business Administration with specialization in accounting. I'm currently conducting research on the topic ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARD BY SMALL AND MEDIUM-SIZED ENTERPRISES AND ITS EFFECT ON THE QUALITY OF FINANCIAL REPORTING: THE CASE OF KIAMBU COUNTY. The investigation is purely academic, and the researchers promise to keep all data they collect secret. Your help and assistance are greatly appreciated.

SECTION 1

BACKGROUND INFORMATION

1. For how long have you been working with the Sacco?

Years old	0-3 yrs	3-6 yrs	6-9 yrs	Over 9 yrs
Tick				

2. What is your current level of education?

Qualification	Certificate	Diploma	Degree	Masters	Others
Tick					

3. What is your current position in the Sacco?

Position	Team leader	Lower level	Middle level	Senior manager
Tick				

SECTION II

In relation to your experience with SME financial statements and compliance with IFRS for SMEs, rate the following qualitative characteristics by ticking the most appropriate response in the tables below. SMEs whose financial statements are compliant with IFRS for SMEs

RELEVANCE

		Strongly disagree	**Disagree**	**Uncertain**	**Agree**	**Strongly agree**
		1	**2**	**3**	**4**	**5**
1.	Financial statements of SMEs that are IFRS for SMEs compliant include information that helps in the formation of predictions and expectations about their future.					
2.	Financial statements of SMEs that are IFRS for SMEs compliant elaborate information about business risks and opportunities.					
3.	Financial statements of					

	SMEs that are IFRS for SMEs compliant relay feedback information on how various notable events and salient transactions affected the entity.					

FAITHFUL REPRESENTATION

		Strongly disagree	**Disagree**	**Uncertain**	**Agree**	**Strongly agree**
		1	**2**	**3**	**4**	**5**
1.	Financial statements of SMEs that are IFRS for SMEs compliant capture the positive and negative events in a balanced way when discussing annual results.					
2.	Financial statements of SMEs that are IFRS for SMEs compliant represent accurately the current economic situation of the entity.					
3.	Financial statements of SMEs that are IFRS for SMEs compliant extensively disclose information on corporate governance issues.					

UNDERSTANDABILITY

		Strongly disagree	**Disagree**	**Uncertain**	**Agree**	**Strongly agree**
		1	**2**	**3**	**4**	**5**
1	Financial statements of SMEs that are IFRS for SMEs compliant have well-organized presentations. Judgment based on: - headings - order of components - complete table of contents - summary/ conclusion at the end of each subsection					
2.	Financial statements of SMEs that are IFRS for SMEs compliant attach clear notes to the financial statements.					

3.	Financial statements of SMEs that are IFRS for SMEs compliant include graphs and tables that clarify the information presented.					
4.	Financial statements of SMEs that are IFRS for SMEs compliant use vocabulary, language and technical jargon that is easy to understand.					
5.	Financial statements of SMEs that are IFRS for SMEs compliant include a comprehensive glossary.					

COMPARABILITY

		Strongly disagree	**Disagree**	**Uncertain**	**Agree**	**Strongly agree**
		1	**2**	**3**	**4**	**5**
1.	Financial statements of SMEs that are IFRS for SMEs compliant include notes on changes in accounting policies that explain the implications of the change.					
2.	Financial statements of SMEs that are IFRS for SMEs compliant include notes on revisions in accounting estimates and judgments that explain the implications of the revision.					
3.	Financial statements of SMEs that are IFRS for SMEs compliant adjust previous accounting period's figures for the effect of the implementation of a change in accounting policy or revisions in accounting estimates.					
4.	Financial statements of SMEs that are IFRS for SMEs compliant compare the results of the current accounting period with results of previous					

	accounting periods.					
5.	Financial statements of SMEs that are IFRS for SMEs compliant information that is comparable to information provided by other organizations. Judgment based on: - accounting structure - policies - explanation of events					
6.	Financial statements of SMEs that are IFRS for SMEs compliant present financial index numbers and ratios.					

VERIFIABILITY

		Strongly disagree	Disagree	Uncertain	Agree	Strongly agree
		1	**2**	**3**	**4**	**5**
1.	Financial statements of SMEs that are IFRS for SMEs compliant clearly articulate the assumptions and estimates made.					
2.	Financial statements of SMEs that are IFRS for SMEs compliant clearly explain the choice of accounting principles clearly.					

TIMELINESS

		Strongly disagree	Disagree	Uncertain	Agree	Strongly agree
		1	**2**	**3**	**4**	**5**
1.	Financial statements of SMEs that are IFRS for SMEs compliant timely information when required.					

QUALITY OF FINANCIAL REPORTING

		Strongly disagree	Disagree	Uncertain	Agree	Strongly agree

		1	2	3	4	5
1.	Financial statements of SMEs that are IFRS for SMEs compliant reflect the economic reality of the SME					
2.	Financial statements of SMEs that are IFRS for SMEs compliant show an awareness of SMEs to the benefits that accrue from adoption of IFRS for SMEs.					
3.	Financial statements of SMEs that are IFRS for SMEs compliant help accelerate availability of financing for SMEs.					
4.	Financial statements of SMEs that are IFRS for SMEs compliant signify necessary financial reporting skills among SMEs.					
5.	Financial statements of SMEs that are IFRS for SMEs compliant dictate a level of professionalism in their preparation.					