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Outsourcing of Accounting Services and Financial Reporting Quality of Small and Micro Enterprises in Kenya; A Study of Small and Micro Enterprises in Nairobi, Kenya

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Abstract

Purpose: The general objective of the study was to determine the effect outsourcing accounting services on financial reporting quality of small and micro enterprises in Nairobi, Kenya.

Methodology: This research adopted descriptive research design and targeted Small Medium Enterprises in Nairobi city county, Kenya. The study sample size was determined by using Taro Yamane's proportional sampling technique formula, which was drawn randomly from Small and Micro Enterprises in Nairobi, Kenya. Primary data was collected by means of self-administered questionnaires. Data collected from the field was coded, cleaned, tabulated and analyzed using both descriptive and inferential statistics with the aid of specialized SPSS software. The output of analysis was presented using tables to make them reader friendly. Descriptive statistics such as frequencies and percentages as well as measures of central tendency (means) and dispersion (standard deviation) was used. Data was organized into graphs and tables for easy reference.

Findings: The results of the study found the outsourcing of the accounting services influenced financial reporting quality. In terms of the impact of influence; auditing services was first, followed by information technology services, tax reporting services and lastly book keeping services.

Unique Contribution to Theory Practice and Policy: The study recommends the small and micro enterprises to embrace outsourcing of accounting services for improving of financial reporting quality.

Keywords: *Accounting, Auditing, Size Distribution of Firms*

INTRODUCTION

The importance of the quality of financial reporting has attracted international interest in the light of its central role in the economic decision-making and the connection with significant corporate failures. Researchers state that financial reporting quality (FRQ) comprises financial and non-financial reports, which provide the stakeholders with a clear picture of organizational performance and a course of action (Olatunde et al., 2024). To address the rising complexity and competition, most companies especially in developed economies have embraced the concept of outsourcing as a strategic mechanism of strengthening FRQ. The outsourcing of accounting, starting with the simplest and ending with the most complicated financial planning and internal audits, is regarded as the cost-cutting strategy, access to specialized skills, and enhancement of reporting quality (Lepisto et al., 2020). Nonetheless, the global literature also warns about some possible threats like data exposure and loss of managerial control (Kenton, 2022), which implies that the contextualized assessments of the effects of outsourcing on the quality of reporting are required.

The African economies across the region portray the same dynamics albeit with unique structural problems. The resource constraints on SMEs in the continent are preventing them by creating a competitive edge and generating good quality financial reports within their companies (Adjabeng & Osei, 2022). Outsourcing is suggested as one of the possible solutions to address these gaps and provide the access to technical competence and organization performance increase (Nakku et al., 2018). FRQ has also been associated by scholars with the larger governance and regulatory frameworks, with convergence of accounting standards and greater disclosure requirements have increased the pressure on transparent reporting (Perera, 2019). However, the experience of developing economies, like Vietnam, implies that outsourcing itself does not necessarily result in an improved FRQ because internal controls are highly important, as well as the quality of outsourcing suppliers (Huong and Dat, 2018). This highlights the need to look at outsourcing in the context of the regional and institutional settings.

In Kenya, SMEs play a crucial role in the growth and employment of the local economy, but they are characterised by serious resources constraints and strong rivalry in the market (Ouma et al., 2018). Research indicates that not all SMEs have the managerial skill, financial capacity, and technical skills needed to have a strong financial reporting, which makes it dependent on outsourced accountancy services (Maiyo, 2019). The Nairobi and Uasin Gishu counties through empirical evidence illustrate outsourcing, especially of bookkeeping, tax reporting, and internal audits, to have a positive effect on FRQ. Nonetheless, the missing links in terms of awareness, compliance, and access to qualified professionals exist, which implies that the potential of outsourcing is not achieved to the full extent. The Kenyan situation therefore offers a special research gap: even though the world and regional literature validates the strategic importance of outsourcing, there is little localized information on the specific impact of outsourcing on the quality of financial reporting among SMEs in Kenya. The paper will aim to fill this gap by critically analyzing the connection between outsourced accounting services and FRQ with special consideration to contextual factors like firm size, availability of resources and compliance with regulations.

Problem Statement

Financial reporting quality has been very important to organizations and more so is considered an asset as it enhances the stakeholders to understand the managerial and operational standards of the firm. It has been studied by scholars from various perspectives. Gardi et al (2023) examined the relationship between corporate governance and the financial reporting quality, Hasan et al (2022) examined the impact of corporate governance on the quality of financial reporting, Yu-Lin and Ya-Chih (2022) investigated the influence of corporate governance on the financial reporting quality of the United Kingdom companies, Kabwe (2023) analyzed the impact of various corporate governance attributes on the financial reporting quality in Zambian-listed firms.

Most of the small and micro enterprises fail to have quality financial reports due to managerial in-capabilities, limited finances and human resources support, hence such firms rely on outsourcing of accounting services to improve on the quality of financial reports and also minimize the costs (Kamita & Oluoch, 2018). However, some scholars among them; Kipsang and Mwangi (2017) find outsourcing being beneficial to organizations on quality financial reporting, though the practice compromises the secret operations to the competitors, hence may curtail the competitive advantage of the organization. Yasas and Perera (2019) note outsourcing has proven to be a valuable business approach or a model where organizations have benefited through gaining efficiency on professionalism and cutting down the overheads of the organizations and ultimately improving on the quality of financial reporting.

Many researchers among them; Kamita and Oluoch (2018), Kaawaase, Nairuba and Twaha(2021) and Qian (2022) studied the effect outsourcing on organization performance and little expression on financial reporting quality, however, some had mixed reactions on results that could arise from the methodology, contextual and the areas of the associated studies not being similar, this necessitates for the study to be undertaken to find the effect of outsourcing on the quality of financial reporting. The review of the literature above, shows that most existing studies have proxy financial reporting quality by accrual earnings management. It is also observed that most of the existing studies, particularly in Kenya have examined the nexus between corporate governance and financial reporting quality.

LITERATURE REVIEW

Theoretical Framework

This study is anchored on three main theories: Transaction Cost Economics (TCE), Resource-Based/Core Competency Theory, and Principal–Agent Theory. These theories collectively help to explain how outsourcing of accounting services influences the quality of financial reporting among small and micro enterprises (SMEs) in Kenya. Each theory provides a distinct lens (economic, strategic, and relational) through which the outsourcing decision and its implications for reporting quality can be understood.

Transaction Cost Economics, proposed by Oliver Williamson (1975), posits that firms make outsourcing decisions based on the comparative costs of internal versus external service provision. It emphasizes bounded rationality, asset specificity, and opportunism as key determinants of whether a function should be outsourced. In the context of SMEs, which often lack internal accounting capacity, outsourcing may reduce operational costs and improve efficiency. However, the theory also cautions against potential risks such as loss of control and exposure to opportunistic behavior by external providers. This framework is relevant to the study as it helps assess the economic rationale behind outsourcing accounting services and its effect on financial reporting quality.

The Resource-Based View (RBV), introduced by Jay Barney (1991), and the Core Competency Theory by Prahalad and Hamel (1990), argue that firms should focus on their unique internal strengths while outsourcing non-core functions to external experts. For SMEs in Kenya, which face significant resource constraints, outsourcing becomes a strategic tool to access specialized accounting expertise and improve reporting standards. Principal–Agent Theory, developed by Jensen and Meckling (1976), complements this by addressing the relational dynamics between business owners (principals) and service providers (agents). It highlights the risks of moral hazard and adverse selection, especially when agents act in their own interest. Together, these theories inform the study by illustrating how outsourcing can enhance financial reporting quality when economic efficiency, strategic alignment, and accountability mechanisms are properly balanced. This integrated framework is particularly relevant in the Kenyan context, where SMEs operate in a competitive and resource-constrained environment, making outsourcing both a necessity and a strategic choice.

Conceptual Framework

A conceptual framework serves as a visual and narrative roadmap that outlines the relationship between the study's variables. The conceptual framework was as illustrated below.

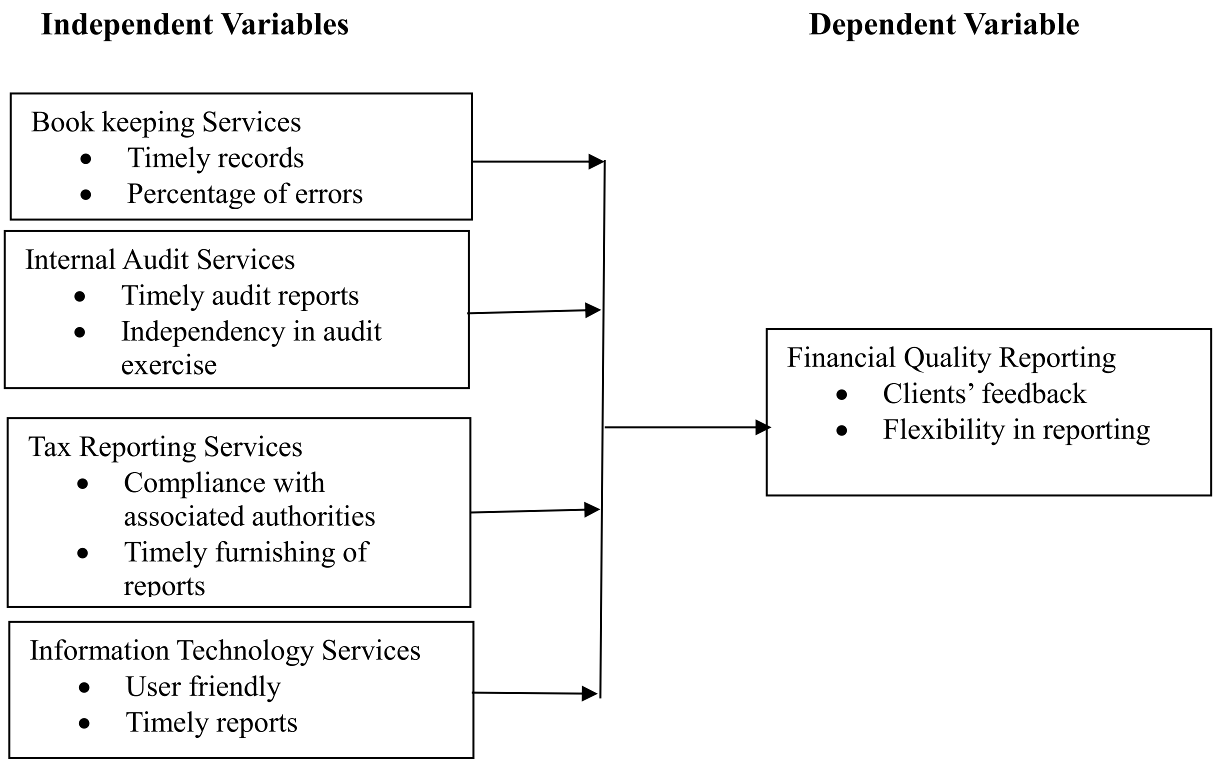

Figure 1: Conceptual Framework 1

Empirical Review

Jema and Daproza (2021) had a study on the impact of outsourcing of accounting services on small and medium enterprises' growth and performance. The research work aimed to review various articles and studies that explain how outsourcing of accounting services helps companies. The study found that some SMEs tend to encounter problems in handling their accounting functions, which can greatly affect their performance. The paper revealed the benefits associated with outsourcing accounting services. It was found that outsourcing of bookkeeping services had a significant effect on performance. However, the study did not explicitly examine how outsourcing affects the quality of financial reporting itself, nor did it contextualize these effects within specific regulatory or regional frameworks. This gap warrants further investigation into the relationship between outsourced accounting functions and financial reporting quality, particularly in developing economies.

Twaha, Nairuba and Bananuka (2021) had a study on corporate governance, internal audit quality, and financial reporting quality of financial institutions in Uganda. The study employed a cross-sectional and correlational design. It used a questionnaire survey of Chief Finance Officers, Senior Accountants, and Internal Audit Managers of financial institutions in Uganda. Data were analyzed with the help of the Statistical Package for Social Sciences. Findings indicated that board expertise and board role performance are significantly associated with financial reporting quality. Also, internal audit quality is significantly associated with financial reporting quality. Board independence is not a significant predictor of financial reporting quality. While the study provides valuable insights into governance and audit dimensions, it does not address how external service providers such as outsourced accountants may influence financial reporting quality. This omission presents a gap in understanding the broader ecosystem of reporting quality beyond internal governance structures.

Qian (2022) had a study on the quality of tax accounting for financial reporting purposes, using evidence from the United Kingdom. Results of this study indicate that tax accounting quality is significantly lower for firms that engage in higher levels of tax management or have stronger earnings management pressure. While corporate governance mechanisms do not moderate the relationship between tax management and tax accounting quality, there is some evidence of a moderating effect in the relationship between earnings management pressure and tax accounting quality. In addition, variations in tax accounting quality were observed with changes in tax-related financial reporting standards. Although the study offers a nuanced view of tax accounting dynamics, it does not explore how outsourced accounting services may interact with tax management practices or influence financial reporting quality. This leaves a gap in understanding the operational mechanisms that link outsourcing to reporting outcomes, especially in non-Western contexts.

Sina, Chowdhurry, Shakib, Akter and Arafat (2021) had a study on the role of Information Technology and the quality of financial reporting in Bangladesh. Using primary data sourced through structured questionnaires administered to selected banks in Bangladesh, data analysis was done through the General Regression Model by the OLS method to examine the nature of the relationship between the quality of financial reports and the adoption of Information Technology. The result of the data analysis showed that a positive correlation exists between IT and the quality of reports. However, the study did not consider how outsourcing—often facilitated by IT platforms—may affect financial reporting quality. This creates a gap in understanding the intersection between technological adoption, outsourced accounting services, and reporting outcomes, particularly in SME contexts.

METHODOLOGY

The research design for this study was causal research design. The study limited itself to the effect of Outsourcing on Financial Reporting Quality of small and micro enterprises in Nairobi, Kenya. This study targeted the managers from the population of small and micro enterprises of 3330 firms from Sub-counties in Nairobi City County. In this study, the study sample size of 358 was determined using Taro Yamane's proportional sampling technique formula. The study employed stratified random sampling technique which guided how sampled managers of small and micro enterprises in Nairobi city county, Kenya, were selected. As required by ethical practices in research, the researcher secured legitimate documents such as researcher's introductory letter, respondents' consent forms and a letter of identification from Jomo Kenya University of Science of Technology. Primary data was collected by means of self-administered questionnaires. In the process, the respondents were assured of confidentiality in that the information obtained was for the purpose of the study only. A sample size of thirty-six small and micro enterprises was chosen to form the pilot study which was 10% of the total sample of the study. To determine the validity of the research instruments, it was obtained by discussing the research questionnaire instruments with small and micro enterprises managers in the county of Nakuru, the researcher employed content method, whereby 10 copies of the instrument was used during pilot testing for validation. In order to establish the reliability of the instrument to be used in the study, cronbach's alpha coefficient of internal consistency was used during pilot testing. Data was collected from the field; coded, cleaned, tabulated and analyzed using both descriptive and inferential statistics with the aid of specialized SPSS version 24. Descriptive statistics such as frequencies and percentages as well as measures of central tendency (means) and dispersion (standard deviation) were used. Data was organized into graphs and tables for easy reference. Further, inferential statistics such as regression and correlation analyses were used to determine both the nature and the strength of the relationship between the dependent and independent variables. The linear and multiple regression plus correlation analyses was based on the association between two (or more) variables. Study conceptualized Regression Model was as follows;

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

RESULTS

Descriptive Analysis

The descriptive statistics presented in this section are summated responses on the statements measuring the study's independent variables (book keeping services, auditing services, tax reporting services, information technology services) and dependent variable (Financial reporting quality) using Likert scale.

Descriptive statistics: 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 1.

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Table 1: 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%	30.7%	10.6%	4.7%	3.3%	4.2	0.81
Book keeping services outsourcing is anchored in the company's corporate strategy	38.4%	49%	6.3%	2.1%	2.4%	4.1	0.86
Most small and micro enterprises' stakeholders are attracted to outsourcing book keeping services	29%	31%	20.1%	12.2%	7.8%	3.72	1.07
Professionalism in book keeping has improved due to outsourcing of book keeping services	40.4%	22.2%	26.7%	2.1%	8.6%	3.55	1.17
Clerical errors in reports has reduced due to outsourcing services	43.1%	6.9%	20.9%	7%	22.1%	3.9	0.88
Grand mean and Std. Dev Valid list wise (296)					**3.9**	**0.96**	

Source; Author

On average it implied that book keeping services had influence on financial reporting quality of the Nairobi City County. The response reflects mean of 3.6 and standard deviation of 0.96 which implies outsourcing of book keeping services influences financial reporting quality. Twaha, Nairuba and Bananuka (2021) had a study on corporate governance, internal audit quality and financial reporting quality of financial institutions in Uganda. Findings indicated that book keeping is significantly associated with financial reporting quality.

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Descriptive statistics: Auditing services

These are summarized responses on whether outsourcing auditing services influence financial reporting quality of SMEs in Nairobi County. The descriptive results are presented in table 2.

Table 2: 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%	23.4%	11.6%	8.9%	6.2%	3.72	1.14
Professionalism on auditing has improved due to independency in examining the books of account	57.4%	30.7%	6.6%	1.5%	3.9%	4.12	0.81
All management committees support outsourcing of auditing services	51.2%	34.2%	8.7%	1.8%	4.1%	4.19	0.91
Of recent Statutory compliance has improved due to outsourcing of auditing services	32.1%	56.1%	4.2%	5.5%	2.1%	4.23	0.73
All employees regard auditing as key in the banking system	53.6%	21.1%	9.5%	10.1%	5.7%	3.79	1.11
Grand mean & Std. Dev						**4.01**	**0.94**
Valid list wise (296)							

The grand mean of 4.01 and standard deviation of 0.96 indicated that outsourcing of Auditing services had an influence of financial reporting quality.

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Descriptive statistics: 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 3.

Table 3: Descriptive statistics; 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%	15.2%	6.5%	13%	10.4%	3.78	1.21
The small and micro enterprises' staff have been training with external tax officers of recent	56.7%	18.6%	12.7%	8.2%	5.8%	3.67	1.14
Tax liabilities of the small and micro enterprises have reduced of recent	48.6%	14.2%	20.1%	6.5%	10.6%	3.55	1.07
Employees of small and micro enterprises are normally comfortable with the outsourcing services of the tax services	18%	44.8%	9.1%	17.6%	10.8%	3.42	1.32
Outsourcing of the tax services is anchored in the competitive strategy of the small and micro enterprises	54.8%	30.1%	10%	1.5%	1.7%	4.02	0.84
Grand mean & Std. Dev						**3.69**	**1.12**
Valid list wise (296)							

The grand mean of 3.69 and standard deviation of 1.12 indicates, outsourcing of tax reporting services had influence on financial reporting quality. Jema and Daproza (2021) had a study on impact of outsourcing of accounting services to small and medium enterprises' growth and performance and found that outsourcing of tax reporting services had a significant effect on performance.

Descriptive statistics: 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.

Table 4: Descriptive statistics: Information Technology Services

Statement	5	4	3	2	1	Mean	Std.dev
All departments are integrated through information technology system	38.3%	21.1%	8%	10.7%	11.9%	3.67	1.01
Both internal and external officers have been training on information technology matters	44.6%	25.1%	11.4%	6.1%	13%	3.66	1.12
Quality reports have been being furnished to the stakeholders of recent after outsourcing services initiated	55.2%	12.4%	12.8%	10.1%	9%	3.56	1.02
Activities' transactions have been held at an improved speed	38.7%	16%	17.1%	14%	14%	3.42	1.28
Errors have been minimized on banking transactions	40.2%	15.6%	11%	23%	11%	3.39	1.26
Grand mean and Std .Dev. Valid list wise (296)						**3.54**	**1.14**

The grand mean of 3.54 and standard deviation of 1.14 implies outsourcing of information technology services had an influence on financial reporting quality.

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Descriptive statistics: Financial reporting quality

These are summarized responses on financial reporting quality of Nairobi City County. The descriptive results are presented in table 5.

Table 5: Descriptive statistics: financial reporting quality

Statement	5	4	3	2	1	Mean	Std.dev
The small and micro enterprises reports meet standard exposure to stakeholders	30.2%	21.8%	12.3%	17.2%	18.5%	3.16	1.34
The reputation of the firm has improved	33.6%	23.5%	20%	15.5%	7.5%	2.68	1.22
Customers have full support of outsourcing activities	24.8%	14.5%	18.5%	26.7%	15.5%	2.55	1.37
Employees have integrated with outsiders flexibly	25%	12.5%	24.2%	24.3%	14.1%	2.86	1.36
None of the employees has left the firm due to outsourcing of services	24%	14.2%	18.6%	32%	11.2%	2.97	1.35
Grand mean & Std. Dev. Valid list wise (296)						**2.84**	**1.33**

Source: Author

The reflection of grand mean of 2.84 and standard deviation of 1.33 implies majority of the respondents supported the sentiments of outsourcing of financial services having an influence on financial reporting quality.

Correlation Analysis

The study used correlation technique to analyze the degree of relationship between two variables which was based on Pearson correlation coefficient (r), hence the coefficient (r) yields a statistic that ranges from -1 to 1. If the correlation coefficient is positive (+) it means that there is a positive relationship between the two variables, however, a negative relationship (-) means that as one variable decreases, then the other variable increases and this is termed as an inverse relationship, otherwise a zero value of r signifies that there is no association between the two variables.

Table 6: Correlations

		Book keeping services	**Auditing services**	**Tax reporting services**	**Information technology services**	**Financial reporting quality**
Book keeping services	Pearson Correlation	1			0	
	Sig. (2-tailed)					
	N	296				
Auditing services	Pearson Correlation	.220**	1			
	Sig. (2-tailed)	.000				
	N	296	296			
Tax reporting services	Pearson Correlation	.579**	.377**	1		
	Sig. (2-tailed)	.000	.000			
	N	296	296	296		
Information technology services	Pearson Correlation	.471**	.278**	.551**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	296	296	296	296	
Financial reporting quality	Pearson Correlation	.285**	.176**	.171**	.272**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	296	296	296	296	296

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

Multiple regression analysis

Multiple regression analysis was computed to assess the multivariate influence of the study's independent variables (book keeping services, Auditing services, Tax reporting services and Information technology services) on the dependent variable (financial reporting quality) of SMEs in Nairobi County. The multiple regression results are shown in table 7.

Table 7: Multiple regression results

Model Summary						
Model	**R**	**R^2**	**Adj. R^2**	**Std. Error**		
A	0.629	0.396	0.391	0.50342		
ANOVAa						
Model A		**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
	Regression	24.724	4	6.181	20.068	0.001
	Residual	89.799	292	0.308		
	Total	114.523	296			
Coefficientsa						
Model		Un-standardized. Coefficients		Standardized Coefficients	T	Sig.
A		Beta	Std. Error	Beta		
	(Constant)	2.467	0.460		5.363	0.011
	Book keeping Services	0.068	0.056	0.067	1.214	0.010
	Auditing Services	0.288	0.063	0.271	4.571	0.001
	Tax reporting service	0.167	0.129	0.166	1.294	0.013
	Information Technology Services	0.199	0.154	0.197	1.292	0.002

a. Dependent Variable: financial reporting quality

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

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Multiple regression analysis in table 4.12 shows the multiple regression results of the combined influence of the study's independent variables (book keeping services, auditing services, tax reporting services and information technology services). The model's R squared (R_2) is 0.396 which shows that the study explains 39.6% of variation in the financial reporting quality Nairobi City County, while other factors not in the conceptualized study model accounts for 60.4 %, hence, it is a good study model.

Furthermore, Analysis of Variance (ANOVA) shows the mean squares and F statistics significant ($F = 20.068$; significant at $p<.001$), thus confirming the fitness of the model and also implies that the study's independent variables (book keeping services, auditing services, tax reporting services and information technology services) have significant variations in their contributions to financial reporting quality of Nairobi City County.

Finally, the values of unstandardized regression coefficients with standard errors in parenthesis in table 4.12 indicate that all the study's independent variables (book keeping services; $\beta = 0.068$ (0.056) at $p<0.05$, auditing services; $\beta = 0.288$ (0.063) at $p<0.05$; tax reporting services; $\beta = 0.0.167$ (0.129) at $p<0.05$, information technology services; $\beta = 0.199$ (0.154) at $p<0.05$, significantly influenced financial reporting quality of the Nairobi City County (the dependent variable).

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

(v) $Y= 2.467 +0.068X1+0.288X2+ 0.167X3 + 0.199X4$

Where;

y= Financial reporting quality

X1= Book keeping services

X2= Auditing services

X3= Tax reporting services

X4= Information Technology Services

CONCLUSIONS AND RECOMMENDATIONS

Summary

The study aimed to assess how outsourcing various accounting services influences the financial reporting quality of small and micro enterprises (SMEs) in Kenya, specifically within Nairobi County. Four hypotheses were tested, each focusing on a distinct service: bookkeeping, auditing, tax reporting, and information technology. The overarching goal was to determine whether outsourcing these functions contributes to improved financial reporting standards among SMEs, which often face resource constraints and operational inefficiencies.

Findings on bookkeeping services revealed strong support for outsourcing among SMEs, primarily due to limited staffing and the need for professional handling of financial records. Respondents indicated that outsourcing bookkeeping enhanced accuracy and speed in transaction processing, aligning with corporate strategies aimed at improving reporting quality. The study affirmed that outsourcing bookkeeping services positively influences financial reporting quality, echoing earlier research that emphasized its strategic relevance for small enterprises.

Auditing services were also found to significantly affect financial reporting quality. Respondents noted that outsourcing audits brought independence and professionalism to the review of financial records, which in turn improved statutory compliance and internal accountability. The integration of auditing into corporate strategy for competitive advantage further underscored its importance. The study concluded that outsourced auditing services enhance reporting quality, with widespread support from management committees and alignment with prior empirical findings

Tax reporting and information technology services similarly demonstrated positive impacts on financial reporting quality. Outsourcing tax services led to improved compliance, reduced liabilities, and enhanced staff training, while aligning with ISO standards and competitive strategies. Likewise, outsourcing IT services facilitated departmental integration, reduced system errors, and accelerated transaction processing. These improvements were attributed to professional external support and adherence to international standards, reinforcing the conclusion that both tax and IT outsourcing contribute meaningfully to financial reporting quality in Nairobi's SME sector.

Conclusions

The study established a strong relationship between outsourcing accounting services and the financial reporting quality of SMEs in Nairobi County. Specifically, outsourcing bookkeeping services was found to significantly enhance reporting quality, as accurate and timely bookkeeping serves as a foundational measure of firm performance. Similarly, auditing services when outsourced, contributed to the production of reliable financial reports, reinforcing transparency and accountability for stakeholders within Nairobi County and beyond.

Additionally, the outsourcing of tax reporting services was shown to positively influence financial reporting quality by improving compliance and fostering trust with regulatory bodies. The study also highlighted the role of outsourced information technology services in minimizing reporting errors and accelerating the preparation of financial statements. Through system integration and streamlined data compilation, IT outsourcing further strengthened the overall quality and efficiency of financial reporting among SMEs.

Recommendations

The study found that well-adopted outsourcing of accounting services significantly enhances the financial reporting quality of small and micro enterprises. By introducing professionalism and specialized expertise, outsourcing improves the accuracy, reliability, and timeliness of financial reports. These improvements are especially critical for SMEs, which often lack the internal capacity to manage complex accounting functions effectively.

Based on these findings, the study recommends that SMEs strengthen their bookkeeping practices through outsourcing to ensure consistent and error-free financial records. It also advises firms without internal audit systems to engage reliable external auditors to improve transparency and compliance. Additionally, outsourcing tax reporting services is encouraged to enhance regulatory adherence and reduce liabilities. Finally, the study highlights the importance of outsourcing information technology services, noting that while full IT infrastructure may be costly, external providers can offer affordable, integrated solutions that support high-quality financial reporting.

Suggestions for Further Study

First, a similar study can be done using similar variables on other public or private organizations that are different size probably of larger capital outlay, so as to compare study findings.

Secondly, a similar study can be carried out in different physical geographical areas and different methodology applied while considering different economic status but the variables should be retained, so as to assess the effectiveness of the independent variables on the dependent variable and compare.

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