OUTSOURCING OF ACCOUNTING SERVICES AND FINANCIAL REPORTING QUALITY OF SMALL AND MICRO ENTERPRISES IN KENYA; A STUDY OF MSES IN NAIROBI

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A Thesis Submitted to the School of Business and Economics in Partial Fulfillment of the Requirements for the award of the Degree of Master of Business Administration (Accounting option) of Masinde Muliro University of Science and Technology

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DECLARATION

This research proposal is my original prepared with no other than the indicated sources and support and has not been presented for a degree in any other university and has not been published anywhere.

Signature:______________________ Date:___________________________

Patrick Likobele

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CERTIFICATION

We certify that we have read and hereby recommend for acceptance of   Masinde Muliro University of Science and Technology a research work entitled "**Outsourcing accounting services and financial quality reporting of micro and small enterprises in Kenya; a study of MSEs in Nairobi".**

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DEDICATION

To make this work a success, many people willingly offered their assistance. I take this opportunity to sincerely thank them all, especially my family, for their support, encouragement and prayers during the entire duration of my study.

To my friends who continuously offered moral support during the study, I thank you all.

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ABSTRACT

The stakeholders in global business want to know what should be reported to them in terms of the profit or wealth maximization objectives and this can only be possible if the correct and necessary accounting reports are provided to them. Private entities with scarce resources (funds, personnel, among others) constitute the family member types of these accounting services, which have emerged with some privilege, in view of providing services and outsourcing of these services. The following general research question formulated the overall study:; What is the impact of outsourcing accounting services on the quality of financial reports among the Small and Micro enterprises in Nairobi County, Kenya? The following specific goals will serve as the foundation for the research: The specific objectives of the study are as follows: The research aims to: to assess the effects of outsourcing book keeping services on the quality of financial reports in Kenya; to assess the effects of outsourcing auditing services on the quality of financial reports in Kenya; to assess the effects of outsourcing tax reporting services on the quality of financial reports in Kenya; and to assess the effects of outsourcing IT on the quality of financial reports in Kenya. Our investigation on the impact of outsourcing tax preparation, bookkeeping, auditing, and other IT services on the calibre of financial reporting is built around two primary research techniques: Regression Analysis and correlation within the scope of Correlational Research Methodology. The target population of the study was 3330 SMEs, and 358 SMEs from the population were selected out of a obtained by using Taro Yamane proportional sampling technique formula. Nakuru was employed as a pilot study to determine the viability of the questionnaire, and the reliability of the instrument was assessed by use of Cronbachs

alpha for test re-test intention. These findings provide empirical evidence that support previous studies, which indicate that outsourcing leads to an enhancement in financial reporting quality. There is also empirical support on the fixed variables obtained from regression analysis supporting the arguments, asserting the impact of outsourcing on the quality of audit on financial reporting. The results suggest that accounting outsourcing, especially with respect to bookkeeping, auditing, tax reporting, and IT services, enhances the financial reporting quality among SMEs. Hypothesis Chooses analysis the results, with the help of regression coefficient, it can be seen that there is a direct relationship between quality of financial reporting and level of outsourcing. In this respect, the findings of this study are relevant from a theoretical perspective to the sundry theories that stipulate aspirations and goals as important determinants of individuals' behavior and decisions. From an academia standpoint, the study contributes to newly advance knowledge on two research topics and specifically, outsourcing and financial reporting quality in the context of SMEs and offer substantive evidence about the characteristics of the potential gains of outsourcing strategies for the SMEs. This research is valuable as the findings could be useful as the focus in today's context is on the quality of the financial reporting and its improvement with special regard to the owners, managers and even policymakers to determine and define role and potential advantage that can be obtained from the outsourcing for the improvement of the quality of the financial reports which are very essential for making appropriate decisions. This has helped to provide the answerability and competitive edge of SME in the market place.

TABLE OF CONTENTS

LIST OF TABLES

ACRONYMS AND ABBREVIATIONS

CFOs: Chief Financial Officers

GDP: Gross Domestic Product

IASB: International Accounting Standard Board

IFRS: International Financial Reporting Standards

IIA: Institute of Internal Audit

KNBS: Kenya National Bureau of Statistics

MSES: Micro and Small Enterprises

PCW: Price Water House and Coopers

SMES: Small and Micro Enterprises

OPERATIONAL DEFINITION OF TERMS

Financial Reporting Quality: Refers to a functional process that relies on the quality of each part, such as information and disclosures related to the company's transactions movement, judgments made by management and also the information about selection and application of accounting policies; hence by using such information, decision-makers decide whether to invest or not in a particular firm.

Outsourcing Bookkeeping Services: Outsourcing bookkeeping services refers to hiring a third party to manage the company's accounts, hence, generally involves an experienced individual or group of experts who can handle bookkeeping transactions much better.

Outsourcing Auditing Services: Outsourcing auditing services refers to hiring a third party to manage the company's examination of books, hence, involves an experienced individual or group of experts who can handle the examinations of books of accounts.

Outsourcing Tax Reporting Services: Outsourcing tax reporting services refers to hiring a third party to manage the company's tax reports, hence, generally involves an experienced individual or group of experts who can handle the computation of tax liabilities and advice.

Outsourcing Information Technology Services: Outsourcing Information Technology Services refers to hiring a third party to manage the company's information technology matters, hence, generally involves an experienced individual or group of experts who can handle information technology matters.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In the world today technology has become the focal point in trading and more so as more and more organizations are putting in place strategies that are being implemented in the various developed or developing organizations, measures have been put in place to enhance the quality of services that are being offered to secure competitive edge (Ezaagba, 2017). Some of the services that have been deemed to be useful to the stakeholders in most organizations include; the quality of reports provided to the stakeholders who are the main contributors of resources such as money and workforce to the organization (Zotorvie, 2017). Mikko and Juntunen (2018) noted that the quality of financial reports for SMEs could be enhanced through outsourcing because such firms cannot afford to employ qualified personnel and other researchers may consider outsourcing as unnecessary because internal information could be shared with strangers who may use it to the disadvantage of a certain firm.

Ezaagba (2017) opined that SMFs of various economies make and publish statement of financial position and a statement of comprehensive income yearly for their users. As such, due to the fact that majority of the small firms cannot afford to have a forensically qualified personnel prepare such statements within their firms, self employment accounting work is usually outsourced to an external entity. It also means that, as to the actual preparation of the financial statements, there is a shifting of the preparer function from the firm outside. However, a number of small firms also perform all or some of these functions without necessarily out sourcing help from consultants.

It has been identified that the outsourcing market is growing particularly that of the finance and accounting which is likely to grow further in the future (Jalil & Hwang, 2019). Outsourcing of accounting services can come in different types. The accounting function can be done close to the principal or even in another location (offshoring). Outsourcing is, however, not without its risks, including the loss of organizational control and management (Kenton, 2022).

In Africa, the business environment is highly dynamic and has become even more competitive in the current world; thus, the achievement of sustainable competitive advantage is crucial for any business operating in the dynamic market environment and more so, the variety of businesses has disadvantages to SMEs to maintain their competitive advantage due to resource limitations (Adjabeng & Osei, 2022).

Accounting functions are vital in the growth and development of businesses in Africa as they are key drivers of competitiveness; as such, it becomes imperative for businesses to employ the services of quality accounting firms in their quest to achieve business success. -outsourcing of accounting services in the current market environment has undergone a lot of changes and has affected various organizations in the aspect that it enables the specializing accountants to help the organization to realize it’s goal and objectives of making profits, reducing costs, preventing fraud and get professionalism (Zotorvie, 2017). With this background, the orientation of this paper is to study one of the strategies that SMEs can pursue towards enhancing its performance or continuing to remain relevant within the current business environment; the subject of focus is outsourcing of accounting services. Therefore, the current study in line with this background validated that the outsourced service improved the effectiveness of the SMEs' (Nakku et el. , 2018).

Some of the earlier and current studies carried out on outsourcing of accounting services and the effect on the financial performance of the firms in Kenya include Maiyo (2019), Egiyi, Modesta & Florence (2020) and according to their research outsourcing is a key determinant in the Development of the firm. Many challenges occur when developing opportunities for business competitiveness as companies strive to set up competitive advantages. As it was mentioned in the earlier section, small and micro enterprises, in particular, usually face difficulties when it comes to handling threats in the context of intensive competition (Maiyo, 2019).

This work has been partly examined by Kipsang and Mwangi (2017), with regard to specific aspects of this subject, which focused on; Factors influencing the use of Accounting services by the SME firms in Kenya. As for the specific methodology used in this particular study, it was found to be descriptive in nature. A survey research was carried out in the SME owners in Kenya and the study targeted a sample of 850 firms and any other organizations in Kenya and all the responded firms from which 85 respondent were selected out them using the research stratified random sampling technique. For the present study, data was collected through a close-end structured questionnaire that has some limited number of questions in it. It was established that the respondents bore little professional knowledge and skills, competition was high among the SMEs, the respondents hands-on compliance with jurisdictions and statutes that pertain to accounting was low, and overall SMEs' development was relatively slow. Also, the present studies revealed that the SMEs did not engage the services of the accountants. As it can be observed from the above findings, Competence, Legislation and Growth in size was positively and significantly related to Knowledge and Competition in SMEs. The study also revealed that the relationship between training and accounting services help proved that emphasis should be put on training. With this distinct, the management should employ qualified accountants to be in par with other SMEs; further, the SMEs should ensure that proper bookkeeping of their financial records is conducted and SMEs should make use of the services of qualified accountants with a view of enhancing their businesses.

Another study conducted by Maiyo (2019) deals with the factors that may affect outsourcing of accounting functions and their impact on the performance of the SMEs of Uasin Gishu County in Kenya. This evaluation identified that managerial capabilities in SMEs are relatively lower, financial and human resources are not sufficient to manage change environment causes them to outsource in order to improve its organizational performance. In this way, it is possible for SMEs to leverage the resources and experiences from other external service providers to acquire the capabilities and competencies needed for their organizations. The specific objectives were: To testing the moderating role of the decision of SMEs to outsource the relation s between trust, technical competency and availability of resources for the specification of assets an SME performance. The literature review established agency theory as the theoretical framework of the study. The target population of the study was all the registered SMEs in Uasin Gishu County; this study sampled 335 SMEs that were registered with the business registry in the county. After an understanding of the research and the data collected, a multiple regression analysis was performed on the data to test the hypothesis and draw conclusions. The findings revealed that the factors of influence: manager's trust, technical competency, resource accessibility and asset definition had a favorable impact on the success of SMEs. As suggested by the research, accounting firms must have the appropriate resources on hand to accommodate the increasing demand from SMEs.

This study looked at the following variables that Kamita and Oluoch, (2018) had used in their study on the impact of outsourcing accounting services on the quality of financial reports among SMEs in Kenya with Nairobi County as the sampled area of study. To achieve this objective, the following research questions were developed: These questions were made with a view to supporting the hypothesis of the specific study which was postulated as a statement of relationship: There exists a positive correlation between the outsourcing of accounting services and the quality of financial reports. Indeed, in this study, only SMEs in Nairobi County were taken into consideration since they are many and there are so many kinds of businesses ailing the County. Consequently, previous literatures suggest that outsourcing of the accounting services has significant understanding of the external reporting. As earlier discussed, there are noted benefits of outsourcing are identified based on a critique of bookkeeping, tax returns, and internal audits. Objectives: Having in mind, the study's research questions relates to the effect of outsourcing on the quality of financial reporting among SMEs in Kenya, the following specific objectives were delineated, To establish the impact of outsourcing of book-keeping in the quality of reporting among SMEs in Kenya. Methodology: As for the fund of empirical research the quantitative approaches will be used, in particular, descriptive districts and Chi-Square analysis techniques/ procedures are to be applied while the data would be generated through the questionnaires containing 284 respondents. This research work was conducted in Nairobi County and only business enterprises that were registered were involved in the study.

As stated by Egiyi, Modesta and Florence (2020), nature of accounting involves routine and non-routine tasks, Accountancy activities include among the following; recording, classification, summarization of the financial activities and the preparation of accounts which involve payables, receivables, payroll, general, ledger, costing, cashier, internal audit, banks and other reconciliations and accountancy and financial report preparation.

1.1.1 Small and Micro Enterprises in Kenya

SMEs the are very important and crucial in the economic growth and development process. Small and micro enterprises are important in Kenya's economy having the potential to promote employment, growth and development. It is important to note that business environment has become very turbulent and competitive today as we can instance (Ouma et al, 2018). As noted by Nzioki (2017), the need to establish sustainable competitive advantage in today's ever volatile business environment cannot be overemphasized; however, the nature of business has placed SIDEBEN the Small and Micro enterprises of Kenya at a disadvantaged position in case of sustaining their competitive advantage. Also, as is the case with the level of resource intensity bottoming on key resources, restriction is normally manifest as a more acute problem among small and micro enterprises which require fewer resources as compared to their big counterparts.

In the literature, Abuga and Atandi (2020) note that Small and Medium Enterprises lacks the capacity to source adequate resources including knowledge, skills, competencies and expertise to maintain an enduring competitive advantage. According to the criterion of measuring the size of business in Kenya, a small and micro enterprise should have an annual turnover of one million kilo shillings and below, while employment capacity of micro enterprise is below ten employees and a small enterprise is ten to forty-nine employees relationally. Small and micro enterprises have been seen to act as a source of innovation, competitiveness and an important market for entrepreneurship in Kenya (Kamau, 2020).

According to Kenya National Bureau of Statistics (2017), 14. This means that 9 million Kenyans are employed in various sectors of the economy hence underlining the importance of small businesses to the economy. Small and micro enterprises are found across all sectors of the economy but the majority are informal. As outlined in Vision 2030, which is Kenya's long-term development plan, SMEs participated in the increase of the GDP and employment, or potential employment, in Kenya. It is also captured under the "Big Four" agenda under the manufacturing agenda.

1.2 Statement of the problem

Financial reporting quality has been of interest to fi rms, perceived as benefi cial as it helps stakeholders to understand the managerial and operational aspects of the fi rm. This study sought to determine the correctness and reliability of the financial reports among SMEs in Kenya, especially those within Nairobi. The assertion is also out of place with various studies that stress the general importance of robust financial reporting systems. In their statement, the parties also considered that the existence and application of proper accounting standards would contribute to providing creditors with the information they need to make a more informed judgment about the ability of the enterprise to settle its liabilities (UNTAD 2016).

This is a common situation where accounting is outsourced to a third party as the micro-enterpirses lack the necessary funds and personnel to prepare quality report leading to poor management. For example, outsourcing contributes to quality financial reporting (Kipsang & Mwangi 2017) but outsourcing the practice also makes the organization vulnerable as its secretive operations get exposed to their competitors, causing the organization to potentially lose its competitive advantage.

Yasas & Perera (2019) have also identified that, on the outsourcing has been considered as a strategic business model as it enhance the efficiency and professionalism of the organizations, costs of the organizations are minimized and the credibility within the financial reporting is enhanced. Huong and Dat (2018) also agreed that outsourcing services had no influence in the quality of financial reports in Vietnam.

Studies by Kamita and Oluoch (2018); Kaawaase et al. (2021); and Qian (2022) investigated the impact of outsourcing on organizational performance: as follows with indications of how it affects the subsequent financial reporting quality. However, the results that would be obtained from the above methodology, context and the areas of the related studies not being the same the following had mixed reactions this led to the study on outsourcing of accounting services and its impact on the quality of financial reporting.

This research can therefore be used to establish the potential advantages and drawbacks that SMEs are likely to incur upon outsourcing; therefore help SMEs in their outsourcing decision making process by assessing the impact of outsourcing accounting services on the quality of financial reporting of small & medium enterprises Kenya practice. Thus, it is in a position to offer input to the modifying of the standards on the quality of financial reporting and in turn to the improvement of organizational performance in Kenyan SMEs.

1.3 Objectives of the study

General objective

The rationale for the study was therefore to establish the impact of outsourcing accounting services towards the financial reporting quality among the SMEs in Nairobi, Kenya.

Specific objectives

i. To establish the extent or impact for outsourcing of book keeping services on FRQ of SMEs in Nairobi county, Kenya.

ii. Analyze the Impact of outsourcing of internal Audit services on the quality of financial reports of small and micro enterprises in Nairobi county, Kenya

iii. In light of this proposal, the research will be based on the following title; ‘Effects of Outsourcing Tax Reporting Services on the Financial Reporting Quality of SMEs in Nairobi County, Kenya.

iv. Outsourcing of Information Technology Services and Financial Reporting Quality of small and micro enterprises in Nairobi county, Kenya: a research proposal The objective of the study was to determine the outsourcing of information technology services on the financial reporting quality of SMEs in Nairobi county, Kenya.

1.4 Hypotheses

The following hypotheses were considered for the study

H01: A study of outsourcing book Keeping Services reveals that it has no influence on the intensity in terms of quality of financial reports among the small and micro enterprises in Nairobi County of Kenya.

H02: A study on Outsourcing Internal Audit has not influenced the Financial Reporting Quality among Small and Micro Enterprises in Nairobi County, Kenya.

H03: The Outsourcing Tax Reporting Services by SMEs has a minor influence on the Financial Reporting Quality of SMEs in Nairobi County Kenya

H04: The outsourcing of IT services does not have a major impact on the FRQ of SMEs based in Nairobi county, Kenya.

1.5 Significance of the study

The research question formulated in this study was therefore as follows: how is outsourcing accounting services to financial reporting quality? The realization of the said study result will be of help to investors/practitioners in small and micro enterprises as it will give the real information concerning the financial outsourcing services that can help to minimize the total financial cost, its ability to protect and attract high students' turnout leading to improved profitability positions of small and micro enterprises in terms of, return on assets, return on investment, and general financial position. The research will also contribute to provide evidence of the research to emerging researchers and scholars to know the current research trends about outsourcing services in SME and what is the importance of such for financial reporting quality.

1.6 Scope of the study

The data was collected from small and micro enterprises in Nairobi, Kenya as identified by Business Registration Services Kenya. The study focused on small and micro enterprises because such firms need highly professional services to generate quality professional reports. The focus was in Nairobi county where 3330 small and micro enterprises were identified according to the Micro and Small Enterprise Authority (2020).

1.7 Limitation of the study

Some of the limitations encountered in making this research include:

I. To begin with there was a lot of literature from the major participants of this study which was the Small and Micro Enterprise top management though there were those few who, due to their tight schedules or complete refusal only made it difficult or never fulfilled the questionnaires. To avoid this, the researcher drop and pick the questionnaires at a later after reading to allow the respondents enough time to respond on their own.

II. Some respondents offered resistance depending with their outlook on the goals of the study. During the recruitment process participants were assured of anonymity to ensure that no one would be embarrassed by the results of the study through an introduction letter.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter highlights the theoretical framework used, the conceptual framework in relation to existing literature, the gap in literature and empirical area of focus of this study on the effect of outsourcing of accounting services on the financial reporting quality of S&MEs in Kenya. A brief discussion of studies from various fields is provided in this paper by way of analysis and critique. Equally important, the state of knowledge gap is also provided in brief.

2.2 Theoretical Review

Scholars have advanced various theories more so in the accounting discipline that can be of value in the analysis of the financial reporting of the impact of outsourcing services on accounting. Nonetheless, the three suiting the topic of this study are: Theory of transaction cost, resource-based/core competency theory, and the theory of principal-agent relationship. The following is a list of some of these theories.

2.2.1 Transaction Cost Economics Theory

The TCET in its basic connotation as conceptualised by Williamson (1999) is simply the idea that there are two major (types) costs: the production cost and the transaction cost Transaction costs, or coordination costs as they are sometimes referred to wearing their complex features, are the costs of all that information that is necessary to coordinate people and machines in value creation. Production costs, on the other hand, can be defined as the costs that are incurred at the time of production and that have been produced after being produced and delivered. Transaction costs come in various forms and some of these include search and information costs which are the costs of searching for the good one wants or locating the cheapest market and others.

Policing and enforcement costs are the costs of ensuring that the other party performed as obligated by the contract and of legal action in case the contract was not performed. The vast majority of the empirical analyses start from the thinking that service can be produced by both parties at about the same cost and that transaction costs (the costs of organizing the service, costs related to establishing a contract and costs for monitoring and evaluation of the service) are the real difference between make or by decision (Williamson, 1991). Quantities and prices always change, so what actual price and quantity are low in comparison to some reference price and quantity. Note that Transaction Cost Economics (TCE) Theory is a theory with numerous assumptions. The most important of those assumptions are bounded rationality and opportunism. According to Simon (1957) Bounded Rationality theory that decision makers are influenced by restricted resources along with limited precision and reason. Decision makers will want to act rationally, but their ability to obtain, process, interpret and convey information can be restricted. Furthermore, the transaction environment, under which bounded rationality should be considered, is most ambiguous, such as environmental (external) and behavioral (internal) Figure 2.

One of the studies, for example, concluded that the choice of governance type was highly dependent on behavioural and environmental factors. The second assumption, explained in Transaction Economics Theory is opportunism – an actor will act to maximise his own interests at the expense of the party in the transaction if gets the chance (Williamson, 1981). Opportunism refers to self-interest but with deception, the propensities like the transfer, distortion, concealment, etc. in the translation process would be applied to serve the best interest of the translator (Wang, 2002). AKA misrepresentation This way; party B might have end up inefficient exchange partner. This opportunism of a different kind eventually results in what is known as adverse selection. One example of this is the used car salesman that knows the actual car. So, the buyer only uses to buying low-quality cars.

However, ex-post opportunism may emerge after the contract has been agreed. One is what economists call a moral hazard. For example, a retailer made it possible to that he will promote this product to the customers for a supplier. Without following this agreement the retailer shows moral hazard.

Key Perspective (TCE): Theory of Transaction Cost Economics (TCE) has been considered as a predominant theoretical approach associated with the explanation why manufacturing firms decide upon the outsourcing decision (Klein, 2005). The choice to outsource or not in large part depends on the costs of buying that service, including the costs in negotiating the service and in monitoring the service post contract (Everaert et al., 2010; Williamson, 1985). There is a plethora of potential suppliers on the competitive market system and the market pressure to decrease the burdens that firms should deal to screen the supplier's opportunistic action and this trigger firms to outsource and contract some division of their activities. In contrast, when a market is not designed for multiple sourcing, a solitary market participant can be expected to act opportunistically (e.g., Everaert et al., 2010). In order to manage these honeycombed organizational forms, firms reduce the transaction cost by replacing transactions with a related and artificially integrated part of the same firm (outsourcing) or by setting up a bureaucratic governance mechanism to centrally plan the cost-saving activity (Hennart, 1989) Despite this, TCE and RBV actually have an influence upon the outsourcing process, as Mclvor (2009) has illustrated.

This theory helps in understanding about total transaction costs of any organization and how are they categorized, which enables to take the appropriate call on outsource or not. Yet another relevant benefit of under certification is that the more resources (cost) a firm must commit to particularized investments as well as the larger risks that a transaction poses, the higher the probability that the transaction will undergo in the firm. Moreover, this theory will explain that the external experts were acting opportunity due to the market imperfection. It goes for all the outsourcing Independent variables, bookkeeping, internal audit, tax reporting and information technology Service.

2.2.2 Resource Based/Core Competency Theory

While the approach of Porter (1980) concentrates on the positioning of products and markets (see, for example, Grant 2010), the reasoning of Wernerfelt (1984) suggests that strategies of the firm should be understood as the positioning of resources. According to the author, resources refer to the brand, money, employee, commercial agreement, equipment, efficient system, or even internal technology, which can be the advantage or weakness of a company.

According to Wernerfelt (1984), to attain a competitive advantage, companies need to analyze all resources they have or which are available in the market. Grover et al. According to Peteraf and Barney (2003), the core idea behind a resource-based theory is the belief that resources can provide a firm with an enduring competitive advantage (newly named sustainable competitive advantage) as long as these resources are both valuable, rare, inimitable and non-substitutable and hard to imitate. As pointed out by the Resource-Based View (RBV) of the firm, organisations are potential sources of valuable resources. To explain how the capabilities and strengths of the firm had been growing must, therefore, be done in the light of the knowledge based view of resources and assets (Conner and Prahalad 1996; Prahalad and Hamel, 1990) . In the same vain, Prahalad and Hamel (1990) focus on company-level skills enhancement, the use of technology, and knowledge acquisition. The theory of core competencies can be summarized in an ability to understand that some organizations define routines by which business capabilities are being developed in order to be not out competed by rival firms. The theory is formulated to help the managers understand why competencies is the vital resource of a firm, and how to manage these resources in order to improve performance within an enterprise. Similar with the arguments by other writers (Campbell & Luchs 1997; Hamel & Prahalad 1996) advancing on Resource based view of the firm , the spot light is put on firm performance in relation to characteristics such as experience, culture , and competencies culminating in the competencies of the firm as existing in the ability or capability of it human resource. internal organizations can provide organizational technical skills, competency or work flow that relates to the current business processes hence Conner (1991, p132). The issue of what activities can be outsourced was classified by Quinn and Hilmer (1994) in the Strategic Analysis of Resources. According to them, companies should invest their resources in those activities that form the core of their business and in which they can achieve a competitive edge versus their rivals. The authors also advise for any activity that is not a core competency or not strategic to be outsourced.

Based on Teece (1986), a firm is more likely to use defensive strategies in order to protect again a possible lose of IP to the outsourcing firms. The ability to own private secure data allows goods and services to be outsourced in a certain kind of regime. If not, they will be operationalized within the company. Lieberman and Montgomery (1988) posited that internal barriers to knowledge transfer within a firm are superior to a contract between two firms because the former allows the opportunity for parties to learn from each other (see also Ouchi 1980; Aghion and Tirole 1994). Advantage Valuable: 1 It must be valuable to the firm in order to achieve its strategic goals (e.g., obtain or avoid threats); Scarce: 2 The resource must be unique to other current or potential competitors of the company; Inimitability: The resource should be difficult to acquire, have an uncertain relation between ownership and competitive advantage, or it may be complex in interaction with other resources (Barney 1991). 4) Non-Substitutability: The resource cannot be replaced by any other resource which will help competitors to fulfil the similar objectives. Core competencies were developed on the sub-stratum of National Research Groups Theory. Core competences are defined as the collective learning within the organization, especially how the various streams of production and technologies are integrated (Prahalad and Hamel, 1990).

In fact, every company is a system of management, linking and symphonic class activities of a large number of people and teams. Every company must, as part of a strategy, decide how its main competencies are to be rearranged to ensure powerfull competitive advantage vis a vis the competition. Thus, this theory describes why the business gets to hold onto those core competencies internal to the organization and then outsources other, less vital functions to other stakeholders.

2.2.3 Principal – Agent Theory

The information asymmetry essentially forms the basis of principal-agent theory. First deals with the larger set of relationships that is precisely oriented to the contractual reality of agencies to accomplish or to have developed with vendors for the creation or the provision of specific type of goods or services where the vendor/agent is articulate (Finkle 2005; Larbi 2006) The principal agent theory avails itself of try to deal with situations where the self-interest of the principal and the agent diverge, or where it is costly This is so because the argument against the shirking here is that the shirker agent does not work to achieve the principal ‘s goals, and hence, if left alone to manage the claims, he is going to underperform.

According to Eisenhardt (1989), ensuring that no agent shirking occurs often proves to be a challenging task. In fact, as Kettl (1993) emphasized, shirking takes place at every level of observation. In this light, rather than eliminating shirking altogether, the objective is to minimize shirking, making sure it is sufficient enough to get the principal's objectives accomplished. Dimension Principal Agent 1 Information asymmetry exists when the principal have no information while the agent has. 10 This unequal information typically involves the potential costs and qualities of alternative project forms during the contracting phase (Finkle, 2005).

Consequently, the agent is more likely to fall prey to denegation* behavior (Eisenhardt, 1989). Agency costs arise in cases where agents act opportunistically and in their own interest. Agency Costs — they can — not offset all — but they can mitigate some of the contractual issues that come with the knowledge asymmetries and the anticipated agent opportunism. Agency cost comprises of direct and indirect cost of counteracting opportunism whether fair or unfair. This is because it entails developing tools to monitor the agent's behavior to ensure that he or she implies the contractual terms as desired(Stan et al. , 2007). It may involve devising of systems or mechanisms for rewarding or providing financial provisions on the agent to adhere. For senior management compensation, incentive-based contracts have been postulated as a technique for encouraging agents [14]. In fact, Zou et al. Conclusion (2003) –Stronger incentives are needed to induce the agent to take action to maximize the principal's utility when the risk is moderate. With higher risk, however, you can shift to impaired incentives to more fixed fees.

Principal-agent theory includes two major topics of adverse selection and moral hazard. Moral hazard refers to an agent shirking from effort due to the impossibility of the principal to oversee every action of all the agents (Gauld, 2007). Adverse selection is a problem where an agent violates the truth to the principle. If the agent is awarded the contract, the agent may state what skills and abilities the agent will be able to perform. Adverse selection is when the principle cannot observe one or more skills or characteristics either before or after the agent starts working (Zeng, Li and Lee, 2009). Agency costs are the costs borne by the principal to learn about the agent's behavior when the agent's behavior is unobservable (as is the case with Moral Hazard or Adverse Selection).

The chief aim of the principal-agent model is to uncover the range of contracts that are beneficial in the presence of risk-averse agents who have private information in situations of outcome uncertainty. It tries to explain what determine the right trade off between the principal/agent in relation to actions/outcomes. One of the important assumptions of ABS is that the agent will be more risk averse than the principal and another assumption is that output is measurable (Eisenhardt, 1989). For example, if the principal knows what the agent is doing. The concurrence is more effective than a contract for conduct, because the principal is purchasing the actions of the agent. A key element of what an agent does is it must be something that can in principle be programmed. This programmability of task is because it determines how hard it is to test behavior. The programmability of an agent is the extent to which one can predict a well-behaved behavior for the agent (Zeng et al., 2007). An example is, a high-tech entrepreneur may do far less programming than a retail sales clerk (DeHoog & Salamon, 2002). The greater the number of scripted tasks, the more simplified the agent's behavior is watchable and assessable. Well-designed tasks expose agent behavior easily. Finkle (2005) proposes that because it is more straightforward to measure information on the agent's behavior, behavior-based contracts are increasingly attractive the more programmed the task.

A contract will often be contingency based instead. Activity-based contracts focus the agent because the agent's goals directly align with the principal's, but the principal takes on more risk, contingent on the level of uncertainty in the result. Apart from behaviour, there may be other content which exists and forms part of the result, this includes economic environment, government regulations and competitors activities among others. … (Eisenhardt, 1989; Zeng et al. , 2007; Stan et al. , 2007) Outcome based contracts are defended for the reason that while the uncertainty regarding the outcome is low, the cost for shifting risk to the agent is also low. Headline: Outcome-based contracts does have the incentive characteristics to needed, but risk shifting escalates with each form of added uncertainty. Hence if the outcome of the actions is difficult to quantify, then sales professionals will steer clear from outcome-based contracts. When outcomes are very measurable, however, outcome-base contracts become more popular (Bessire, 2005, p 359).

Taking on this long-term principal-agent relationship should decrease information asymmetry and allow the principle to better learn about the agent. Behavior based contracts is better in this case. On the other hand non-specific agency agreements — such as time limited internal agency contracts — will be more information asymmetric between the principal and the agent, hence with such agency structures an outcome based contract is preferable. Long term relationships have shown to lead to better contract outcomes and build more trust.

Mutual trust is what Domberger (1998) submits to be the indispensable prerequisites to potential outcomes from contracting out: long-term, cooperative relationships and market discipline. A contract is a concretization of a web of mutual confidence, and it requires a vast scale of confidence to establish a successful enterprise-level cooperative relationship between a principal and an agent. Further, Linfield-Smith et al. Strong cooperative relationships will improve overall contract management effectiveness (Spekman et al. 2000). OLooney (1998) suggests contract managers might consider trust-based management if expectations are well-understood and the need for relationship building based on trust. Contractual partnerswish to establish a contractual relationship based on commitment, trust and interdependence are more likely to cooperate for a longer period (Izquierdo and Cillan, 2004).

The word “agency” in “agency theory” indicates that principals process information differently, because of his or her superior knowledge, from that of the agents. or agents, in particular, results in moral hazard and adverse selection. Operational outsourcing presents a context where vendor selection bias and moral hazard can arise. So this theory may be plausible for the dependent variable of improving the quality of financial reporting as managers need to provide quality reports to the market participants

2.3 Conceptual Review

2.3.1 Book Keeping Services

As stated by Le, Bui, and Tran (2017), most successful firms in developing countries have begun outsourcing their bookkeeping services and preparing their financial statements to professional accountants. Similarly, Agburu et al. (2017) noted that outsourcing services improves an organization's competence by enabling it to achieve operational efficiency through cost cutting, adapt to dynamic market conditions, and reduce risks associated with technology changes. As pointed out by Mikko and Juntunen (2018), most firms may lack the expertise and personnel required to meet compliance needs and effectively manage the financial performance; thus, there has been a growing need for external accounting services professionals in recent years. Due to the challenges of bookkeeping and the high costs of hiring full-time bookkeepers, high-quality bookkeeping services are being outsourced. It helps businesses to focus on their core competencies.

As stated by Faitusa and Ivita (2019), with the help of outsourcing bookkeeping services, the employees and the managers may be able to focus on other responsibilities and tasks that require their attention. This could result in increased success of the company's growth, enhanced performance, and above all, better financial reporting standards. Accounting services do not require a huge capital investment on equipment, facilities, and personnel that are needed in a full-fledged accounting department. This is a viable solution for enterprises that do not have the appropriate tools and resources. Furthermore, SMEs will not have to take into account major capital investments, and therefore may be willing to devote the resources saved to other value-generating revenue-generating tasks more optimally managed (Mikko & Juntunen, 2018). This decision in strategy can improvise the financial management of the SMEs by generating maximum revenue with minimum investment. Hence, making the financial performance indicators of SMEs, and their financial reporting structure more effective.

By Kasil, October 6, 2019 According to Juma and Mwangi (2017), the few of the accounting activities that can be outsourced are the general ledger, financial reporting and internal services. Ngure et al. According to Amos (2018), outsourcing bookkeeping services may result in organizations giving up direct control over quality and incurring coordination costs, along with delays, that would negatively affect prompt management and business decisions. Employees may also have low job commitment because they are afraid to lose their job. Another risk connected to outsourcing bookkeeping services is the exposure to customers' private data as well as data security, and it will affect the ability of the in-house team to monitor the outsourced business operations. As pointed out by Kipsang and Mwangi (2017), an organization can sustain competitiveness in the business environment through enhancement of its performance through outsourcing of bookkeeping services. Therefore, it becomes crucial to seek the services of an expert in bookkeeping practices to enhance the performance of an organization. One of the major issues when organizations use financial statements for decision making is the quality of the financial statements that are produced.

2.3.2 Internal Audit Services

Cook said in his writing that it is an intolerable fact that many countries experience embezzlement of financial reports. For instance, according to the study conducted by , 2010 citing PwC, in the Global Economic Crime and Fraud Survey, it was revealed that up to half of the financial reports produced by various businesses fail to meet the required standard. According to Mundy (2018), India suspended one of the PwC Nearly 30 years after failing to pencil in a Q over Satyam's boosted revenue. According to Nalukenge et al. This point is particularly highlighted by Gupta and Sharma (2017) who disclose that internal auditors oversight every part of aspects and activities so the pertinent issue is that there is no internal audit segment in the company then the outsourcing is so significant. Effective corporate governance has led to increased dependence on internal audit practices according to (Bello, Ahmad & Yusuf, 2018). It is also important for internal audit practice to provide financial report users information about different important issues as well as to examine an organization's risk profile, more importantly to find areas where risk management practices may be improved (Twaha, Nairuba & Bananuka, 2021). Internal audit Internal audits can help organisations to identify and evaluate risks, as suggested by Le Bui and Tren (2017) who also position the industry at the cutting edge of risk management. It follows therefore that: internal audit also fosters the management of the entities control environment as it deploys the fact that internal audit reflects the tone at the top by revealing how management feels or its stance on the importance of internal audit in the economic unit (Kipsang & Mwangi, 2017). The expected will also Internal Audits can add value and quality of financial information published any organization and then will indirectly impact on the finical performance of the organization in the perspective of on the efficiency of internal audit as the control for management for success of the organizational goals and targets (Poltak, Sudarma & Purwanti, 2019).

A study was undertaken by Adedokun and Ogunwole (2019) analyzing the perceptions of internal audit quality by internal auditors, IIA members, audit committees and external auditors. The research concluded that external auditors perceive the quality of internal audit from two aspects: the components composing quality from the view of external auditors and the standards thus sustained by internal auditors most recommended by IIA.

In facts and figures, there are three elements widely used in the auditing field that would help in establishing quality of an internal audit and these are – competence, independence and professional standard or auditing. Internal Audit that is effective according to the principles identified by the authors Bananuka et al. (2018) Evaluation of effectiveness of internal control, risk assessment and compliance with laws and regulations. Internal control check Risk management Compliance to laws and legislations Assessments of the efficiency of internal control Risk management and compliance to laws and legislations As mentioned by the researcher, the competent internal auditors also involve an assessment of the efficiency of internal control and risk management. Non-functional Internal Auditors perform the job with lack of interest and without satisfactory level of independence, experience and positive standard commitments Autoresizing of work done by non-functional Internal Auditors encourage possibilities for distortions and minimizes the value of work done in relation to the basic job, thus accentuates the risk factor present in absorptions.

Statin genuine research papers, a positive correlation between internal audit quality and financial reporting by the financial institutions companies in the developing countries particularly those in Africa has been noted. Conversely, when the internal audit function outsources its work, then again, the coefficient estimate is expected to be higher for aberrant accruals and is likely to be significantly associated with the quality of internal audits (Nalukenge et al., 2017).

2.3.3 Tax Reporting Services

This means that based on the available future tax cash flows and the annual tax expense displayed by a firm's balance sheet then the quality of the taxes accounted for can be judged. Because corporate income taxes account for a sizeable amount of revenues, evaluating the quality of tax accounting can aid users of financial statements in determining their level of commitment to internal finances going forward. As a result, all stakeholders must get high-quality financial reports (Blankerspoor et al., 2020). As outlined by Choudhary et al. (2021) and other scholars, many academics have noted that outsourcing tax reporting services is beneficial in enhancing the quality of professional standard financial tax reporting because it was observed and as a result, tests the estimation of the better accuracy of the tax expense and its estimates as as an proxy for future tax cash flows, which are valuable to corporate holders. Income tax disclosure laws, auditing procedures freely revelaed everywhere except tax havens, public perceptions and evident differences across the UK and US financial reporting standards are all highlighted and emphasized by Oats and Tuck (2019). So, outsourcing taxes services is a professional capable of managing multiple taxes processes, so the financial reports can be fair to all issues, regardless of the country of residence. In general, the inter-country comparisons are relevant in the present regard due to the significant disparities in state tax conditions (Dyreng et al. , 2020). For this reason, good corporate governance should give better forecasts of the tax and the financial reporting risks supported by the evidence above, and in extension leads to the enhancement of the quality of tax accounting through pressuring managers to be truthful and minimizing the margin and motive of management self-interested distortions.

As Francis et al. , posited it in 2019, a good corporate governance practice will prod the right tax accounting by decreasing the opportunities and motivations of managerial reporting self-interest and by providing better estimates of the harms of taxes and less than perfect financial statements. These scholars pointed out that even though tax services, have to be outsourced, it can enhance, in an indirect way compulsory basic financial statements that are needed. However, it is essential to incorporate the following principles for the formulation of the proper corporate governance frameworks that will foster improved financial reporting and expansion of the link between mangers and various shareholders of the companies. Similarly, to reduce the likelihood of increasing the risk it hampers users, managers' desire to suppress the taxation information even aggravates the user concern (Balakrishnan et al., 2019).

PWC 2017 compliance and reporting survey in Kenya, said that for most businesses now, tax reporting has become a headache. Consequently, companies have not delivered the "more from less" because of reductions in tax and financial obligations. As noted by Ponjelli et al. , Nowicki (2019) in his elaborate work on the subject posited that progress toward centralizing of tasks typical of accounting has tied off hands of most organizations such that all the time left for strategic planning .

Forbes has it that outsourcing of Taxation services and professional writing of financial reports. Therefore, organizations are struggling to deal with various intricacies of local regulations, paper-based reliance, and a range of different tools for compliant operation. This then results to noncompliance. Further to the following noncompliance, it results in compliance failure later on.

2.3.4 Information Technology Services

Problems with financial recording and reporting arise from the widespread belief among businesses that only data pertaining to their operational activities should be documented and reported; as a result, financial data is viewed as irrelevant (Pratolo, Jatmiko, Anwar, Layli & Mulyani, 2019). The majority of businesses, particularly those in the private sector, find it challenging to record and report financial information because they assume there will be costs involved. Nevertheless, these businesses will lack professionalism and produce financial reports that are of low quality (Anggraeni, Wahana & Sidharta, 2017). Information technology is one tool for producing high-quality financial reporting. Most businesses rely on outsourcing information technology services because they haven't adopted sophisticated IT systems (Hadzhieva, 2019). Benefits of information technology include rapid production of financial and non-financial information that is correct, comprehensive, dependable, and fully relevant; these data may be utilized to make high-quality judgments (Silalahi & Sinambela, 2017). Information technology can be used to provide financial reporting that is comparable, accurate, dependable, and comprehensible (Kreher, Sellhorn & Hess, 2017).Information technology has advanced remarkably, according to a number of studies. However, management only uses a small percentage of the data gathered via information technology to make decisions (Selase & Selase, 2019). Because financial reports may be prepared more accurately and flexibly when information technology is used in financial data management, outsourcing these services to a professional gives the business a competitive edge (Le, Bui & Tren, 2017). Information technology can be used to eliminate errors and increase the accuracy of financial data, according to Balakrishnan et al. (2019). Financial reports can be provided quickly because information technology facilitates the processing of high-quality reports and transaction data more quickly. As a result, these reports can be produced on schedule without sacrificing their timeliness or usefulness (Janardhanan, 2020).

Accounting software use is another way to conceptualize information technology; as a result, using software can help businesses avoid hiring accountants (Kurfi, 2017). Information technology is necessary because, in addition to storing and processing data, it makes work easier to complete and reduces the possibility of mistakes in data entry and computation (Amankwa, Mawutor & Yiadom, 2020).

2.3.6 Financial Reporting Quality

This implies that financial reporting's purpose is to disseminate financial information about an accounting entity's performance; thus, the prepared reports need to meet IASB's definition of qualitative characteristics (IASB, 2020). Whether outsourcing benefits organizations through making better decisions after relying on prepared financial statements is more often determined by the quality of the financial reports that are prepared in any organization (Le, Bui, & Tran, 2017). The instrument for connecting disparate important financial data for lending, investing, and other company decision-making is financial reporting. It acts as a report of a company's cash flow, solvency and its operational efficiency, and is therefore usually integrated into the firm's yearly report (Kipsang & Mwangi, 2017).

Investors base their decisions on the high-quality financial reports that companies provide, and it is crucial for the organization to have an accurate picture of the company and its strategy. Standard, trustworthy reports are important because they may guide investors and the business in the proper directions. As a result, the report's quality should be measured according to its relevance, understandability, dependability, and comparability (Asatiani, Pentinnen & Kumar, 2019).

2.4 Empirical review

2.4.1 Book - Keeping Services and Financial Reporting Quality

To ensure whether the research findings display the definite impact of accounting services on calibre of financial reports among the small micro companies in the process of implementation in Kenya Kamita & Oluoch (2018) show that they undertook a study. It was judged appropriate to concentrate the study on SMEs in Nairobi County for the following reasons: First, this study targeted SMEs in Nairobi County. Second, the business type in the County is diverse, ranging from manufacturing companies, service industries, retailers, wholesalers, and transporters among others. The scientific approach used in this research is descriptive, the methods of Chi-square analysis, and the data received from a questionnaire filled in by 284 respondents in the sample had to corroborate the assertion that the extent of financial performance reported by the outsourced bookkeeping services.

In the current context, Jema and Daproza explore the effect of accounting service outsourcing in business enlargement and productivity of the small and medium scale companies in their study conducted in 2021. This paper aimed at reviewing those publications and articles which would illustrate the prospects of the benefits that companies could accrue from outsourcing of accounting services. Specifically, the study suggested that there might be difficulties related to a few features when executing the accounting tasks by SMEs, which might be reflected in their performance. On the benefits of Accounting Service outsourcing the author of the study discussed several as explained in this paper. In the examination of the effects of outsourcing on performance the variables of outsourcing highlighted to have affected the outsourcing of bookkeeping services.

Twaha, Nairuba and Bananuka (2021) undertook for our study a research analysis that established the relationship between the efficiency of financial reporting, internal audit and the Corporate Governance of the financial institutions in Uganda. In conducting the study, the researcher adopted a cross-sectional and correlational theoretical angle. Some of the survey questionnaires were distributed to Internal audit managers, senior accountants, and CFOs of the Financial institutions exist in Uganda. Descriptive statistics Descriptive statistics of the characteristic were calculated using the Statistical Package for Social Sciences. The write-up revealed trends between the quality of financial reporting and the capacity of the board in the performance of its functions. Moreover, BO and FRQAL show moderate to highly positive correlation coefficient values. Some of the earlier analysis indicate that displays that board independence is not one of the factors that may suggest the quality of the financial reports.

2.4.2 Audit Services and Financial Reporting Quality

Twaha, Nairuba, and Bananuka (2021) proposed conducting a study on corporate governance, internal audit quality, and financial reporting quality for the Ugandan financial institutions. This study employ descriptively cross-sectional research design and correlational research design. targeted respondents included the chiefs of financial officers, senior accountants, and internal audit managers at Ugandan financial institutions. For the purpose of processing and analysis of all the data that was collected for the study, use was made of the Statistical Package for Social Science. Besides, as it was expected, the results of the study highlighted a positive correlation between the FRQ and specific aspects of the board work, including its competence. On the other hand, it is evident that available evidence supports the fact that quality of internal audits has positive and significant impact on quality of financial reports. This implies that F usted cannot be solved by board independence.

Writing on their study focusing on accounting services and the quality of financial reports among kenyan SMEs, Kamita and Oluoch (2018), aimed at identifying the various ways through which these services impacted. The selection of the target population was relevant based on the workings of SMEs in Nairobi County; it was deemed appropriate to focus on such a topic since such enterprises perform numerous operations in the area. Besides, the study utilized a questionnaire to cover the required sample of 284 Respondents, and the given descriptive actual study and Chi-square analytical techniques mandates that the evidence must point that some extent of outsourcing of auditing services has an impact on the quality of financial reporting.

Thus, Jema and Daproza (2021) consider the impact of outsourcing of accounting and preparing services on development of the SMEs. Concerning the aims of the research, the major approach was aimed at establishing several references that offer solutions to the various scenarios where outsourcing the services of accounting are the best for the company. Analyzing the collected data it can be stated that there are few issues with which most SMEs are concerned while managing their accounting process which can significantly affect the organisation. Outsourcing, the paper mentioned in the discussion section above, has the following benefits that the organisation is likely to gain. The study established a clear approch on the effect that outsourcing auditing services had on performancelevels.

Oladejo, Yinus and Rutaro (2021) a study of internal audit practice and financial reporting quality: Required research study is thus introduced in this paper for the assessment of environmental sustainability measures by focusing on Nigeria's foods and beverages quoted firms. Therefore the study aimed at evaluating the nature of internal audit in practice as well as the impact it has on the quality of reporting in the sample organizations. Hence, secondary data extracted from the sustaining annual accounts records for the nine (9) years considerate examinees' data from the four sustaining food and beverages listed firms among the twenty three recorded food and beverages firms scrutinized on the Nigeria Stock exchange as at December 2020. The method chosen as the independent variable in this study is the Internal Audit practice In a bid to determine Internal Audit fee, the technical proficiency of the internal auditor, and the size of the firm as the dependent variables. The dependent variable selected for this social scientific study is the Fina-collar Reporting Quality. Regarding the analysis of Internal Audit attributes, the null hypothesis was tested through mean ranking analysis on the following determinants of Internal Audit of the firms: In addition, the adopted regression analysis testing was used to examine the relationship between internal audit quality and the quality of financial reporting of the aforementioned sampled firms with 95% level of confidence.

2.4.3 Tax reporting services and Financial Reporting Quality

Principal-agent theory is based on information asymmetry. When a vendor (the agent) contracts with a government (the principal) to produce or provide goods or services in which the vendor is an expert, this is known as an agency relationship (Finkle, 2005; Larbi, 2006). Principal-agent model seeks to tackle situations in which the principal and agent have divergent goals &/or where the cost of monitoring the agent for performance is too expensive. These kinds of issues can be attributed to incomplete contracts, inadequate and sometimes misleading information and the problem of behaviour control as noted by authors such as Gauld (2007). Since the theory assumes that the principle and the agent act in the best interest of each other but do have different attitudes towards risks, then the theory briefs the appropriate balance of their relation so that it is possible for the principal's goals to be achieved (Eisenhardt, 1989). This assumption stems from the assumption that the ‘’shirker’’ in particular does not have the same goals as the ‘’principal’’, and in the case where they are left to their own accord, could not deliver to the standard expected.

Citing from work done Eisenhardt (1989) made it clear that it is really hard to eliminate agent shirking. In fact, shirkking goes on at every observable organisational level as found out by Kettl (1993). Therefore, the objective is to ensure that as much as possible, shirking is done in a way that would ensure that the principal gets what he/she wants rather than the complete elimination of shirking. Agency expenses result from an agent operating opportunistically and in their own self-interest. Contractual challenges brought on by knowledge asymmetries and predicted agent opportunism are lessened by agency costs. Whether or not these costs are justified, agency cost includes all of the expenses related to thwarting opportunism. It entails creating systems to keep an eye on agent activity and make sure the agent abides by the terms of the agreement (Stan et al., 2007).

It is significant to note that two important subjects can be underlined in moral hazard and adverse selection in the principal-agent theory. Since the principle cannot keep an eye on every agent's activities, the term "moral hazard" is used to describe an agent's lack of effort (Gauld, 2007). The term "adverse selection" describes a circumstance in which an agent deceives the principal about their abilities. If the agent is chosen to finish the contract, they may assert that they possess a specific set of talents and competencies.

The principal agent model is designed to identify the optimal contract for the specified multiple circumstances resulting from ambiguity of outcomes, risk attitudes, information and others. This seems to try to find whether this agreement that should capture the best for the principal and agent is attained by action or outcome. The two assumptions which are often used in developing the method are that the outcome can be easily quantified and the agent will take fewer risks than the principal (Eisenhardt,1989). For instance, where the principal has knowledge or suspicion of the agent activities, this can happen. As it is even more effective than the contract based on agreement as the principle is paying for the actions of the agent. Among these components is the concept of task programmability, which defines how easy it is to assess the behaviour related to the job of the agent. Thus, while the concept of programmability, which refers to how much an agent's suitable behaviour may be scripted (Zeng et al. , 2007), is important as a theoretical construct in the analysis of AI designs.

For instance, a high-tech entrepreneur uses a lot less programming than a retail sales clerk (DeHoog & Salamon, 2002). Agent behaviour becomes easier to watch and assess when activities are more formulaic. Exercises that are well-designed readily display agent behaviour. Behavior-based contracts are therefore more alluring the more programmed the task is, as it becomes easier to ascertain information about the agent's behaviour (Finkle, 2005).

On the other hand, a contract could be outcome-dependent means that the compensation that a party received is dependant of the end result of the contract. With activity based formulations of result oriented contracts the objectives of the agent and the principal are aligned, but at the price of shifting risk to the agent depending on the level of outcome uncertainty. However, there are other factors besides behaviour that has the possibility of affecting the result such as; economic condition, government rules and regulation, activities of competitors, and so on. (Eisenhardt, 1989; Zeng et al. , 2007; Stan et al. , 2007). In this type of contract, the risk transfer involves lesser money in comparison to the gains because there is less chance of an unfavourable outcome in the results based contracts. Although outcome-based contracts offer benefits in terms of incentives, risk shifting becomes more costly as uncertainty rises. As a result, when results are hard to quantify, outcome-based contracts lose appeal. On the other hand, outcome-based contracts gain appeal when outcomes can be measured with ease (Bessire, 2005).

Prolonged collaborations between principals and agents are expected to lessen information asymmetry and facilitate the principle's understanding of the agent. Behavior-based contracts make more sense in this situation. Outcome-based contracts are preferable because short-term agency arrangements are likely to have a larger knowledge imbalance between the principal and the agent. As a result, DeHoog & Salamon (2002), Gauld (2007), as well as Eisenhardt (1989) observed a significant positive relationship between the dependence of agency relationships and behaviour based contracts and negative dependence with outcome based one. Long-term relationships have been shown to enhance contractual results and promote better trust.

According to Domberger (1998), mutual trust is essential for creating cooperative, long-lasting partnerships and market discipline—both of which are requirements for contracting out to produce the best results. Building a cooperative relationship and a practical contract between a principle and an agent requires a great deal of confidence. Furthermore, it has been noted by Linfield-Smith et al. (2000) that the effectiveness of contract management can be significantly impacted by good cooperative partnerships. Accounting managers should provide timely and accurate reports to all end users; this theory corresponds with the dependent variable of enhancing the quality of financial reporting. We also find differences in tax accounting quality between periods surrounding a shift in tax-related financial reporting rules.

1.4.4 Information Technology and Financial Reporting Quality

Kamita and Oluoch (2018) realized a study on the influence of accounting services on quality of financial reporting of the SMEs in Kenya. As a result of the simultaneity of numerous SMEs within a diverse variety of specific business activities, the study only targeted Nairobi County. To ensure validity of the research evidence provided, it is necessary to harness a descriptive research design, whereas a chi-square analytic technique is necessary to analyze data.

To sum up, 284 respondents are required to complete the questionnaire in order to verify that the outsourcing of information technology services impacts positively on the quality of financial reporting.

The set of works by Daproza and Jema (2021) is aimed at investigating the implications of the accounting service outsourcing for the extension and efficiency of small and mediumsized enterprises. The objective of this study is to critically appraise some of the written materials, such as the white papers and articles available in the public domain, as well as other enlightening analyses of the benefits of outsourcing the services of accounting firms for businesses. The domains of the accounting function that,self as per the report have significant impacts on the financial outcomes of some SMEs? The benefits of outsourcing accounting services for your business were featured in this article. It enables a stunning degree of influence to be exerted over performance by IT service outsourcing.

This study was designed to identify the quality of financial reporting in the context of Bangladesh and the role of information technology (Sina et al. , 2021). The adoption of the Multiple Linear Regression Model employing Ordinary Least Squares method was used as the data instrument for the empirical study on IT and FRS Quality among a selected subset of Bangladeshi banks, and the data collection technique for this study was primary survey data that was gathered with the aid of a structured questionnaire using the NEI technique. Outcome of the analysis of data found in the study showed that there was a positive relationship between report quality and IT.

In 2020, Wiralestari, Friyan, and Hernando published a paper concerning the incorporation of information technology that improves the quality of the financial reports produced by micro, small and medium enterprises. The rationale and justification for the study were premised on the need to determine how managerial information technology could help small and medium-sized business entities to improve their financial reporting quality. To perform this, this research developed a structural questionnaire and distributed it randomly across 98 MSMEs operating in Jambi City. When asked about the use of computers within their business, over 95% of surveyed business professionals responded that computerised recording of transactions is essential in order to produce financial reports, implying that such reports are useful tools which can aid decision-making processes within organisations. In response to the questionnaire, their assertion finds support. By this research, this author has ascertained that in the contemporary society, a number of owners of micro, small and medium enterprises conduct their operations without computers and do not make use of the computers for solving daily operations. The study also made it possible to show how the use of technology impacted the quality of financial statements in micro, small, and medium-sized enterprises. ITU and digital transformation: IT proposal to make the sectors which acted manually successful with the assistance of IT and implement the indoor paperless accounting process. Data also shows that micro, small and medium enterprises also advocated for simplicity and effectiveness in financial reporting through desktop and web based applications.

2.5 Research gaps

When businesses are thinking about outsourcing, their initial thought is always about how it could help a particular company. Even while a number of advantages can be anticipated, it's unlikely that one outsourcing strategy will offer them all. The literature has numerous arguments in favor of the claim that outsourcing seldom meets all expectations (Kurfi, 2017). As the study highlighted that the studies have mainly focused on the connection between the financial reporting quality of institutions and the external outsourcing of accounting services, there are evidence methodological, conceptual, contextual, and theoretical void to bookkeeping, auditing, tax reporting, and information technology services. Another inevitable factor brought about by the global technological advancement is change in administration capabilities for outsourcing practice.

Table 2.1 Summary of Literature Review and Research Gaps

Authors	Objective of the study	Context	Methodology	Findings	Research Gap
Kamita and Oluoch (2018)	Effect of outsourcing on quality of financial reporting on small firms.	Kenya	Descriptive Research Survey design.	Positively significant	Study done on a small population of small and medium enterprises, while current study will focus on large current population on small and micro enterprises in Nairobi.
Kiiru & Wangombe (2017)	"Effects of Outsourcing on Financial Performance of	Kenya	Quantitative, Survey	Outsourcing of non-core functions	Focused only on SMEs in the manufacturing sector thus could not be

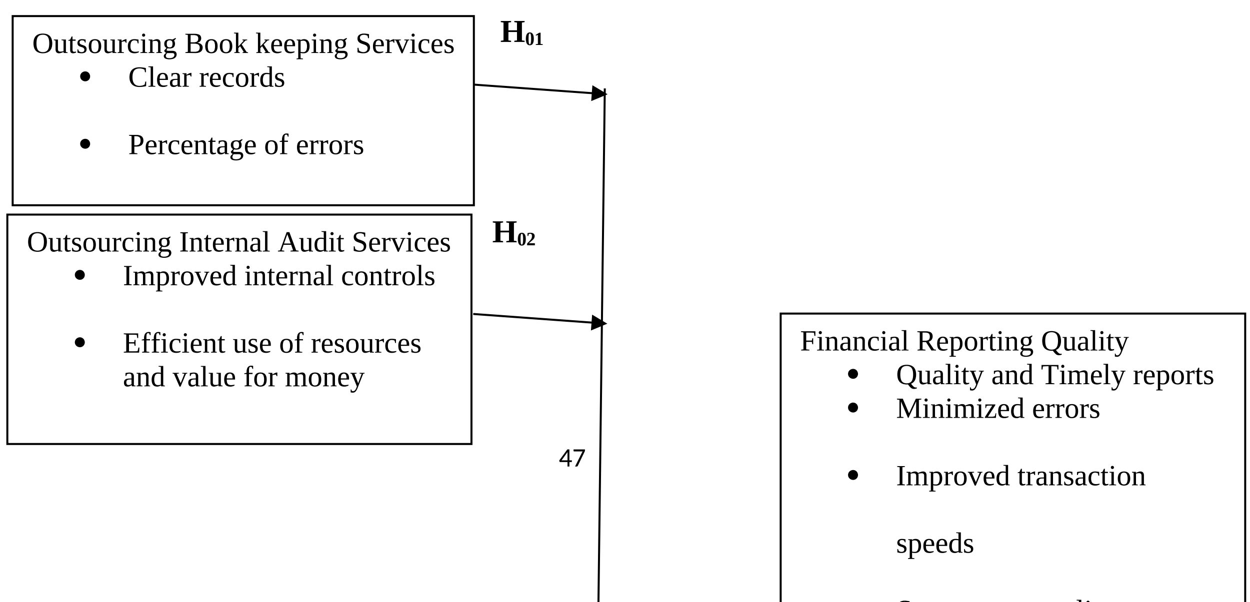
	Small and Medium Enterprises in the Manufacturing Sector in Nairobi County, Kenya"			has a positive effect on financial performance of SMEs in Nairobi County, including in the manufacturing sector.	used to efficiently determine the effect of outsourcing on SMEs in Kenya
Mudaly & Nel (2019)	The Effect of IT Outsourcing on Financial Performance: Evidence from South Africa	South Africa	Quantitative research	IT outsourcing has a positive effect on financial performance in South	Lack of focus on the specific effects of IT outsourcing on financial reporting quality in the context of African SMEs. Lack of exploration of potential challenges and risks

				African firms.	associated with IT outsourcing that may impact financial reporting quality.
Jema and Daproza(2021)	Impact of outsourcing accounting services to small and medium enterprises' growth and performance	Philippines	Descriptive Research Survey design	Positively significant	Focused only on small and medium firms while micro enterprises firms as well required outsourcing practices professionally.
Sina,Chowdhurry,Shakib(2021)	Role of information Technology on improving the quality of financial reporting on commercial banks	Bangladesh	Descriptive Research Survey design	Positively significant	The study focused on Bangladesh Commercial banks and little to do with effects on small and micro enterprises
Kaawaase, Nairuba and	Corporate governance,	Uganda	Cross sectional and correlational	Positively significant	Research design applied will be

Twaha(2021)	internal audit quality and financial institutions				different from the current study that will use descriptive research design
Qian(2022)	Quality of tax accounting for financial reporting purpose being an evidence from United Kingdom.	UK	Literature review	Positively significant	Research done in a developed set up environment unlike the research done in Nairobi city that has a developing economy

2.6 The conceptual framework

This is followed by establishing a conceptual framework from the literature review that gives light to methodology used. In this research, four variables will be used with the latter being the dependent one.



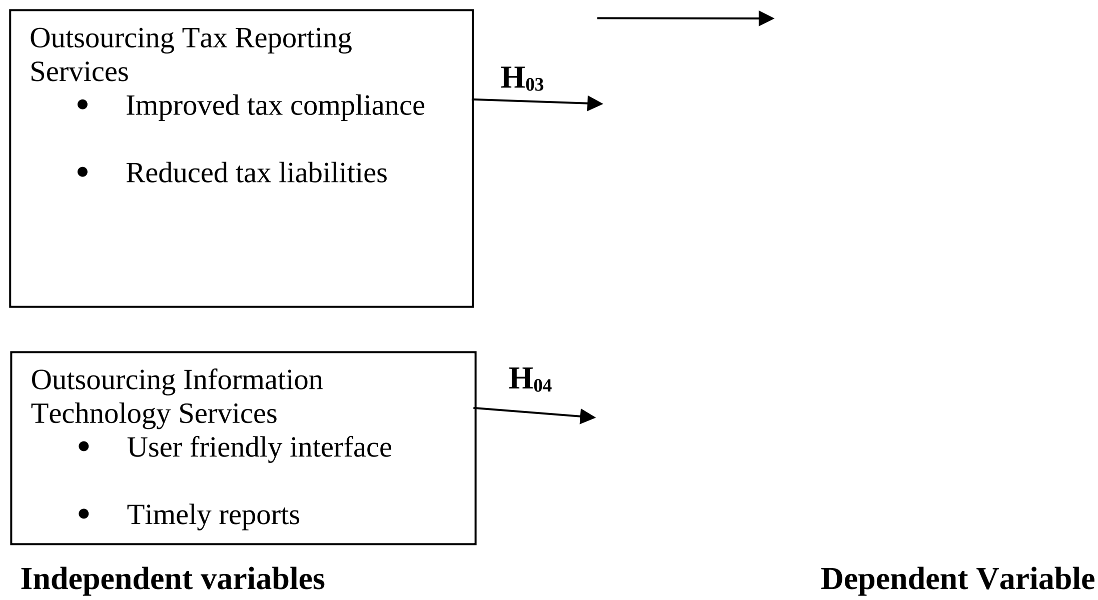


Fig 1.7 Conceptual Frame Work

Source: Researcher (2024)

This research will establish the different outsourcing dimensions that affect the financial reporting quality of the Kenyan small and micro firms by using the following conceptual framework. The research dependent variable, Financial reporting quality is depicted in figure 1 below. 7. Here, the mentioned measures include better quality reports and compliance timelines, decreased error rate, faster, and efficiency in transactions, and compliance with the statutory requirements. The first independent variable was bookkeeping which was measured by the percentage of errors in books of accounts and the clarity of records maintained by the organisation, The second independent variable was Internal Audit Services, which was measured in terms of internal controls enhanced, resource utilization, and the value delivered by the service The third tested independent variable was Tax Reporting Services, which was measured by the amount of taxes reduced and the improved compliance with tax laws and regulations The fourth independent variable.

CHAPTER THREE

RESEARCH METHODOLOGY

The research philosophy that guided the techniques employed to look into correlations between study variables is covered in this chapter. Research philosophy is the concept in relation to the accumulation, analysis, and application of data concerning a particular matter. The research design also includes the justification of the study area and selection of the target population, determination of the sample size, methods for data collection and analysis, data visualization, and research ethical consideration.

3.1. Research Design

A research design contains the strategies for data collection, assessment, and evaluation strategies. To broaden their understanding of the term, it is the similar fundamental methodical and systematic approach that a researcher applies when trying to gather all study aspects surrounding the research topic in a suitable way (Bryman, 2016). According to the research objective of this study, correlational research was used as the methodology. It would prove helpful when the exact nature of the relation between two different variables is the aim of research. In this instance, the research aimed at identifying whether there existed a significant relationship between the level of accounting service outsourcing and the quality of the financial reports in SMEs. Thus, establishing this relationship makes it possible for the study to come up with more understanding of the way outsourcing may affect the extent of financial reporting.

3.2. Study area

Extent of the study The study area sets the line of demarcation that determines the boundary within which research on the extent of outsourcing of accounting services on the financial reporting quality of small and micro enterprises in Nairobi, Kenya lies. Nevertheless, this study aimed at determining the effect of outsourcing of accounting services only on the aspect of the Financial Reporting Quality among the small and micro enterprises in Nairobi, Kenya.

3.3 Target Population

This study population was made up of managers from the small and micro enterprises involving 3330 firms, from Sub-counties within Nairobi City County, as highlighted in Table 3. 1.

Table 3.1

Sub-County	MSEs
Westlands	200
Dagorretti North	230
Dagorreti South	200
Langata	230
Kibra	300
Roysambu	150
Kasarani	200
Ruaraka	350
Embakasi South	170
Embakasi North	250
Embakasi Central	180

Embakasi East	160
Embakasi West	180
Makadara	200
Kamukunji	110
Starehe	100
Matahare	120
Total	**3330**

Source: Micro and Small Enterprise Authority (2020)

3.4 Sample Size and Sampling Techniques

3.4.1 Sample Size

In respect to research, sample size means the number of people selected and involved in the study and it is a part of the population [5]. In this endeavor, there is a wealth of work that has been accomplished in the specific area of sampling strategies that provides a plethora of information on how the correct sample size should be determined. The researcher may use a small population census, or make the sample size of the similar studies or use various algorithms to determine it but it must be large enough to achieve the desirable effects and are selected from the target population and hence known as a sample representing the community (Kothari, 2019).

Therefore, the formula for the proportional sampling technique developed by Taro Yamane was employed on this work to calculate the sample size. This expression is essential because it determines the sampling interval for a specified population and the assured sample to the researcher. Hence, to determine the power of the study, a sample size was estimated thus;

Sample

$n = N/ (1+N (e)^{2})$

Where n = Sample size

N = population under study

E = margin error (0.05)

I = constant

Therefore;

$n=3330/ (1+3330 (0.05)^{2)}$

$n=3330/ (1+3330(0.0025))$

$n=3330/ (1+8.325)$

$n=3330/9.325$

$n=358$

From the calculation 358 was the total sample of small and micro enterprises as shown and reflected as per the break down in Table 3.2.

Table 3.2

Sub-County	**SMEs**	**sample proportion**
Westlands	200	21
Dagorretti North	230	25
Dagorreti South	200	21
Langata	230	26

Kibra	300	32
Roysambu	150	16
Kasarani	200	21
Ruaraka	350	37
Embakasi South	170	18
Embakasi North	250	28
Embakasi Central	180	19
Embakasi East	160	17
Embakasi West	180	19
Makadara	200	21
Kamukunji	110	13
Starehe	100	11
Matahare	120	13
Total	**3330**	**358**

Source: Researcher

3.4.2 Sampling techniques

The process of choosing participants for a study in a way that best represents the broader group from which they were recruited is known as sampling technique (Sekeran & Bougie, 2016). In order to determine how sampled managers of small and micro firms in Nairobi County, Kenya will be chosen, the study used a stratified proportionate random sampling technique. By using stratified sampling, the sample selection bias was reduced and there was no over- or underrepresentation of any particular population segment. The respondents were the managers of the different sampled enterprises.

3.5. Data Collection Procedure

To ensure that the research study adhered to the universally recognized ethical standards of research, the investigator developed and provided the following documents to the respondents: an introduction letter, consent form besides developing an identity letter from the Masinde Muliro University of Science and Technology. Moreover, a letter of endorsement from NACOSTI for the purpose of the research to get permission from managers of small and micro enterprises. To achieve a comparatively accurate representation, one-time structured questionnaires were administered to 179 small firms and 179 micro-enterprises from January through to March in the year 2024. These surveys were physically administered to the respondents in hard copy and the respondents were expected to take the fully completed ones later. Guarantees of confidence about the responses given were observed through out the process, since the data collected was for research purposes only.

3.5.1 Data collection Instrument

The questionnaire was essential because it allowed for the collection of a large amount of data quickly and included questions for every study variable. It was composed of many questions that were typed or printed in a specific order on a form or series of forms (Sekeran & Bougie, 2016). Questionnaires that respondents self-administered were used to gather primary data. There were organized questions on the questionnaires. Multiple-choice formats were used in the structure and design of these questions. In the first section, the responder was given an introduction to the researcher, the research issue, and its objective. The purpose of section two was to collect the respondents' age, gender, and degree of education. In contrast, the third segment focused on the study's independent and dependent variables.

3.5.2. Pilot Study

To this effect, a pilot study is an initial test of the research method, which enables the feasibility testing of the data collection tools (Bryman, 2016). To ensure readability of the words used and credibility of the staked claims with regard to specific research themes under consideration, all parts of this questionnaire for the research under consideration were coded and checked. Subsequently, the questionnaires were administered to small and micro firms that are based in Nakuru County only with a view of pre-testing them. Nakuru County was selected because it is proximal to Nairobi, and it ranks second as the leading host to SMEs across the country. The pilot study involved 36 cases from the 300 selected small and micro businesses that constituted 10% of the target sample size. This was in view of the fact that according to Mugenda and Mugenda (2012), in order for the research instruments to be tested after pretesting with a pilot sample of respondents, there needs to be preparation to identify if there are areas that can be amended before the comprehensive study can be conducted.

3.5.3. Validity of Research Instruments

The property of propositions or measures that is based on how closely they align with accepted knowledge or reality is known as validity. According to Sekeran and Bougie (2016), an attitude scale is deemed valid, for instance, if the results match other measures of attitude possession.

Validity is the capacity of a test to measure what it is intended to measure, according to Mugenda & Mugenda (2012). Therefore, an instrument's validity is determined by how well it poses accurate questions. The researcher used the content approach, which involves using 10 copies of the instrument for validation during pilot testing, to ascertain the validity of the research instruments. The research questionnaire instruments were discussed with managers of small and micro firms in Nakuru. In other words, a pre-test of the questionnaires was conducted to make sure that each item is meaningful, well-stated, and contains enough information to guarantee content validity.

3.5.4. Reliability of Research Instruments

In other words, reliability refers to the level or extent up to which the results or data produced by a research instrument are consistent or steady each time it is used, Mugenda & Mugenda (2012). In the pilot testing of the instrument, the Cronbach alpha coefficient of internal reliability was employed to calculate the reliability of the Cronbach's alpha instrument in the study. To exactly relate an inventory to a list taken for granted, an internal consistency measure known as Cronbach alpha was used. Thus, in the pilot testing, 20 questions concerning Information Technology, 10 questions about Bookkeeping services, 10 questions about Auditing services, and 10 questions about Tax Reporting were each summed up independently, and the Cronbach alpha coefficient was computed by using SPSS version 24. Therefore, the coefficient of 0 is an appropriate result for this process of evaluation and should be considered accurately with appropriate scientific justification. Mugenda & Mugenda (2012) have pointed the results above 70 enjoy a higher reliability of data. , However, results the above findings reveal reliability level of higher than 70. Hence, in this study, Cronbach's alpha internal consistency coefficient was employed to establish the level of reliability of the research questionnaires and the correlation coefficients.

3.6. Data analysis techniques

Data was collected from the field then processed by coding, cleaning, organizing the data in a tabular form then analyzing the data with the help of statistical tools for inferential and descriptive purposes using Statistical Package for the Social Scientist Software (SPSS) version 24. Due to this, in presenting the results, the use of tables has been more preferred so that the output will be easily understood. The methods used in descriptive statistics included frequencies, percentages, averages, standard deviation, and other measures of central tendency and dispersion that were used at various times in the course of doing research. To ease access to the data, the findings were compiled in tables and graphs.

The research findings were compiled in tables and graphs to ease their access.

The extent of correlation and relationship between the dependent and independent variable also determined by using inferential statistics like regression and correlation analysis which identifies the type and degree of the association. Co-relation coefficient and regression coefficients were used to determine how easy it is to explain the change in the dependent variable over time using a regression line. Linear and multiple regression plus correlation studies: The basis for all the studies was the relationship between two or more variables that exist among students..

The study conceptualized Regression Model was;

$y = \beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+ \beta_4X_4 + e$

y = Financial Reporting Quality

β_0 = Constant

X_1 = book keeping services

X_2 = auditing services

X_3= tax reporting rervices

X_4 = information technology services

$\{\beta_0-\beta_4\}$ = Beta coefficients

e = the error term

3.7 Diagnostic tests;

3.7 .1 Normality;

This is the assumption that a variable's scores are normally distributed around the mean. NormencY tests were used to assess the normal distribution while both dependent and independent variables were examined, in that regard, the Shapiro-Wilk test was inion-tricked in evaluation of the normal distribution of the sample wichstein population. Saunders (2007) argues that the results of a study with conditions in which the LRN are not met can provide biased estimates of the parameters, according to some researchers. This can be met by the assumption of normal distributed data as is the case with the null hypothesis in the test for normalcy A rejection of the null hypothesis is not what this test is designed for. However, where the probability ends up falls short of attaining statistical significance , the p-value has to be equal to or greater than 0. 05, the tests fail to reject the normalcy hypothesis with the help of Shapiro and Wilk test (1965). The decision rule is such that if P- value is greater than 0 then we fail to reject H0 meaning that it is not significant. We use alpha level of 0. 05 If the calculated p – value is less than alpha level then H0 should be rejected. 05 alpha level.

3.7. 2 Multi-collinearity

Therefore, and based on the use of OLS regression analysis, multi-collinearity is one of the most important assumptions that have to be tested, with the aim of analyzing the extent to which the various independent variables are correlated. This is a condition that occurs when two or more independent variables within a model are highly related in their effects on a dependent variable. By employing the number obtained from the independent variables, the multiple regression equation can be used to analyze variability of the dependent variable. In a regression, multicolllinearity as indicated by Garson (2012) reduces the ability of the independent variables to hold explanatory power and also poses significant risk to their statistical and inferential conclusion. In other words, by calculating the coefficients between values of the variables, it was quantifiable.

3.7.3 Autocorrelation

Autocorrelation may be defined as the extent of the relationship of the similar data at different points of time in the same time span. It identifies how level dependent variable at a certain time is connected with the level of the same variable at a previous time in a time series (Greene 2012). Auto- correlation was examined using Durbin-Watson statistic.

3.7.4 Heteroscedasticity

Their ‘heteroscedasticity’ was simply the condition where the variance of the dependent variable (the response variable) was not uniform over the range of the independent variables. This means haphazard in particular that it is (in stochastics, the mathematics of probability, parlance) a change in the variation, or the dispersion of the residual (or error) terms with the range of the measured values (Vinod, 2008). To determine the nature of the Heteroscedasticity in this research study, the Breusch-pagan/cook-Weisberg test was conducted.

3.7.5 Ethical Considerations

This ensured that all participants in the study signed a consent form after understanding the study and the possible consequences. Participants who the study invited had no reason be forced to participate in the study if they had no wish to do so. The identity of the respondents was not exercised in any of the data instruments that were administered for the purpose of anonymity and the information collected was solely for research purposes of this academic exercise only. Due to the sensitivity of this research, relevant authorities were consulted and permission for the study was granted. To credit the materials and sources, they were referred appropriately.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

Dependability tests, response rate, demographic information, descriptive statistics, multiple regression analysis, linear regression analysis, hypothesis testing, and a discussion of the results are all covered in this chapter.

4.1 Response Rate

This sample selection hence was 358 small and micro firms out of the 3330 overall firms in Nairobi County on which the study population was basing on. More than five-hundred and seventy-five questionnaires were distributed and three-hundred and thirty-one surveys were selected for an analysis, with a response rate of 57.5%, which is relatively acceptable for this research. A response rate of is reasonable according to Mugenda and Mugenda (2003) as they see a 50% response rate as necessary for seminars and workshops;60% high but 70% response rate is good and an excellent response rate for this research proposal.

Table 4.1: Response Rate

Response rate	Sample size	Percentage (%)
Returned questionnaires	296	83.1
Un returned questionnaires	62	16.9
Total	**358**	**100**

4.2 Reliability and Validity of Research Instruments

The validity of research instruments was determined using data from pilot studies. In addition to discussing the questionnaires with managers of SMEs to make sure their material was pertinent to the study; content validity was determined by reviewing each question for word clarity and appropriate substance in relation to the study variables. The internal consistency metric Cronbach alpha was employed to assess the dependability of research tools. Cronbach alpha coefficient values of 0.7 and above are shown in Table 4.2's results, confirming the validity of the study's research instruments. Below is a summary of reliability tests;

Table 4.2: Summary of Cronbach alpha Reliability Coefficients for Study Variables

Variable	Number of items	Cronbach alpha
Outsourcing of book keeping services	5	.710
Outsourcing of auditing services	5	.705
Outsourcing of tax reporting services	5	.701
Outsourcing of information Technology services	5	.703
Financial reporting quality	5	.714

Source (Researcher)

4.3 Respondents Demographic Data

Demographic data collected included gender, respondents' education levels and length of service in small and micro enterprises of Nairobi County. The results are displayed in Table 4.3.

Table 4. 3: Demographic data

		Frequency	Valid %
	Male	211	71.3
Gender	Female	75	28.7
	Total	**296**	**100.0**
Level of	Diploma	51	17.2
Education	Degree	156	52.7
	Masters	89	30.1
	Total	**296**	**100.0**
Experience of	1-5 years	43	14.4
Experience of	6-10 years	214	72.3
	Above 10 years	39	13.3
	Total	**296**	**100.0**

Source (Researcher)

In terms of gender, the majority of respondents (71.3%) were men, while the remaining respondents (28.7%) were women. This indicates that, despite the predominance of men, there is a good and equitable distribution of female respondents in the County of Nairobi who are able to make decisions regarding the quality of financial reporting. Second, the majority of respondents (52.7%) held a degree, indicating that they possessed pertinent knowledge regarding the caliber of financial reporting. The percentage of officers with a diploma level of education was 17.2%, suggesting that this group of officers may consist of individuals with tertiary level education but with mediocre awareness of financial reporting quality. At the master's level, thirty-one percent indicated that managers and those with less education should recognize the quality of financial reporting.

In conclusion, the majority of respondents (72.3%) had worked in small and micro firms in Nairobi County for 6-10 years, while 14.4% had worked there for 1-5 years. 13.3%) were recorded for more than ten years, suggesting that the majority of respondents were aware of the caliber of financial reporting.

4.4 Descriptive Statistics

The Likert scale, which has values ranging from 5 to 1, is used to summarize responses to statements measuring the study's independent variables (book keeping services, auditing services, tax reporting services, and information technology services) and dependent variable (financial reporting quality). 5 represents strongly agree, 4 represents agree, 3 indicates uncertain, 2 indicates disagree, and 1 indicates strongly disagree. These descriptive statistics are presented in this section. The findings are displayed as a table with the means, standard deviations, and frequencies of responses for each statement along with the matching percentage score indicated in brackets.

4.4.1 Out sourcing Book Keeping Services

These are summarized responses on whether outsourcing book keeping services influence financial reporting quality of SMEs in Nairobi County. The descriptive results are presented in Table 4.4.

Table 4. 4: Descriptive statistics; outsourcing Book keeping services

Statement	5	4	3	2	1	Mean	Std. Dev

The firm have very few employees for book keeping works	50.7% (150)	30.7% (91)	10.6% (31)	4.7% (13)	3.3% (11)	4.2	0.81
Book keeping services outsourcing is anchored in the company's corporate strategy	38.4% (114)	49% (145)	6.3% (19)	2.1% (6)	4.2% (12)	4.1	0.86
My firm relies on the outsourced firm to prepare book keeping records	29% (86)	31% (92)	20.1% (59)	12.2% (36)	7.8% (23)	3.72	1.07
Professionalism in book keeping has improved due to outsourcing of book keeping services	40.4% (120)	22.2% (66)	26.7% (79)	2.1% (6)	8.6% (25)	3.55	1.17
Clerical errors in reports have reduced due to outsourcing services	43.1% (128)	6.9% (20)	20.9% (62)	7% (21)	22.1% (65)	3.9	0.88

Source (Researcher)

From Table 4.4, The majority of respondents (50.7%) agreed that businesses employ few people to handle bookkeeping tasks, but 30.7% also agreed that the bookkeeping services help small and micro enterprises in Nairobi City County recognize the quality of their financial reporting. The remaining respondents (10.6%) disagreed, (3.3%) strongly disagreed, and (4.7%) were unsure about the statement. When asked if outsourcing bookkeeping services is a part of the company's corporate strategy, 38.4% of respondents strongly agreed with the statement, 49% agreed with it, 4.2% strongly disagreed, and 2.1% disagreed with the statement's content. Upon being told that their company uses an outside company to create bookkeeping records, (29%) strongly agreed, (31% agreed), and (12.2% disagreed) with the assertion. Regarding the claim that the outsourcing of bookkeeping services has improved professionalism in bookkeeping, the majority of respondents (40.4%) strongly agreed, 22.2%) agreed, and 26.7%) were unsure. However, 2.1% disagreed and 8.6% strongly disagreed. In reference to the claim that the use of outsourcing services has resulted in a decrease in clerical errors in reports, 43.1% strongly agreed, 6.9% agreed, 20.9% were unsure, 7% disagreed, and 22.1% strongly disagreed. Overall, the data suggested that the quality of Nairobi City County's financial reporting was impacted by bookkeeping services. The response indicates that outsourcing bookkeeping services has an impact on the quality of financial reporting, with a mean of 3.6 and a standard deviation of 0.96.

Adesemowo Makinde tested this study on Corporate governance, internal audit quality and financial reporting quality of financial institutions in Uganda (Twaha, Nairuba, & Bananuka, 2021). The results indicated that there is a more significant relationship with the quality of financial reporting and board job performance and knowledge. Further, there is a good relationship between accounting and the quality of financial detailed reports. There is no significant relationship between board independence and the quality of financial reporting.

4.4.2 Outsourcing Auditing services

These are condensed answers to the question of whether SMEs in Nairobi County's financial reporting quality is impacted by outsourcing auditing services. Table 4.5 presents the descriptive results.

Table 4.5: Descriptive statistics; Outsourcing Auditing Services

Statement	5	4	3	2	1	Mean	Std Dev
Auditing services outsourcing is anchored in the corporate strategy for competitive advantage	50% (148)	23.4% (70)	11.6% (34)	8.9% (26)	6.2% (18)	3.72	1.14
Professionalism on auditing has improved due to independency in examining the books of account	57.4% (170)	30.7% (91)	6.6% (20)	1.5% (4)	3.9% (11)	4.12	0.81
Auditors achieved the goal of reviewing the efficiency, effectiveness and value for money of my firm's operations	51.2% (152)	34.2% (101)	8.7% (26)	1.8% (5)	4.1% (12)	4.19	0.91
Recently Statutory compliance has improved due to outsourcing of	32.1% (95)	56.1% (166)	4.2% (12)	5.5% (16)	2.1% (6)	4.23	0.73

auditing services							
Auditors have offered opinions on improvement of my organization's operations towards achieving efficiency	53.6% (159)	21.1% (62)	9.5% (28)	10.1% (30)	5.7% (17)	3.79	1.11

From Table 4.5, Regarding auditing services, the statement that the outsourcing of auditing services is anchored in the corporate strategy for competitive advantage resulted in 23.4%) and 50% of respondents strongly agreeing, while 11.6%) of respondents were unsure, 8.9% disagreed, and 6.2% strongly disagreed. As a result, the information from the respondents indicated that, despite the varying reactions, they were aware of the impact of auditing services on the quality of financial reporting. In reference to the assertion that professionalism in auditing has improved as a result of independence in reviewing the books of accounts, 57.4% of respondents strongly agreed, 30.7% agreed, 6.6% of respondents were unsure about their decision, 1.5% disagreed, and 3.9% strongly disagreed, suggesting that there were varying reactions, even though the number of respondents who supported the statement outnumbered those who never did. Regarding the claim that auditors successfully reviewed the effectiveness, efficiency, and financial value of my company's operations, 51.2 percent strongly agreed, 34.2 percent agreed, 8.7% of respondents were unsure, 1.8 percent disagreed, and 4.1 percent strongly disagreed. These results suggest that respondents' reactions varied, but there were more people who agreed with the claim that recent statutory compliance has improved as a result of outsourcing auditing services than disagreed. Considering the claim that, as a result of outsourcing auditing services, statutory compliance has recently improved, 32.1 percent strongly agreed, 56.1 percent agreed, 4.2 percent were unsure, and 5.5 percent disagreed, suggesting that respondents were still in favor of the idea that the auditing services function influences the quality of financial reporting. Regarding the statement: "Auditors have provided feedback on how to improve my organization's operations in order to achieve efficiency." Of the respondents, (53.6%) strongly agreed, (21.1%) agreed, (9.5%) were unsure, (10.1%) disagreed, and (5.7%) strongly disagreed. The majority agreed with the assertion since it suggested that auditing services had an impact on the caliber of financial reporting. The quality of financial reporting was impacted by the outsourcing of auditing services, as seen by the grand mean of 4.01 and standard deviation of 0.96.

According to Le Bui and Tren (2017), an internal audit can assist organizations in recognizing and assessing risks and positioning the industry at the forefront of risk management. Because it reflects management's attitude and policies on the significance of internal audit in the economic unit, the internal audit function plays a part in managing the entity's control environment (Kipsang & Mwangi, 2017). It is anticipated that the established efficacy of internal audits will increase the value importance of any establishment's published financial information, which will ultimately trigger the organizational financial performance. This is because established effectiveness of internal audits is supported as a control function for management in accomplishing the goals and targets of the organization (Poltak, Sudarma & Purwanti, 2019).

4.4.3 Outsourcing Tax reporting services

These are summarized responses on whether outsourcing tax services influence financial reporting quality of SMEs in Nairobi County. The descriptive results are presented in Table 4.6.

Table 4.6: Descriptive statistics; outsourcing Tax reporting Services

Statement	5	4	3	2	1	Mean	Std.dev
Tax compliance norms has improved as a result outsourcing tax service	54.9% (163)	15.2% (45)	6.5% (19)	13% (38)	10.4% (31)	3.78	1.21
The small and micro enterprises' staff have been training with external tax officers of recent	56.7% (168)	18.6% (55)	12.7% (38)	8.2% (24)	3.8% (11)	3.67	1.14
Tax liabilities of the small and micro enterprises have reduced of recent	48.6% (144)	14.2% (42)	20.1% (59)	6.5% (19)	10.6% (32)	3.55	1.07
I frequently use external experts to prepare tax accounts including VAT and other taxes	18% (53)	44.8% (133)	9.1% (27)	17.6% (52)	10.5% (31)	3.42	1.32
Outsourcing of the tax services is anchored in the competitive strategy of the small and micro enterprises	54.8% (162)	30.1% (89)	10% (30)	1.5% (4)	3.6% (11)	4.02	0.84

Source (researcher)

From Table 4.6, Regarding the claim that outsourcing tax services has improved tax compliance standards, the majority of respondents (15.2%) and strongly agreed (54.9%)

agreed with the statement, while 6.5% disagreed, (13% disagreed), and 10.4% strongly disagreed. This suggests a relationship between financial reporting services and tax reporting services. Regarding the claim that recent external tax officers have been teaching staff members of small and micro firms, 56.7 percent of respondents highly agreed, 18.6% agreed, 12.7% were unsure, 8.2% disagreed, and 5.8% definitely disagreed. It did, however, imply that while the majority of respondents backed the idea, fewer did not agree with the emotions. It was implied that a majority of respondents agreed with the statement that tax liabilities of small and micro enterprises have decreased recently because (48.6%) strongly agreed with it, (14.2%) agreed, (20.1%) were unsure, (6.5%) disagreed, and (10.6%) strongly disagreed. I regularly utilize outside professionals to compile tax accounts, including VAT and other taxes, as stated in the statement. Of the respondents, 18.8% highly agreed with the sentiment, 44.8% agreed, 9.1% were unsure, 17.6% disagreed, and 10.8% severely disagreed. Regarding the claim that the competitive strategy of small and micro businesses is the foundation for the outsourcing of tax services, 54.8 percent highly agreed, 30.1% agreed, 10% were unsure, 1.5% disagreed, and 3.6% strongly disagreed. The quality of financial reporting was impacted by the outsourcing of tax reporting services, as seen by the grand mean of 3.69 and standard deviation of 1.12.

A study on the effects of accounting service outsourcing on the expansion and productivity of small and medium-sized businesses was conducted in 2021 by Jema and Daproza. The article outlined the advantages of contracting out accounting services. This study's findings are supported by the discovery that the outsourcing of tax reporting services significantly affected performance.

4.4.4 Outsourcing Information Technology services

These are summarized responses on whether information technology services influence financial reporting quality of SMEs in Nairobi County. The descriptive results are presented in Table 4.7

Table 4.7: Descriptive statistics: outsourcing Information Technology Services

Statement	5	4	3	2	1	Mean	Std.dev
All departments are integrated through information technology system	38.3% (113)	21.1% (62)	18% (53)	10.7% (32)	11.9% (36)	3.67	1.01
Both internal and external officers have been training on information technology matters	44.6% (133)	25.1% (74)	11.2% (34)	6.1% (18)	13% (38)	3.66	1.12
Quality reports have been being furnished to the stakeholders of recent after outsourcing services initiated	55.3% (164)	12.4% (37)	12.8% (38)	10.1% (30)	9% (27)	3.56	1.02
Activities' transactions have been held at an improved speed	38.7% (115)	16% (46)	17.3% (51)	14% (42)	14% (42)	3.42	1.28

Errors have been minimized on making transactions	40% (118)	15% (44)	11% (33)	23% (68)	11% (33)	3.39	1.26

Source (Researcher)

From Table 4.7, The majority of respondents (21.1%) and strongly agreed (38.3%) with the statement that all departments are integrated through an information technology system. In contrast, 8% of respondents were unsure, 10.7% disagreed, and 11.9% strongly disagreed with the statement's sentiments. Regarding the fact that both internal and external officials had received training in information technology, the respondents' opinions were split as follows: (44.6%) highly agreed, (25.1%) agreed, (11.4%) were unsure, (6.1%) disagreed, and (13%) severely disagreed. It was implied that there was evidence of the connection between the quality of financial reporting and the impact of information technology services. In reference to the claim that high-quality reports have been provided to stakeholders since outsourcing services were started, 52.2 percent of respondents highly agreed, 12.4% agreed, 12.8% were unsure, 10.1% disagreed, and 9% strongly disagreed. Since the majority agreed with the comments, it was inferred that there was a connection between Nairobi County's financial reporting quality and the outsourcing of IT services. In reference to the claim that high-quality reports have been provided to stakeholders following the initiation of outsourcing services, (16%) agreed, (17.1%) were unsure, and (38.7%) disagreed and strongly disagreed. Regarding the reduction of errors during transaction processing, forty-two percent of respondents highly agreed, fifteen percent agreed and eleven percent were unsure; twenty-three percent disagreed and eleven percent definitely disagreed. The quality of financial reporting appears to have been impacted by the outsourcing of information technology services, as indicated by the grand mean of 3.54 and standard deviation of 1.14.

Numerous studies have demonstrated the remarkable advancements in the usage of information technology. However, management only uses a small percentage of the data gathered via information technology to make decisions (Selase & selase, 2019). Because financial reports may be prepared more accurately and flexibly when information technology is used for financial data management, outsourcing these services to a professional gives the business a competitive edge (Le, Bui & Tren, 2017).

4.4.5 Financial reporting quality

These are summarized responses on financial reporting quality of Nairobi City County. The descriptive results are presented in Table 4.8.

Table 4. 8: Descriptive statistics: financial reporting quality

Statement	5	4	3	2	1	Mean	Std.dev
Generally, the firm has met statutory requirements and has better tax compliance due to outsourcing of accounting services	30.2% (89)	21.8% (65)	12.3% (36)	17.2% (51)	18.5% (55)	3.16	1.34
Financial reports are prepared in a timely manner and have minimum	33.6% (99)	23.5% (70)	20% (59)	15.5% (46)	7.4% (22)	2.68	1.22

errors							
Reports prepared by my enterprise meet standards required by stakeholders including banks	24.8% (73)	14.5% (43)	18.5% (55)	26.7% (79)	15.5% (46)	2.55	1.37
Employees have integrated with outsiders flexibly	25% (74)	12.5% (37)	24.2% (72)	24.3% (72)	14% (41)	2.86	1.36
None of the employees has left the firm due to outsourcing of services	24% (71)	14.2% (42)	18.6% (55)	32% (95)	11.2% (33)	2.97	1.35

Source (Researcher)

From Table 4.8, The majority of respondents (21.8%) and strongly agreed (30.2%) with the statement that, in general, the firm has met statutory requirements and has better tax compliance as a result of outsourcing accounting services. In contrast, 12.3% of respondents were unsure, 17.2% disagreed, and 18.5% strongly disagreed with the statement. In reference to the claim that financial reports are produced on time and with few errors, respondents agreed (33.6%), disagreed (15.5%), were doubtful (20%), strongly disagreed (7.5%), and agreed (23.5%). The response to the statement that the reports my company prepares fulfill the standards expected by stakeholders, including banks, is as follows: 24.8% of respondents strongly agreed, 14.5% agreed, 18.5% were unsure, 26.7%) disagreed, and 15.5% severely disagreed. Regarding the flexible integration of employees with outsiders, 12.5% of respondents strongly agreed, 24.2%) disagreed, and 14.1% severely disagreed, with 25 percent of respondents strongly agreeing. Finally, regarding the claim that no employee has quit the company as a result of service outsourcing, (24%), (14.2%), and 18.6%) of respondents strongly agreed, disagreed, and strongly disagreed, respectively. The majority of respondents seemed to agree that financial services outsourcing had an impact on the caliber of financial reporting, as seen by the grand mean of 2.84 and standard deviation of 1.33.

Investors base their decisions about investments on the high-quality financial reports that companies provide, and it is crucial for the organization to have an accurate picture of the company and its strategy. Standard, trustworthy reports are important since they may guide investors and the business in the appropriate directions. As such, the report's quality should be measured according to its relevance, understandability, dependability, and comparability (Asatiani, Pentinnen & Kumar, 2019).

4.5 Diagnostic Tests

4.5.1 Multi-collinearity

The multi-collinearity test highlights whether there is a significant association between two or more independent variables hypothesized to exist in the model. It becomes challenging to identify the specific independent variable that is responsible for the variation in the dependent variable to be explained, and this presents statistical problems when one wants to piece together statistical multiple regression model from the dataset. For these reasons, the assumption that formed the basis of this study was tested using correlation analysis. From the research, multi-collinearity is defined in the situation where the correlation coefficient (r) approaches 1 or -1, a situation that is not always true if r is less than 0. 9 It means that they do not speak of multi-collinearity as it is non-existent (Kothari & Garg, 2014). According to the correlation analysis table 4. 12, the greatest coefficient between any two frequencies of the independent variables in this study was 0. 721, which is widely less than 0. This clearly indicates that occurrences of the identified risk factors are limited in the organization. 9 and we also realize that the level of multi-collinearity is nil. The following are the independent variables; Its bookkeeping services, auditing services, tax services and information technology services.

4.5.2 Normality

In addition, the normality test was conducted with the intention of testing whether the sample was derived from a normal distribution of population. As state by Saunders (2007) where if this assumption is not met, the value of parameter estimates obtained from the study could be misleading; therefore, the Shapiro–Wilk test has to be conducted in order to establish whether the dependent variable, the financial reporting quality was normally distributed. The results in the table show that the null hypothesis holding in the Shapiro-Wilk test of normalcy, given that the data for the variable tends to be normally distributed. The use of null hypothesis in the test doesn't aim at rejecting it as it has been done in the above set. On the other hand, when Likert scale differs a lot from the midpoint, the p-value is greater or equal to 0. 05, the efficiencies of the tests mean that they cannot remove regularity hypothesis (Shapiro & Wilk, 1965). That is, reject H0 only if P-value is less than or equal to the 0 Otherwise fail to reject H0. Otherwise reject H0 if P value less than 0. 05 alpha level P value 05 alpha level. The hypotheses were as follows;

H_0: The data is normal

H_1: The data is not normal.

Table 4.9: Normality Tests

Shapiro-Wilk Statistics

	Stats	P- values
Financial reporting quality	0.793	0.372
Book keeping services	0.856	0.691
Auditing Services	0.935	0.867
Tax reporting Services	0.866	0.854
Information Technology services	0.794	0.672

Source (Researcher)

Table 4.9 indicated Shapiro-Wilk statistics were; 0.793, 0.856, 0.935, 0.866 and 0.794 respectively. The associated p-value was 0.372, 0.691, 0.867, 0.855 and 0.672 for respective Shapiro-Wilk statistics. Accordingly, the p-values for both tests were greater than the significance level (0.05), the financial reporting quality data is normal. The study therefore concluded that financial reporting quality variable is normal in distribution and hence subsequent analysis could be processed further.

4.5.3 Autocorrelation

Durbin-Watson test was used to test for the presence of autocorrelation between variables. The results were presented in Table 4.10.

Table 4.10: Measure of Autocorrelation - Durbin-Watson

Model	R	R. Square	Adjusted R square	Standard Error of the estimate	Durbin-Watson
1	0.842[a]	.708	.691	0.2030	1.535

a. Predictors: (Constant), X4, X3, X2, X1

b. Dependent Variable: Y

Table 4.10 shows that the value for Durbin-Watson for the model was 1.535, reflecting the residuals for each successive value of independent variables were not correlated. Any requirement for Linear regression analysis indicates that data used has very little auto correlation. In some cases the parameter approached a value between the two critical values of 1,which was endorsed by Field (2009). 5 < x < 2, -<|reserved_special_token_274|>ch. </PLAINSMALLPIC> 5 suggest no self-symmetry of the identified caveats. However, using an engaging F-test, and based on the multiple linear regression data, there is no first order linear auto-correlation, meaning that the need to do away with autocorrelation has been met.

4.5.4 Heteroscedasticity

It is a condition in which the variance of the dependent variable or the y-variable is not constant but depends on the values of the independent variables. In particular, specificationbias is defined as a deliberate transformation of the ‘spread’ of the residuals (or errorterms) across the range of values observed (Vinod, 2008). In this study, heteroscedasticity was examined with the help of breush-pagan/If you need a or cook-weisberg test. The heteroscedasticity can be tested using the Breusch-Pagan/Cook-Weisberg test whereby, the values of $p < 0.05$ are considered to be significantly different (Bera & Jarque, 2012). Table 4. 11 Data on the table below indicate that Chi square = 15. 03 and p = 0. 163, thus, null hypothesis is retained. Therefore, it can be concluded that the assumption of homoscedasticity of the error variance is not violated in the current study data is not a Heteroscedasticity problem.

Table 4.11: Test for Breusch-pagan/cook-Weisberg test

H_0	Variables	Chi^2	Prob. > Chi^2
Constant Variance	X1, X2, X3, X4	15.03	.163

Where; X1- Outsourcing of book keeping services

X2- Outsourcing of auditing services

X3- Outsourcing of tax reporting services

X4- Outsourcing of Information technology services

4.6 Inferential Statistics

4.6.1 Correlations analysis

Correlation technique that was used in the study to determine the level of relationship between two variables is known as Pearson correlation coefficient (r), it produces quantitative value ranging from -1 to 1. In addition, the coefficient of correlation shows how one variable shares its changes with another one since the correlation coefficient describes the degree of relationship between two variables, Mugenda & Mugenda (2003). On the other hand, negative correlogram (-) means that when any variable declines, the other rises; known as negative correlation. A zero value of r is taken where the two variables are not related in any manner. Such variables with a positive correlation coefficient (+) signifies that there is a direct relation between the two variables.

Initially, table 4 depicted the outcomes of the analysis of the quality of financial reporting and the outsourcing of bookkeeping services based on the Pearson's correlation coefficients, where the quality of financial reporting demonstrated a positive, strong and significant correlation with the outsourcing of bookkeeping services. 12, with a total value of. 601 at the 0. 05 level of significance. This suggests that increasing bookkeeping outsourcing operations may have the benefit of raising the caliber of financial reports produced. A study conducted in 2021 by Twaha, Nairuba, and Bananuka confirmed the feelings. Similarly, with a value of.511 at the 0.05 level of significance, the outsourcing of auditing services shown a rather substantial, positive, and significant connection with financial reporting quality. According to Poltak, Sudarma, and Purwant (2019), this conclusion is supported.

Furthermore, a positive, very high, and significant association (p =.72 at the 0.05 level of significance) was found between the outsourcing of tax reporting services and the quality of financial reporting. Similar findings were found by Jema and Daproza (2021) in their study on the outsourcing of tax reporting services, indicating that hiring professionals to handle tax reporting will enhance the caliber of financial reports produced by SMEs. The quality of financial reporting and outsourced IT services have a 0.61 correlation coefficient, which indicates a positive, strong, and significant link at the 0.05 level of significance. This outcome agrees with Le, Bui, and Tren's (2017) findings. Businesses without the staff might raise the caliber of their financial reporting by outsourcing technology services.

Table 4. 12: Correlations coefficients Table.

Model Summary						
Model	R	R^2	Adj. R^2	Std. Error		
A	0.842	0.708	0.691	0.2030		
ANOVA[a]						
Model		Sum of	Df	Mean Square	F	Sig.
A		Squares				

Regression	22.616	4	5.654	17.949	0.001
Residual	91.909	292	0.315		
Total	114.525	296			

Coefficients[a]

Model		Un-standardized. Coefficients		Standardized Coefficients	T	Sig.	95% CI lower & upper bounds	
A		Beta	Std. Error	Beta				
	(Constant)	1.467	0.264		5.557	0.000	1.203	1.731
	Book keeping Services	0.668	0.322	0.661	2.074	0.017	0.346	0.990
	Auditing Services	0.503	0.214	0.478	2.350	0.012	0.289	0.717
	Tax reporting service	0.512	0.221	0.498	2.317	0.011	0.291	0.733
	Information Technology Services	0.611	0.253	0.597	2.415	0.013	0.358	0.864

a. Dependent Variable: financial reporting quality

c. Predictors: (Constant), book keeping services, auditing services, tax reporting services and information technology services.

4.6.2 Simple regression Analysis

Below are the simple regression results obtained for each variable

Table 4.13 Outsourcing of book keeping services and financial reporting quality simple regression results

Variable	Unstandardized Coefficient (B)	Standardized Coefficient (Beta)	t-value	p-value	95% CI (lower and upper bounds)
Bookkeeping Services	0.668	0.661	2.074	0.017	(0.289, 0.717)

Important information about the connection between bookkeeping services and financial reporting quality among small and micro businesses in Nairobi County was obtained through a straightforward regression study. The estimated unstandardized coefficient (B) for bookkeeping services was 0.668, meaning that there would be an estimated increase in financial reporting quality of 0.668 units for every unit increase in bookkeeping services.

Furthermore, it was determined that the standardized coefficient (Beta) for bookkeeping services was 0.661. This shows that, in comparison to other variables in the model, improvements in Bookkeeping Services are associated with better levels of Financial Reporting Quality, suggesting a relatively strong positive relationship between the two.

The relationship's statistical significance was further supported by the t-value of 2.074 and matching p-value of 0.017. We can conclude that the link between Bookkeeping Services and Financial Reporting Quality is statistically significant at the 0.05 level because the p-value is smaller than the standard significance level of 0.05.

Table 4.14 Outsourcing of auditing services and financial reporting quality simple regression results

Variable	Unstandardized Coefficient (B)	Standardized Coefficient (Beta)	t-value	p-value	95% CI (lower and upper bounds)
Auditing Services	0.503	0.478	2.350	0.012	(0.289,

					0.717)

The regression analysis shows that the unstandardized coefficient (B) for auditing services is 0.503, as shown in table 4.14. This suggests that the expected increase in Financial Reporting Quality is 0.503 units for every additional unit of Auditing Services. Additionally, the standardized coefficient (Beta) for auditing services is 0.478, indicating a strong and positive relationship between financial reporting quality and the supply of auditing services. The strength of this link is indicated by the accompanying t-value, which was computed to be 2.350. Significantly, the relationship's statistical significance is established by the accompanying p-value of 0.012, which is smaller than the typical cutoff of 0.05. The coefficient's 95% confidence interval (CI), which spans from 0.289 to 0.717, offers further information about the accuracy of the estimate by pointing to the believable range that, at 95% confidence, the true population coefficient is most likely to fall inside.

Table 4.15 Outsourcing of tax reporting services and financial reporting quality simple regression results

Variable	Unstandardized Coefficient (B)	Standardized Coefficient (Beta)	t-value	p-value	95% CI (lower and upper bounds)
Tax Reporting	0.512	0.498	2.317	0.011	(0.291,

Services					0.733)

The analysis in table 4.15 indicates that the unstandardized coefficient (B) for Tax Reporting Services is 0.512, signifying that with each incremental unit of Tax Reporting Services, there is a projected increase of 0.512 units in Financial Reporting Quality. Similarly, the standardized coefficient (Beta) for Tax Reporting Services is 0.498, underscoring a moderately robust positive association between Tax Reporting Services and Financial Reporting Quality. The associated t-value, computed at 2.317, suggests the strength of this relationship. Crucially, the corresponding p-value of 0.011 is below the conventional threshold of 0.05, establishing the statistical significance of the relationship. Furthermore, the 95% confidence interval (CI) for the coefficient, ranging from 0.291 to 0.733, offers valuable insights into the precision of the estimate, delineating the plausible range within which the true population coefficient is likely to reside with 95% confidence.

Table 4.16: Outsourcing of Information technology services and financial reporting quality simple regression results

Variable	Unstandardized Coefficient (B)	Standardized Coefficient (Beta)	t-value	p-value	95% CI (lower and upper bounds)
Information	0.611	0.597	2.415	0.013	(0.358,

technology services					0.864)

According to table 4.16's findings, the unstandardized coefficient (B) for information technology services is 0.611, meaning that there will be an expected increase in financial reporting quality of 0.611 units for every additional unit of information technology services. Furthermore, a relatively strong positive correlation between information technology services and financial reporting quality is indicated by the computed standardized coefficient (Beta) for information technology services, which is 0.597. With a comparable p-value of 0.013, the associated t-value of 2.415 highlights the strength of this link even further. Notably, the statistical significance of the association between Information Technology Services and Financial Reporting Quality is established by the p-value being smaller than the traditional threshold of 0.05. Furthermore, the 95% confidence interval (CI) for the coefficient, which ranges from 0.358 to 0.864, offers important information about the accuracy of the estimate by defining the reasonable range that the true population coefficient is most likely to fall inside with a 95% degree of confidence.

4.6.3 Multiple regression analysis

A multiple regression analysis was conducted to analyse the combined effect of outsourcing of book keeping services, outsourcing of auditing services, outsourcing of tax reporting services and outsourcing of Information technology services on the financial reporting quality of SMEs in Nairobi County dependent variable. The multiple regression results are shown in Table 4.17

Table 4.17: Multiple regression results

Model Summary

Model	R	R^2	Adj. R^2	Std. Error
A	0.842	0.708	0.691	0.2030

ANOVA[a]

Model A		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	22.616	4	5.654	17.949	0.001
	Residual	91.909	292	0.315		
	Total	114.525	296			

Coefficients[a]

Model A		Un-standardized Coefficients Beta	Std. Error	Standardized Coefficients Beta	T	Sig.	95% CI lower & upper bounds	
	(Constant)	1.467	0.264		5.557	0.000	1.203	1.731

Book keeping Services	0.668	0.322	0.661	2.074	0.017	0.346	0.990
Auditing Services	0.503	0.214	0.478	2.350	0.012	0.289	0.717
Tax reporting service	0.512	0.221	0.498	2.317	0.011	0.291	0.733
Information Technology Services	0.611	0.253	0.597	2.415	0.013	0.358	0.864

a. Dependent Variable: financial reporting quality

b. Predictors: (Constant), book keeping services, auditing services, tax reporting services and information technology services.

The interaction of the four independent variables proposed in this study; outsourcing of bookkeeping services, auditing, tax reporting, and information technology services is tested by multiple regression analysis presented in the table 4 below. 17. The research explains 70. Literature Review Financial reporting quality has been explained by five major characteristics as follows: The estimated findings show that 8% of the financial reporting quality in Nairobi City County can be explained by these characteristics noted in the hypothesized study model, while other characteristics that have not been captured in this model account for 29%. 2%. In this context, it is worth highlighting that the model's coefficient of determination (R squared) is equal to 0. 708, which I think is quite reasonable to consider this model to reflect a solid study. Kamita and Oluoch (2018) conducted a study to determine the effect of accounting services on the quality of financial reporting of Kenyan small &microenterprise. The study was concerned was on SMEs in Nairobi County due to its size in;householding numerous SMEs and different types of businesses. To ensure that the findings support the null hypothesis indicating that the quality of financial reporting is significantly affected by the outsourcing of Accounting services, the research design used was descriptive research design; analytically used Chi-square techniques and Survey instrument (Questionnaire) and had 284 respondents.

Also, the Analysis of Variance (ANOVA) shows that the F-statistics and the mean squares are significant on the same level (F = 17. 949 ; sig = . 001 < . 05) that underlines that proposed model could be applied and confirms that all independent variables included in the study: outsourcing of bookkeeping, auditing, tax reporting and information technology services may differentially influence the quality of the Nairobi City County

In conclusion, Table 4.17's unstandardized regression coefficient values and standard errors show that every independent variable significantly and favorably predicts the caliber of financial reports produced by outsourcing services. When bookkeeping services are outsourced, report quality is increased by 0.668 units, on average, while leaving all other factors same. P is equal to 0.017. With a 95% confidence level, the true population parameter, however, falls between 0.346 and 0.990. The results of this study show that outsourcing auditing services also positively predicts quality reports, with an increase in audit service unit leading to an increase in quality reports of 0.503 (P-value =

0.012). At the 95% confidence level, the true population value falls between 0.289 and 0.717. The quality of financial reports is positively correlated with outsourcing tax reporting services. According to the sample statistic, there would be a substantial (P=0.011) increase in financial report quality of 0.512 units for every unit rise in outsourcing tax reporting. For the upper and lower bounds, the estimate's confidence intervals are 0.733 and 0.291, respectively. Ultimately, the quality of financial reports is predicted by outsourcing information technology services in a similar manner, with each unit increase translating into a 0.611 unit rise in reported statement quality. The true population parameter is between 0.358 and 0.864 at a 95% confidence level. Additionally significant (p=0.013) is this predictor. A study on the effects of accounting service outsourcing on the expansion and productivity of small and medium-sized businesses was conducted in 2021 by Jema and Daproza. The research project's goal was to examine numerous papers and studies that describe the benefits that businesses receive from outsourcing their accounting needs. According to the report, several SMEs frequently struggle with accounting tasks, which can have a significant impact on their productivity. The article outlined the advantages of contracting out accounting services. It was discovered that performance was significantly impacted by the outsourcing of bookkeeping services.

In this regard, the study's final multiple regression equation is;

(v) $Y= 1.467 +0.668X_1+0.503X_2+ 0.512X_3 + 0.611X_4$

Where;

y= Financial reporting quality

X_1= Outsourcing Book keeping services

X_2= Outsourcing Auditing services

X_3=Outsourcing Tax reporting services

X_4=Outsourcing Information Technology Services

4.7 Results of hypotheses Test

First, the null hypothesis one (H01) posited that outsourcing book keeping services has no effect on financial reporting quality of SMEs in Nairobi County, but from the result, we see that book keeping services have a positive and significant relationship with financial reporting quality of SMEs (coefficient = 0. 668 and t = 2. 322 at p < 0. 05). Accordingly the hypothesis one is rejected. The findings shown here suggest that one added in effective outsourcing of book keeping services increased the model by 0. This will result to overall improvement of financial reporting quality of SMEs by 668 unit or (66. 8%). This was supported by Faitusa & Ivita (2019) who argued that IT outsourcing entails shifting some work, for instance book Keeping services to other service providers and provide employees and Managers with spare time to actually focus on other areas of the business, spend their time solving important issues that affect the growth and performance of the business and more so, improve on the qualities of financial reports.

Secondly, the second study hypothesis (H02) was that outsourcing auditing services does not have a significant effect on the quality of financial reports in SMEs in Nairobi County. Collecting data through multiple regression carried out shows that outsourcing auditor services has a positive significant impact on the financial reporting quality of SMEs, =0. 503 (0. 214), p<0. 05. On balance, the second hypothesis is therefore rejected.

As evidenced by the results, if there was one change that needs to be made regarding the auditing services being outsourced, it would yield a 0. The study will entail assessing financial reporting quality of the smes before and after the implementation of new business laws, policies and regulation in Nairobi County, whereby it is expected to record an improvement of 503unit (50. 3%) the target projection.

Oladejo, Yinus and Rutaro (2021) had a study on internal audit practice and financial reporting quality: from the Managers' perception from quoted foods and beverages firms in Nigeria. Where, the financial reporting quality was the measure of the dependent variable. The mean ranking method was used to assess the determinants of Internal Audit Attributes in the selected firms while, Regression analysis were used to analysis the" relationship between Internal Audit Quality and Financial Reporting Quality of sampled firms at 95% confidence level". In the context of internal audit practices, all the identified variables internal audit fee, technical training proficiency and firm size have a great positive impact on the practices of internal audit for the sampling food and beverages firms in Nigeria regarding the improvement of quality and performance of the financial reports.

Thirdly, regarding study hypothesis three (H03), outsourcing tax reporting services does not affect the financial reporting quality of SMEs in Nairobi City County in a manner that can be deemed statistically significant. Likewise, regression analysis to test the hypothesis confirms that tax reporting services affect the quality of financial reporting of SME's and the results show that the coefficient is 0. 512 (0. 221) less than 0. 05

significant level. On the basis of these findings hypothesis three is rejected by this study. The studies show that each improvement the effective outsourcing tax reporting services will cause 0. Handy tools, equipment and facilities of the sampled SMEs in Nairobi County enhanced by 512 unit, which is equivalent to 51. 2%. Per our study, Choudhary et al. , (2021) have an opinion supporting this fact explaining that it is quite reasonable to outsource tax reporting services since it improves professional standard /financial tax reporting quality and in a procession to this process by evaluating the extent to which the estimated tax expense correspond to future tax cash flows, then the accuracy, in the materials of it as it is presented to the corporate holders is more informative.

Fourthly, the fourth hypothesis for this study, H04 posited that outsourcing of information technology services does not have a significant effect on financial reporting quality of SMEs in Nairobi County. The research deductions show that IT services have imperative impacts on the FRQ of SMEs with a significant coefficient of (β = . 611 (0. 253)) at $p <0. 05$. The hypothesis four of this study which predicted that there would be a negative relationship between the level of investors' mutual understanding and stock ownership is thus rejected. From the results obtained, it can be articulated that if there is one improvement that needs to performed on effective outsourcing information technology services then it would lead to 0. 615 (61. 5%) improvement innovations of the quality of financial reporting among the SMEs in Nairobi County. In line with this, (Hadzhieva, 2019) has affirmed that one of the ways of preparing quality financial reports is through the use of Information Technology or IT and since majority of the firms have no information regarding the enhanced system of Information Technology, they outsource the IT services. Technology can enable it to achieve the qualities of financial reports including reliability, relevance, fairness, and understandability.

Table 4.18 summary of Hypotheses

Hypothesis	**Statement**	**Result**	**Coefficient (β)**	**Standard Error**	**p-value**
H01	Outsourcing bookkeeping services does not significantly influence financial reporting quality of SMEs in Nairobi County.	Rejected	0.668	0.322	$p < 0.05$
H02	Outsourcing auditing services does not significantly influence financial reporting quality of SMEs in Nairobi County.	Rejected	0.503	0.214	$p < 0.05$
H03	Outsourcing tax reporting services does not significantly influence financial reporting quality of SMEs in Nairobi City County.	Rejected	0.512	0.221	$p < 0.05$
H04	Outsourcing information technology services do not significantly influence financial reporting quality of SMEs in Nairobi County.	Rejected	0.611	0.253	$p < 0.05$

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the study findings, presents study conclusions, recommendations plus areas for further research.

5.2 Summary of study findings

The general objective of the study was to determine the effect of outsourcing of accounting services on financial reporting quality of small and micro enterprises in Kenya. The study tested a total of four research hypotheses; $\mathbf{H_{01}}$**:** outsourcing book keeping services does not significantly influence financial reporting quality of SMEs in Nairobi County; $\mathbf{H_{02}}$**:** outsourcing auditing services does not significantly influence financial reporting quality of SMEs in Nairobi County; $\mathbf{H_{03}}$**:** outsourcing tax reporting service does not significantly influence financial reporting quality of SMEs in Nairobi County and $\mathbf{H_{04}}$**:** outsourcing information technology services does not significantly influence financial reporting quality of SMEs in Nairobi County.

5.2.1 Outsourcing of Book keeping Services and Financial Reporting Quality

This investigated how the quality of financial reports from SMEs in Nairobi County was affected by the outsourcing of bookkeeping services. The majority of Nairobi respondents agreed that bookkeeping services were useful because most businesses employ very few people, making bookkeeping task outsourcing relevant. Taking into account that the company's business strategy is based on the outsourcing of bookkeeping services, it became clear that this was critical to the caliber of financial reporting. The majority of stakeholders in small and micro firms are drawn to the outsourcing of bookkeeping services because it offers enhanced professionalism and the potential to minimize errors and expedite transaction processing. The study's findings support those of past studies that discovered that the quality of financial reports produced by SMEs in Nairobi County was impacted by the outsourcing of bookkeeping services.

5.2.2 Outsourcing of Auditing Services and Financial Reporting Quality

This investigated how auditing services affected the caliber of financial reports provided by SMEs in Nairobi County. The study discovered that the quality of SMEs' financial reporting was impacted by auditing services. The majority of respondents concurred that the financial reporting quality of SMEs in Nairobi County was enhanced by the outsourcing of auditing services.

Since the outsourcing of auditing services was thought to be affecting the quality of financial reporting, it was implied that outsourcing auditing services was required and that it was anchored in the business strategy for competitive advantage. Due to independence in reviewing the books of accounts, which reflected the association between the independent and dependent variables, auditing professionalism has improved. It was inferred that the quality of financial reporting by SMEs in Nairobi County was impacted by the outsourcing of auditing services as all management committees approved of the practice. The fact that statutory compliance has increased as a result of the auditing services' outsourcing and that all employees have access to auditing information through the company's system suggests that the financial reporting quality may benefit from the outsourcing of auditing services. The study's findings corroborate past investigations that discovered that Nairobi County's financial reporting quality is impacted by improvements to the auditing services.

5.2.3 Outsourcing of Tax Reporting Services and Financial Reporting Quality

This investigated how the quality of financial reports from SMEs in Nairobi County was affected by the outsourcing of tax reporting services. The study discovered that the quality of financial reports provided by SMEs in Nairobi City County was impacted by the outsourcing of tax reporting services. The majority of respondents agreed that outsourcing tax reporting services has a bearing on the caliber of financial reports submitted by SMEs in Nairobi City County.

As a result, tax compliance standards increased as a result of outsourcing tax services. Furthermore, staff members of small and micro enterprises received training from external tax officers recently, indicating that tax reporting services were crucial for entire businesses. Outsourcing of tax services resulted in a reduction of small and micro firms' tax bills. Since the tax services were outsourced, employees of small and micro businesses were typically at ease with them because the financial reporting quality and professionalism had improved. The competitive strategies of small and micro firms served as the foundation for the tax reporting services, and the reports aligned with ISO standards, resulting in a stronger correlation between the quality of financial reporting and tax reporting services. The study's findings corroborate past investigations that discovered that SMEs in Nairobi County's financial reporting quality is impacted by advancements in tax reporting services.

5.2.4 Outsourcing of Information Technology Services and Financial Reporting Quality

This investigated how outsourcing IT services affected the caliber of financial reporting. The study discovered that the quality of financial reporting by SMEs in Nairobi County was impacted by information technology services. The majority of respondents agree that outsourcing IT services has a significant impact on the caliber of financial reports produced by SMEs. Since the information technology system integrates all departments and both internal and external officers have received training in information technology, it is implied that outsourcing information technology services is relevant to enhancing financial reporting services. As demonstrated by the quality reports that were recently provided to the stakeholders following the initiation of outsourcing services, activities have been conducted at a faster pace, and system mistakes have been reduced. Furthermore, hired organizations' outsourced information systems adhere to ISO requirements. The impact of information technology outsourcing on the caliber of financial reporting was reinforced by each of these elements. Additional studies that discovered that information technology services had an impact on the quality of financial reporting by SMEs in Nairobi County corroborate the research findings.

5.3 Conclusions

When analyzing the outcome of the study, a correlation has been established between the quality of financial reporting among SMEs in Nairobi County and the outsourcing of services for accounting. To start with, there is a positive relationship between the "quality of financial reports" that SMEs in Nairobi County are able to produce and the outsourcing of bookkeeping services. This research established that since measures that stem from bookkeeping operations act as common barometers of organizational performance, an entity cannot afford to overlook bookkeeping services when it comes to the level of financial reporting.

Second, there is a noteworthy correlation between the quality of financial reporting by SMEs in Nairobi County and the outsourcing of auditing services. The aforementioned illustrates how outsourcing audit services operations can yield high-quality financial reports and improve their quality for consumers or stakeholders, including the public and members of Nairobi County.

Thirdly, the quality of financial reporting by SMEs in Nairobi County is significantly impacted by the outsourcing of tax reporting services. The results of this study showed that tax reporting services are important and relevant to the quality of financial reporting; in the absence of these services, the credibility of financial reports to stakeholders may be weakened, which would reduce government trust in businesses.

Fourth, the quality of financial reporting by SMEs in Nairobi County is significantly impacted by outsourcing information technology services. Outsourcing information technology services reduces errors in financial reports and, more importantly, speeds up the creation of high-quality reports since technology facilitates system integration and makes information gathering simple.

5.4 Recommendations

Findings of the study indicate that outsourcing accounting services seems to improve the financial reporting quality for most of the small and micro enterprises. Based on the findings the following were recommended;

5.4.1 Managerial Recommendations

Outsourcing brings about professionalism that enhances the output within firms in terms of financial reporting quality;

I. The study recommends that small and micro enterprises to outsource book keeping services for improvement of financial reporting quality
II. The study recommends that small and micro enterprises to outsource auditing services from reliable auditing firms if at all such firms have no internal audit system and give a priority for books of accounts to be audited and the entire system too, it enhances the financial reporting quality.
III. The study recommends that small and micro enterprises should be initiated with outsourcing of tax reporting services for success of financial reporting quality.
IV. The study recommends for proper initiation of outsourcing of information technology services by small and micro enterprises in order to maintain professionalism on good financial reporting quality. Purchase of entire information technology packages may be very expensive for small and micro enterprises, for such firms to remain a float outsourcing is the only option.

5.4.2 Policy Recommendations

The data that is currently available on Kenya's small and microbusiness sector shows how these businesses have accepted the concentration of accounting service outsourcing.

According to the report, the government ought to think about tightening up the laws governing accounting industry outsourcing. This can entail creating precise rules and procedures for accounting service outsourcing while guaranteeing adherence to global best practices. These rules would support accountability and openness in financial reporting while also serving to protect the interests of micro and small businesses.

The study would give financial researchers and academics empirical information to comprehend current trends in micro and small business service outsourcing and its noteworthy financial reporting quality.

5.5 Areas for further research

Although the study looks at how outsourcing affects the accuracy of financial reporting, it doesn't assess how effective outsourcing is in comparison to internal accounting procedures. Comparing in-house and outsourced accounting services could provide light on the respective benefits and drawbacks of each strategy, enabling SMEs to make well-informed decisions about their accounting procedures.

While discussing the impact of outsourcing on the quality of financial reporting, this study does not go into great detail into potential moderating factors that could have an impact on this relationship. The relationship between outsourcing and financial reporting quality may be moderated by variables like company size, industry type, organizational culture, and regulatory environment. Examining these moderating variables may improve knowledge of the subtleties associated with accounting service outsourcing for small and medium-sized businesses.

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APPENDICES

Appendix i: A letter of Introduction

Masinde Muliro University of Science and Technology

Department of Business

P.O. Box 190-50100

Kakamega, Kenya,

Dear Respondent,

1 am a postgraduate student at Masinde Muliro University of Science and Technology, School of Business and Economics. I am conducting a research on the **Outsourcing of accounting services and financial reporting quality.** This is in partial fulfilment of the requirements for the award of Master of Business Administration (Accounting option).

Kindly fill the attached questionnaire to the best of your knowledge. The information has been used purely for academic purposes and has been treated with utmost confidence. A copy of the final report has been availed to you on request.

Your assistance has been highly appreciated. Thank you.

Yours faithfully,

Likobele Patrick

Appendix ii: Research Questionnaire

PART A: Demographic Data

1. Gender

1. Female [ ] 2.Male [ ]

2. Level of Education

1. Certificate [ ] 2. Diploma [ ] 3.Degree [ ] 4.Masters [ ] 5.PhD [ ]

3. Length of service

1-5 years [ ]

6-10 years [ ]

Above 10 years [ ]

PART B: Outsourcing of Accounting Services on Financial Reporting Quality

1. Book-Keeping Services on Financial Reporting Services

What is your level of agreement or disagreement concerning the effect of book keeping services outsourcing on financial reporting quality of small and micro enterprises in Nairobi, Kenya? Kindly tick your preferred answer according to the Likert scale denoted as;

5-Strongly Agree, 4-Agree, 3-Uncertain, 2-Disagree, 1-Strongly Disagree

	Statement	5	4	3	2	1
1	My firm have very few employees for book keeping works					
2	Book keeping services outsourcing is anchored in my company's corporate strategy					
3	Most small and micro enterprises' stakeholders are attracted to outsourcing book keeping services					
4	Professionalism in book keeping has improved in my enterprise due to outsourcing of book keeping services					
5	Clerical errors in reports has reduced in my firm due to outsourcing services					
6	Speed of handling transactions of book keeping has improved in my enterprise					

2. Auditing Services on Financial Reporting Quality

What is your level of agreement or disagreement concerning the effect of auditing services outsourcing on financial reporting quality of small and micro enterprises in Nairobi, Kenya? Kindly tick your preferred answer according to the Likert scale denoted as;

5-Strongly Agree, 4-Agree, 3-Uncertain, 2-Disagree, 1-Strongly Disagree

	Statement	5	4	3	2	1
1	Auditing services outsourcing is anchored in the corporate strategy of my organization for competitive advantage					
2	Professionalism on auditing has improved in my firm due to independence in examining the books of account					
3	All management committees in my enterprise support outsourcing of auditing services					
4	Of recent Statutory compliance in my firm has improved due to outsourcing of auditing services					
5	All employees- in my organization regard auditing as key in the banking system					
6	Auditors have been frequently visiting my enterprise for system audit					

3. Tax Reporting Services on Financial Reporting Quality

What is your level of agreement or disagreement concerning the effect of tax reporting services outsourcing on financial reporting quality of small and micro enterprises in Nairobi, Kenya? Kindly tick your preferred answer according to the Likert scale denoted as;

5-Strongly Agree, 4-Agree, 3-Uncertain, 2-Disagree, 1-Strongly Disagree

	Statement	5	4	3	2	1
1	Tax compliance norms has improved in my organization as a result outsourcing tax services					
2	The staff in my small and micro enterprises have been training with external tax officers of recent					
3	Tax liabilities of my small and micro enterprise have reduced of recent					
4	Employees of my small and micro enterprise are normally comfortable with the outsourcing services of the tax services					
5	Outsourcing of the tax services is anchored in the competitive strategy of my small and micro enterprise					
6	Reports on tax services in my enterprise meet the ISO standards					

4. Information Technology Services on Financial Reporting Quality

What is your level of agreement or disagreement concerning the effect of information technology outsourcing on financial reporting quality of small and micro enterprises in

Nairobi, Kenya? Kindly tick your preferred answer according to the Likert scale denoted as;

5-Strongly Agree, 4-Agree, 3-Uncertain, 2-Disagree, 1-Strongly Disagree

	Statement	5	4	3	2	1
1	All departments are integrated through information technology system					
2	Both internal and external officers have been training on information technology matters					
3	Quality reports have been being furnished to the stakeholders of recent after outsourcing services initiated					
4	Activities' transactions have been held at an improved speed					
5	Errors have been minimized on banking transactions					
6	Initiated information system by hired companies meet ISO standards					

5. Financial Reporting Quality

The Likert scale below has statements to respond to according to your level of agreement or disagreement concerning financial reporting quality of small and micro enterprises in Nairobi, Kenya? Kindly tick your preferred response.

5-Strongly Agree, 4-Agree, 3-Uncertain, 2-Disagree, 1-Strongly Disagree

.	Statement	5	4	3	2	1

1	The small and micro enterprises reports meet standard exposure to stakeholders						
2	The reputation of my firm has improved						
3	Customers have full support of outsourcing activities						
4	Employees have integrated with outsiders flexibly						
5	None of my employees has left the firm due to outsourcing of services						
6	Generally, my firm has significantly experienced financial growth in the recent years						

Appendix iii: list of the counties in Nairobi with their respective number of firms

Table 3.1

Sub-County	SMEs
Westlands	200
Dagorretti North	230
Dagorreti South	200
Langata	230
Kibra	300
Roysambu	150

Kasarani	200
Ruaraka	350
	170
Embakasi South	
	250
Embakasi North	
	180
Embakasi Central	
	160
Emanbkasi East	
	180
Embakasi West	
Makadara	200
Kamukunji	110
Starehe	100
Matahare	120
Total	**3330**

Source: MSEA (2020)

Appendix iv: Work Plan

ACTIVITY	DURATION IN MONTHS 2023											
	MAY	**JUNE**	**JULY**	**AUG**	**AUG**	**AUG**	**SEPT**	**OCT**	**NOV**	**DEC**	**DEC**	**DEC**
Preparatory phase	**1st to 31st**											
proposal writing		1st June	22nd									
Submission of first draft to supervisors			17th									
Corrections and adjustments				9th								
Proposal submission To				9th								

supervisors												
Submission to SGS					30th							
Acquisition of permit						30th						
Pilot questionnaire And update them						31st						
Data collection and Analysis							1st- 31st	1st- 25th	1st - 27th			
Project writing and Correctio									27th	8th		

n												
Publication of project											12th	
Submission of Final copies												15th

Appendix v : Estimated Budget

	ACTIVITY	RESOURCE MATERIAL	NUMBER OF ITEM	UNIT COST	TOTAL COST
1	Proposal writing Preparation and Correction	Stationery foolscap Pen, photocopying, Typesetting, printing	3 reams, 50 pages 6xcopies 50 pages 50 pages	700 per ream 20/= 10/=, 10/=, 10/=	2,100 2,000
2	Preliminary Preparation for field Work	Transport cost, note books Lunch	Strips 10 5	400/= 200/= 500/=	4,000 2,000 2,500

3	Pilot study pre- Testing questionnaire	Typesetting and printing, Photocopying, Travelling Accommodation	50 copies 50 questionnaires 4 trips	50x10 50x10x6 1000x4 3000x4	500 3,000 4,000 12,000
4	Data organization and analysis	Stationery, printing flash disk	3 reams foolscaps 8 GB	700x3 500 2500x1	2,100 500 2,500
5	Research and Consultation	Traveling and lunch, Library cards, Photocopying	6 trips 1 packet	5000x6 1000	30,000 1,000 1,000
6	Carrying out Research survey	Printing Questionnaire Traveling to offices And school, other Stationery, & Lunch	344 questionnaires 50 trips	 100x344 1500	 34,400 75,000 10,000 15,000
7	Data organization	Printing papers, Binding copies	3 reams	700X3	2,100 2,000
8	Miscellaneous				22,300

	TOTAL				230,000