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Influence of Legislation on the Financial Reporting by the Listed Companies in Kenya

Jared George Oguta Rading' [1], Joshua Wanjare [2] and Benjamin Owuor Ombok [3]
[1, 3] *(Department of Accounting and Finance, Maseno University, Kenya)*
[2] *(Department of Accounting and Finance, University of Nairobi, Kenya)*

Abstract:
The relationship between legislation and financial reporting was examined using a variety of scholarly literature reviews. It's still necessary to do more research from different angles to expand our theoretical understanding of what's been done and where the studies have led. As a result, the study's goal was to find out how legislation affects the financial reporting of Kenya's publicly traded companies. According to the findings, the following questions needed answering: Do publicly traded companies have a high level of financial reporting currently? What is Kenya's current financial reporting legislation? In what ways does legislation influence the way companies disclose their financial reporting? For the period between now and 2021, this research presents a comprehensive review of all articles that address the connection existing among legislation and financial reporting. The study consisted of literature search from published sources and reviews of legislations and financial reporting. Data was independently extracted from published and unpublished sources, using content analysis and structured documentary guides. For each precise purpose of the research, data was collected from the works review; each aim of the research was handled using different bases of data or mixture of information sources. The results indicated various studies have indicated different level of financial reporting depending the context and conceptualization of financial reporting. Company Act and regulators such as Kenya's Institute of Certified Public Accountants, Kenya's Institute of Certified Public Secretaries, Kenya's Capital Markets Authority, Kenya's Nairobi Securities Exchange, and Kenya's Central Bank, among others, have informed Kenya's financial reporting (IRA). Legislation and financial reporting have a mixed effect, with the majority of studies showing a positive effect on publicly traded companies' financial reporting. As a result of the paper's findings, it is recommended that legislation and regulations be regularly updated to reflect IFRS changes and updates. IFRS and local legislation should be aligned in multinational accounting procedures so that they can make preparations on a single set of financial information that is applicable across jurisdictions. All publicly traded companies should use the same reporting templates, which the regulator should standardize
Key Word: *Financial Reporting, Legislation, Regulatory Frameworks, Listed Firms*

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I. Introduction

Recently, financial reporting has become a hotly debated topic among regulators, experts, and practitioners of accounting standards. This type of accounting uses financial statements to show how a business is doing financially and how it has performed over time, typically on an annual or quarterly basis (Dalnial, Kamaluddin, Sanusi & Khairuddin, 2014). Financial reporting that is free of accounting fraud is critical in today's business environment. Organizations' perspectives on financial reporting have shifted due to changing regulatory requirements and heightened supervisory expectations. It's no longer a departmental exercise; instead, it's become a tactical-level idea viewed as a value-based endeavor (Silverman, 2010). Companies listed on or under the jurisdiction of market operators and regulators are required to meet certain standards, which encourages good corporate governance and transparency (Holthausen, 2019).

There are a number of hypotheses explaining the connection between legislation and the financial reports it affects. Oyelere, Laswad, and Fisher (2018) agree that regulation is needed to protect the public from the effects of a capital market failure, based on the public interest theory. By addressing inefficiencies in the capital markets, these regulations also assist in resolving the crisis. However, some theory says this urge to conquer the standard-setting procedure encourages accountants to guarantee that one's input is significantly greater than other star players, as it is utilized to generate and provide audit assurance for future general-purpose financial reports.

Continental European and Anglo-Saxon approaches to accounting had quite a big influence on financial reporting over the years. According to the International Accounting Standards Board (IASB), financial statements are derived from Anglo-Saxon or Anglophone accounting. Until the twentieth century, countries like England, the United States, Canada, and New Zealand were free to reveal financial information. The historical background of business in Continental Europe, though not in Anglo-Saxon accounting, is the source of Continental European accounting. The European trend has its roots in the French model, which was later sequenced and authored in Napoleon's Commercial Code (Rathke, Santana, and Dalmácio, 2016). (1807). Countries like France, Belgium, and Italy have adopted the French model's annual inventory (balance sheet) for all businesses.

International Financial Reporting Standards (IFRS) development is facilitated by the globalization of business, according to UNCTD (2008). A single set of high-quality international accounting standards will have enormous benefits for developing and emerging economies, according to McCreevy (2005) and Tweedie (2006). Enable a stable and liquid capital market for them, which will have a positive impact on their economic growth. Using unfamiliar standards (such as national standards) raises the cost of capital, which reduces inflows of foreign investment, according to the authors.

Financial reporting interpretation does remain problematic, however, due to disparities between different regulatory and legislative frameworks as well as differing financial reporting procedures and procedures (Wang, Chen, Chin & Zheng, 2017). Written legislation contains legally binding standards and is formed or established by a state institution through procedures stipulated in a statute regulation by a state institution or a state official. For the sake of efficient and transparent fiscal management, the legislation mandates the maintenance of financial records and audits by all government entities as well as other public entities (Kenya, 2010). Several initiatives to encourage healthy financial reporting practices have been initiated to enhance financial reporting quality. Kenya's Public Sector Accounting Standard Board (PSASB-K), the Nairobi Securities Exchange, and Capital Market Authority (CMA) have all taken initiatives like awarding cash prizes to people who put out fires (NSE).

Existing legislation and regulations in Kenya call for listed companies to be transparent and accountable. Firms with a Kenyan stock exchange listing are required to submit quarterly and half-year financial reports, as well as annual audited financial reports. To comply with IFRS, financial statements must be prepared and presented, and they must also be reviewed in accord with International Standards on Auditing (ISA) (ISA). As a result, the ICPAK, NSE, and CMA have created the Financial Reporting Award (FiRe), which evaluates the annual reports of participating companies and recognizes the ones that adhere the most closely to IFRS standards. CMA Guidelines also encourage companies to provide additional information on director and management remuneration, as well (Evelia, 2018).

The IFRS National Reporting Framework has been fully adapted in Kenyan accounting practices. To regulate accountants' activities and develop a framework for accounting and corporate reporting, the Institute of Certified Public Accountants of Kenya (ICPAK, 2011). ICPAK has developed close working relationships and dialogue with a variety of stakeholders, including the government, parliament, and regulators, in order to incorporate IFRSs into various laws governing reporting (www.icpak.com, 2015). One of ICPAK's key stakeholders was the Central Bank of Kenya (CBK), as well as other regulators such as the Capital Markets Authority (CMA) and the Retirement Benefits Authority (RBA) (Business daily, January 9, 2018). IFRS implementation is the responsibility of ICPAK, which has been assigned a jurisdiction profile (www.apsea.or.ke, 2015)

Kenya is specifically having Nairobi stock exchange as the one and only giant stock exchange in the entire nation.All publicly traded companies must use IFRS as of the end of the fiscal year ended December 31, 1999, and thereafter. Additionally, there is an IFRS set designed specifically for small and medium-sized businesses. Since the use of IFRS in reporting by publicly traded companies has been mandated, the goal of this research is to determine whether there is evidence that the value of financial reports has enhanced as a result (Ayako, Kungu & Githui, 2018).

In the direction of ensuring that the existing financial reporting practice is maintained to the greatest extent possible, exercising control and legislation powers over not only reporting and auditing but also assurance requirements is justifiable (Dobija, 2015). The increased calls for financial reporting harmonization are aimed at protecting investors' concerns. As a result, capital markets are made more reliable, domestic firms' capital costs are reduced as a result of international listing, and national standard setting costs are offloaded. This was made possible by the creation of the International Financial Reporting Standards (IFRS), whose adoption has resulted in vastly improved financial reporting quality, increased efficiency for companies listed on the stock exchange, and increased transparency and understandability of results (Jayasinghe, Adhikari, Soobaro & Malagila, 2021).

Regulation of financial statement preparation is required due to a numerous of reasons, including the need for users of financial statements to receive at least a basic minimum amount of information, as well as the need for the economic data to be comparable and consistent across industries and geographies. Increasingly, this is an international arena due to the rise of multinational corporations and investments from around the world.

The goal is to boost user confidence in the financial reporting process and regulate corporate behavior toward their investors. These objectives cannot be achieved solely by enforcing financial reporting standards. Legal and market-based regulations must also be implemented (Akhmedjanov, 2019).

Statement of the Problem

In the United States, companies such as Enron and WorldCom have engaged in questionable financial reporting practices. Kenya's lack of corporate governance is responsible for a number of high-profile corporate scandals, including the collapse of Eurobank in 2004, the discovery of secret overseas bank accounts used to divert company funds by some directors at CMC Motors (Madiavale, 2011), as cited by Iraya and Mwangi (2015), and the alleged manipulation of accounts to the tune of Ksh 1.04 billion at Uchumi Supermarkets (Mwangi) by the CFO and the CEO (Herbling, 2016). In Kenya, institutional investors view financial reporting quality as poor, according to Kariuki and Jagongo, who think more can be done to raise the standard of financial reporting (2013).

According to their findings, the implementation of international accounting standards has resulted in better financial reporting for investors. There was no clear improvement in the quality of accounting in Kenya after adopting IFRS, as found by Outa (2011), suggesting a similar sentiment among the investment community. Robust legislation is needed, according to Iraya and colleagues (2015), in order to have effective financial reporting. Okwoli (2012) asserts that the introduction of IFRS must have the support of government officials at all levels. Typically, to enforce the adoption of the new standards, governments at all levels must compel infrastructure and institutional reforms. According to Olayinka (2012), the IFRS issue has become a toy because of the lack of necessary legislative and legal changes that go along with the adoption. As a result, the following questions will be addressed in this research:

i. What is the existing level of financial reporting among listed firms?
ii. What is the existing legislation in regard to financial reporting in Kenya?
iii. What is the effect of legislation on financial reporting?

II. Literature Review

Irwandi and Pamungkas (2020) looked into the influences that affect the excellence of financial reporting in the manufacturing industry, which is a major factor in a company's overall financial health. Between 2015 and 2018, statistics were gathered from the annual reports of Indonesian-listed manufacturing corporations. Investor distrust affects financial reporting quality, while legislation acts as a controlling variable, strengthening the link among investor suspicion and financial reporting quality. These findings are consistent with previous research.

When looking at non-financial voluntary disclosure, Evelia (2018) also looked at corporate disclosure's financial reporting and the factors driving it. For a period of five years, from 2013 to 2017, a sample of eleven companies from Kenya's listed entities was selected and its integrated reports were analyzed. It was found that financial reporting and regulatory framework have a strong connection when the statistics were analyzed with the statistical package for social science (SPSS).

According to Conyinno and Chepkirui (2016), insurance companies in Kenya prepare financial reports based on a variety of factors. Information about the adoption of International Financial Reporting Standards (IFRS), data integrity, competence of financial report preparers, and regulatory environment disclosures were all taken into consideration. Using descriptive research, market share data was gathered from Kenya's five largest publicly traded insurance companies. There was a weaker connection found between the Regulatory Framework and financial report preparation.

According to Kisaku (2017), non-profit financial reporting frameworks have an impact on the quality of the financial reports that are generated by those organizations. In order to gather data, researchers randomly selected 74 NFPOs and had them complete a survey with a specially designed instrument. Financial reporting frameworks had no discernible impact on the quality of financial reports, according to the results of a recent study. A special NFPO financial reporting framework could be developed in light of these findings, according to researchers. Having a framework like this would benefit external auditors because it would make following standard guidelines for external auditors for reporting easier.

According to Abanga (2017), after Kenya's semi-autonomous government agencies adopted International Public Sector Accounting Standards (IPSAS- accrual), the quality of financial reporting was evaluated. Researchers examined the years leading up to and following adoption as a subject of their investigation (2011-2013). The quality of financial reporting improved after the implementation of IPSAS, according to the findings. IPSAS standards should be required to be strictly followed by practitioners to achieve high-quality financial reporting, as found in this study. For newer, semi-autonomous government agencies to improve the quality of their financial reporting systems, legislation should be drafted.

To find out what affects the quality of public sector financial reporting in Kenya, Onyulo (2017) did a study. Kenya's Ministry of Environment and Natural Resources carried out the research on five public entities, with management staff serving as both respondents and the unit of analysis. There is evidence to suggest that government regulations have significant impact on financial reporting, according to the findings. They must ensure that all public entities comply with appropriate controls and functional audit committees, as well as the full adoption of internationally recognized public accounting standards where quality reporting is adhered to in order to protect taxpayer resources while preventing waste and losses.

Using good corporate governance principles such as compliance with legislation and the use of internal control systems to improve financial reporting quality was the goal of Setiyawati, Hidayah, Rahmatika and Indriasih (2020). Survey data was used to compile the study's findings; questionnaires were distributed to participants. These findings show that adherence to legislation has a big influence on financial reporting quality. The influence is also going in the right direction, which means that if the rules and laws are followed correctly, financial reporting will be of high quality.

In Nigeria, Akande, Olowe and Olowe (2015) examined the extent to which public institutions adhered to accounting regulations' framework stipulations. Accounting Regulations that guide public institutions in the process of planning and delivering of financial reports have been examined in depth. On 50 respondents from the Ministry of Finance and the Office of the Accountant General of the State of Osun in Nigeria, descriptive statistical methods such as the Simple Percentage Method (SPM) and Chi-square were used. Osun State's regulatory framework appears to be associated with the state's financial report preparation and presentation, according to the study's findings.

There was a correlation found between five firm-specific characteristics and a company's level of compliance with the Ghana Stock Exchange's Financial Reporting Standards (Appiah, Awunyo-Vitor, Mireku, and Ahiagbah 2016). The study makes use of data gathered from 31 Ghanaian public companies between 2008 and 2012. Predictive variables are examined to see if they have an impact on IFRS corporate compliance levels using the random effect. The results show a positive correlation between the level of compliance and the size of the firm, the type of auditor, cross-listing and the sector On the contrary, firm age and leverage have a negative relationship when it comes to compliance. It has been discovered that profitability has nothing to do with a company's compliance level. The outcomes aren't affected by alterations in the model parameters.

III. Material And Methods

The research used a systematic approach. Literature search from published sources and legislative and financial reporting reviews comprised the study. Content analysis and structured documentary guides were used to extract data from published and unpublished sources. A variety of data bases or mixtures of information sources were used to handle different goals of the research. Data were collected from the works review for each specific purpose. It was decided to advance the content and give it face validity by using a combination of professional opinions and collected works searches. The data was gathered from a variety of sources, including Google Scholar, Scopus, Science Direct, Eric, and the Directory of Open Access Journals (DOAJ), and was supplemented by an increase in the number of document references used. Key words were combined with an array of search string commands that included parenthesis and other special characters to help narrow down the results. Listed companies were included in the search terms used by the researchers. Financial reporting was also included in the list of search terms. To synthesize information, we searched published peer-reviewed and grey literature from 2000 to 2020 and excluded 14 articles that had nothing to do with the topic.

IV. Result and Discussion

Financial Reporting of Listed Firms

Several studies have looked at the financial reporting of publicly traded companies both locally and internationally. The Nairobi Securities Exchange is one of Africa's largest stock exchanges, as well as the largest in East and Central Africa. Nairobi Securities Exchange As a result, it's gotten a lot of attention in financial reporting. The operationalization of the financial reporting quality and disclosure index has occurred. Audit committees and internal audit functions have a strong association, according to Gebrayel, Jarrar, Salloum, and Lefebvre, which has a positive impact on financial reporting as a result of the association (2018). The level of accuracy and completeness of financial reporting is the dependent variable in this investigation. The variables AQ and ADACC serve as proxies for estimating the value of this variable. Basic forensic accounting skills were examined by Chukwu, Umukoro, and Alabi (2019) to see how they affected financial reporting in Nigerian listed companies. According to the findings, financial reporting's credibility was evaluated. Corporate governance (CG) mechanisms applied in Saudi Arabian listed financial firms were examined by Alsaadi, Tijjani, and Falgi (2021). Discretionary accruals were used to gauge financial reporting at the time. Ansah Owusu (2000) investigated financial reporting in emerging capital markets: empirical evidence from Zimbabwe's stock exchange. In terms of annual reporting timeliness, 47 non-financial companies listed on the

Zimbabwe Stock Exchange evaluated financial reporting. A study by Agyei-Mensah (2011) looked at how listed Ghanaian companies use the internet and financial reporting to communicate. The internet reporting index was used to gauge financial transparency.

Kemei (2019) investigated in Kenya factors influencing the disclosure of social-environmental responsibilities in Kenyan listed companies' financial reports. The average disclosure index score was used to gauge the quality of financial reporting. According to Kukutia (2019), a survey of Kenyan publicly traded firms revealed that ethical accounting practices have a positive impact on financial reporting. Transparency, Understandability, Reliability, Relevance, and Comparability were all considered when grading financial reporting. For his dissertation, Rotich (2017) looked at the relationship between corporate management and public financial reporting. Fundamental Qualitative Characteristics like Relevance and Faithful Representation were operationalized in financial reporting, while Enhancing Qualitative Characteristics like Understandability, Comparability, and Timeliness were also considered. According to Matundura (2011), the Nairobi Stock Exchange is a significant determinant of financial reporting in Kenya. The transparency of financial reporting was gauged by the amount of financial information that was made available online. Kariuki and Oluoch (2020) looked at the impact of the size of the audit committee on the quality of financial reporting by Nairobi Securities Exchange-listed companies. Accounting for financial reporting was calculated by dividing total accounting by total accounting.

Legislations in Regards to Financial Reporting of Listed Firms in Kenya

Regulators from multiple industries have offered prudential guidelines and laws to help Kenya's financial reporting legislation. The Companies Act of 1978, which required companies to present financial statements, directors' and auditors' reports in their annual reports before 2017, applied to Kenyan businesses until that year. In addition to presenting a business review report, sustainability and future-oriented information in their annual report, the new Companies Act of 2015 (Kenya's Companies Act, 2015) requires compliance with IFRS as of 2017. It is possible for the Kenya Central Bank to issue prudential guidelines under the Banking Act of 2009, but the Insurance Act of 2013 mandates that the Insurance Regulatory Authority issue such guidelines. Banks and insurance companies are required by both prudential guidelines to prepare a corporate governance report. The International Financial Reporting Standards (IFRS) must be followed by insurance companies as well. A template for presenting financial statements is provided by the prudential guidelines for banks.

The Kenyan Company Act, Chapter 486, mandates the preparation of regular financial statements by all companies and specifies the minimum amount of information that must be disclosed in those statements. "Every company shall cause to be kept in the English language proper books of account with respect to:(a) all sums of money received and expended by the company and the matters in respect of which these receipts and expenditures take place; (b) all goods sales and purchases by the company; (c) the company's assets and liabilities," states Section 147. On top of all of this, a business has to adhere to any regulations imposed by the Acts under which it operates. Acts like the Banking Act, Insurance Act, and the Building Societies Act are examples of this type of legislation. Section 149 of the Companies Act imposes a corporate accounting obligation. It is mandatory for every corporation to prepare and submit to the Registrar of Corporations and all shareholders: the following financial statements The profit and loss statement and the balance sheet are two examples of financial statements. A company's balance sheet must give a true and fair view of the company's financial situation at the end of its fiscal year, and its profit and loss account must give a true and fair view of the firm's financial results for the fiscal year under Section 1 of Section 149 (Cap 486). A company's balance sheet and profit and loss account must comply with the Sixth Schedule of the Companies Act, as required by Section 149(2) of the Companies Act.

The second point of view focuses on the role of the regulators. Companies listed on the Nairobi Securities Exchange (NSE) are subject to a variety of Kenyan regulators, including the Institute of Certified Public Accountants (ICPAK), the Institute of Certified Public Secretaries of Kenya (ICPSK) as well as the Capital Markets Authority (CMA) (IRA). Listed companies must prepare corporate governance reports in accordance with the requirements of ICPAK, CMA, NSE, and IRA, while the corporate governance code of the CMA encourages listed companies to adopt integrated reporting on a voluntary basis.

Effect of Legislation on Financial Reporting of Listed Firms

Only a few studies have looked at the connection between legislation and publicly traded company financial reporting. The research looked at studies conducted locally and internationally to see if legislation and financial reporting could be linked. The study gathered information on legislation, legal and regulatory framework in relation to financial reporting in order to get meaningful results. Some studies like Irwandi and Pamungkas (2020) found that legislation is a moderating variable that strengthens the link between investor distrust and financial reporting quality, but not all studies looked at legislation as an independent variable. Government regulations have a significant controlling effect on financial reporting, according to Onyulo (2017).

To ensure that state entities follow established procedures and regulations, regulatory authorities are in charge of overseeing the compliance of those entities. Firm-specific characteristics have a negative significant association with financial reporting, according to Appiah, Awunyo-Vitor, Mireku, and Ahiagbah (2016).

According to Evelia (2018), financial reporting in Kenya has a strong connection to the regulatory framework. There was a weaker connection, however, found by Conyinno and Chepkirui (2016), between the Kenyan Regulatory Framework and the preparation of financial reports by Kenyan insurance companies. Furthermore, according to Kisaku (2017), financial reporting frameworks and the quality of financial reports among Not-for-Profit organizations were not significantly linked. They also conclude (in 2020) that the quality of financial reporting is greatly affected by whether or not companies comply with the laws and regulations in place. Osun State's regulatory framework appears to be linked to the state's financial report preparation and presentation, according to Akande, Olowe, and Olowe (2015). According to Abang'a (2017), legislations are needed to allow Kenya's newer, semiautonomous government agencies to put in place systems to improve the country's financial reporting quality.

V. Conclusion and Recommendation

This systematic review thoroughly investigated the relationship between financial reporting and legislation from different perspectives by research purpose, research methods, country of distribution, discipline, type of legislation and the distribution of publications over the years. Previous literature reviews on the relationship between financial reporting and legislation provided valuable knowledge and insight for future research. As a result of our research, we've discovered: When it comes to financial reporting, the primary goal of most studies was to examine the relationship between financial reporting and its determinants. However, when we look at secondary goals based on the variables studied, we find that the focus was primarily on financial reporting quality, followed by pure relationships between determinants and financial reporting. A secondary research method based on stock market secondary data, survey, and qusai-natural experiment was found to be the primary research method. Another finding is that the majority of published studies come from developed countries, with only a few from emerging markets in Asia. Only a few studies of this nature were conducted in Kenya and published. There was no collaboration with other disciplines, which could create new research opportunities by introducing new collaboration with other disciplines. Fourth, all of the studies were conducted in the context of finance and accounting. In addition, we discovered that the majority of research was carried out by publicly listed companies on the stock market, then by government or semi-government organizations, and finally by non-profit making organizations. A six-year-old study that examines how financial reporting and legislation are related shows that this topic is still new and hasn't been thoroughly explored because the first study on it was published in 2000, and it can be classified as an immature one that requires additional research. As this study aims to gain knowledge from existing studies, as well as discover gaps, it suggests an exploration of previously unexplored avenues for future research. This is because mainstream studies have shown that financial reporting and legislation phenomena have a great opportunity to be extended further.

As a result of the paper's findings, it is recommended that legislation and regulations be regularly updated to reflect IFRS changes and updates. IFRS and local legislation should be aligned in multinational accounting procedures so that they can prepare a single set of financials relevant across jurisdictions. All publicly traded companies should use the same reporting templates, which the regulator should standardize. The results of this research show that legislation has an impact on the financial reporting of publicly traded companies. The findings also revealed the need for additional research in areas not covered by this study. The scope of this investigation was limited to companies that are listed on the NSE. It'd be interesting to see how other businesses that aren't listed do in terms of the legislation under study. Different variables than the ones addressed in the current study could be used to conduct a similar study. For this reason, it's important to keep up with current research in order to align and converge with the International Financial Reporting Standards (IFRS). Finally, the review of this paper is limited to the following databases for the collection of articles (Google Scholar search engine, Scopus, Science Direct, Eric, DOAJ) In addition to the fact that the research was restricted to articles titled "Financial Reporting" and "legislations/regulatory framework," this investigation could be broadened by searching for articles by abstract instead of just titles.

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