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Outsourcing Accounting Functions and the Quality of Financial Reporting for SMEs in Lagos State

Olufemi Adekoya, and Sunday Ojediran
Department of Accountancy, Yaba College of Technology, Yaba, Lagos State

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ABSTRACT: *This study delves into the outsourcing of accounting functions and its impact on the quality of financial reporting of Small and Medium-sized Enterprises (SMEs) in Lagos State, Nigeria. The study used a survey research design, and a questionnaire was adopted as a research instrument to elicit information from SMEs located within the Lagos metropolis. The population of the study consisted of 300 registered SMEs in Lagos State as of December 2022. Among them, 268 were located within the Lagos metropolitan area, representing the core focus of the study, while the remaining 32 were situated outside the metro region. Simple percentages were adopted to analyse the respondents' responses, while linear regression statistics were used to test the hypotheses formulated. The study found that there is a significant effect of outsourcing bookkeeping services on the financial reporting quality of SMEs in Lagos State; there is a substantial effect of outsourcing internal audit services on the financial reporting quality of SMEs in Lagos State; and also that there is a significant effect of outsourcing tax reporting services on the financial reporting quality of SMEs in Lagos state. The study concludes businesses should focus on their core competencies and entrust accounting preparation to professional accountants. As companies expand, outsourcing should be viewed as optimising productivity and business performance. The study recommended establishing a regulatory framework by the Financial Reporting Council of Nigeria (FRCN) to facilitate professional accountants' outsourcing of accounting functions and financial services, thus enhancing public confidence. SMEs are encouraged to embrace outsourcing of accounting functions to mitigate excessive costs and streamline operations, ultimately contributing to cost savings and efficiency improvements.*

KEY WORDS: outsourcing, accounting functions, financial reporting quality, SMEs

INTRODUCTION

The role of Small and Medium Scale Enterprises (SMEs) in a national economy has been accentuated all over the world based on their contributions to total productivity and job opportunities (Agburu, Anza, & Iyortsuun, 2017; Bramford & Bruton, 2006). Business environments have been unstable and unpredictable as a result of economic globalisation, technological changes, customers' increasing demands, and stiffer competition; hence, business management has become more complicated (Kamyabi & Davies, 2011c; Espino-Rodriguez & Padron-Robiaina, 2004). In such business environments, the sustainability of many SMEs is threatened, and SMEs face significant challenges due to resource constraints (Kamyabi & Davies, 2011a). SMEs can overcome these challenges by outsourcing their activities and shifting what they traditionally handled in-house and, exceptionally, their accounting functions (Kotabe & Mol, 2009).

Given the decision to outsource various business functions, outsourcing accounting functions is increasing (Azucena, Balmeo, Borromeo, Jain, & Sandoval, 2015). In business, accounting functions (preparation of financial statements, preparation of staff payroll, maintenance of stock ledgers and costing materials, etc.) are among the fundamental processes (Daproza, 2021). Various off-the-shelf accounting software programs are available to support these functions. These include User Business Systems (UBS) and Mind Your Own Business (MYOB) (Everaert, Sarens, & Rommel, 2006). Initially, accounting functions mainly supported periodic reporting, assisting with month-end reports and record-keeping (Cahyaningtyas & Ningtyas, 2020). However, accounting functions have evolved to play a more serious and important role in business (Gooderham, Tobiassen, Doving, & Nordhaug, 2004). Accounting information is vital to maintaining a business's competitive advantage. Therefore, accounting information is essential for effective decision-making (Jayabalan, Raman, & Ching, 2009).

SMEs need help attracting high-quality human resources; therefore, they are identified as having a problem known as resource deficit (Isaksson & Lantz, 2015). A resource deficit occurs in accounting when a company needs more people or knowledge to fulfil its accounting functions (Doving & Gooderham, 2005). The greater the resource deficit, the more attractive outsourcing becomes (Dibbern & Heinzl, 2001). It is particularly relevant for SMEs because resource constraints are generally much more significant for SMEs than for large firms (Elmuti, 2003). Kamita and Oluoch (2018) claim that most SMEs outsource their accounting functions to accounting firms because they need accounting knowledge and support and rely on statutory accounts as their primary source of information.

Outsourcing accounting functions is an influential vehicle to diminish costs and increase performance because accounts payable outsourcing will reduce administrative costs and cost savings without capital investment (Jayabalan et al., 2009). Furthermore, the firm's profitability can be enhanced by outsourcing in several ways, including employment, capabilities, facilities, and payroll (Jiang, Frazier, & Prater, 2006). On the other hand, by outsourcing accounting functions or tasks, SMEs could focus on the value-creating functions that drive competitive benefits (Kipsang & Mwangi, 2017). Hence, outsourcing accounting services enables a firm's capabilities to be improved by better performance (Swietla, 2013).

However, SMEs in global value chains are even more vulnerable, as they often bear the brunt of the difficulties of big firms (Kotabe & Mol, 2009). The situation will be even more severe for SMEs due to internal resources gaps (such as human capital based on knowledge and competence) than for big firms (Talebi, 2009). SMEs should enhance their products and processes by utilising their internal human resources or obtaining them from external sources in a dynamic system of knowledge-intensive relations to survive in the global economy (Feizpour & Jamali, 2009). Therefore, if SMEs want to grow, they should focus on core activities for efficiency matters and outsource to compensate for resource (competencies) gaps (McIvor, 2009). Accounting functions represent a strategic decision for Lagos State SMEs, potentially impacting financial reporting quality significantly. SMEs need to address challenges such as quality control, coordination, and data security so that the benefits of cost efficiency, resource optimisation, and access to expertise make outsourcing attractive. Critical factors, including cost considerations, resource availability, competencies, operational management, and risk assessment, guide SMEs in outsourcing decisions. For Lagos State SMEs, outsourcing accounting functions is not merely a cost-cutting strategy but a pathway to enhanced financial reporting quality. It allows these businesses to focus on their core competencies, optimise resources, and access specialised expertise, ultimately contributing to their competitiveness and long-term sustainability in the dynamic economic landscape of Lagos State, Nigeria.

Statement of the Problem

Organisations can only achieve their objectives with proper evaluation and analysis of how activities operate, and processes are carried out within the business. A significant problem in the small and medium-scale industry is obtaining accounting information related to business activities. This is because most SMEs pay little attention to figures when running their businesses but instead focus on making a profit, which most of the time cannot be quantified; hence, it is necessary to outsource this function (Kamyabi & Devi, 2011).

Most SMEs need more skilled accounting personnel and the infrastructure to implement existing accounting rules and regulations (Ali, Ghani, Muhammad, & Widuri, 2023). Furthermore, Egiyi and Alio (2020) opine that SMEs need access to expertise because accounting functions require knowledge of generally accepted accounting rules or tax regulations and how to apply the rules in a given business environment. Apart from that, Ezekwesili and Okoye (2019) opine that SMEs need help attracting and retaining skilled employees. It further stated that it could be due to their limited number of senior positions and insufficient knowledge of accounting support, which renders them incapable of handling a complete set of accounts. Alternatively, some SMEs outsource accounting functions rather than hiring an accountant at a high cost (Daproza, 2021).

According to Jayabalan, Raman, and Ching (2009), some SMEs do not keep proper financial records and accounts because they are unaware or convinced of the usefulness of accounting and financial reporting requirements for control and decision-making purposes. Kamita and Oluoch (2018) noted that SMEs need more accounting knowledge and support to perform accounting functions. Further, they are more likely to outsource their accounting work to accounting firms. It follows that having improved accounting information will permit SME owners to manage their firms better and allow them to get access to financial resources more easily (Mwangi, Mutiso, & Mungai, 2018).

However, small and medium enterprises' deprivation of managerial capabilities, limited finances, and human resources thrust these firms into outsourcing accounting services. The accounting process begins with preparing the source documents for bookkeeping and ends with preparing financial statements. One of the main problems facing accounting functions in SMEs is the need for more expertise Ismail (2002). Source documents are prepared as transactions happen throughout the accounting period, while financial statements are prepared at the end of the accounting period. Professional accountants cannot prepare quality financial statements without source documents; therefore, source documents are a prerequisite to preparing quality financial statements. Most SMEs lack a defined accounting department responsible for bookkeeping, auditing, and tax reporting services, leaving these firms to outsource accounting services to accounting firms. Quality financial statements are essential in performance analysis and soliciting funds. Therefore, this study examines how outsourcing accounting functions will affect the financial reporting quality of SMEs using selected Small and medium-scale Scale Enterprises in Lagos state as a case study.

Objectives of the Study

This study examines the effect of outsourcing accounting functions on the financial reporting quality of Lagos State’s Small and Medium-scale Enterprises (SMEs). The other specific objectives of the research are to:

i. Determine the effect of outsourcing bookkeeping services on financial reporting quality of Small Medium Scale Enterprises (SMEs) in Lagos state;
ii. Assess the effect of outsourcing internal audit services on financial reporting quality of Small Medium Scale Enterprises (SMEs) in Lagos state;
iii. Ascertain how outsourcing tax reporting services affects the financial reporting quality of small and medium-scale enterprises (SMEs) in Lago State.

Research Hypotheses

H_{01}: There is no significant effect of outsourcing bookkeeping services on the financial reporting quality of Small Medium Scale Enterprises (SMEs) in Lagos state

H_{02}: There is no significant effect of outsourcing internal audit services on the financial reporting quality of Small Medium Scale Enterprises (SMEs) in Lagos state

H_{03}: Outsourcing tax reporting services does not significantly affect the financial reporting quality of Small and Medium-Scale Enterprises (SMEs) in Lagos state.

LITERATURE REVIEW

Outsourcing

Outsourcing, as defined by Carey, Subramaniam, and Ching (2006), refers to the practice of sub-contracting specific services or activities to external parties that could otherwise be performed internally by an organisation's employees. This strategic business practice involves delegating tasks to external service providers, encompassing a range of accounting functions and processes (Cahyaningtyas & Ningtyas, 2020). Outsourcing decisions are driven by optimising efficiency and effectiveness within an organisation (Agburu et al., 2017). Ali, Ghani, Muhammad, and Widuri (2023) stated that outsourcing involves a clear distinction between external accountants or accounting firms (the 'external accountant') and internal accountants (the company's employees). It further stated that external accountants are external service providers with specialised expertise, while in-house accountants are employees within the SME responsible for traditionally managing accounting functions.

Everaert, Sarens and Rommel (2006) opine that outsourcing is not merely a practical choice; it represents a strategic decision by SMEs. According to Egiyi and Alio (2020), businesses deliberately contract non-strategic accounting activities or processes to external service providers. Cahyaningtyas and Ningtyas (2020) further stated that these activities may encompass accounting aspects outside the SME's core competencies. Gilley and Rasheed (2000) opine that one of the primary motivations behind outsourcing is to leverage the capabilities and expertise of external firms. Furthermore, these firms are often more proficient in managing accounting tasks. According to Kamyabi and Devi (2011a), SMEs aim to enhance their competitive advantage by focusing on core activities while outsourcing specialised functions to experts. It further stated that outsourcing can be seen as a strategic rejection of the internalisation of certain accounting activities. Gilley and Rasheed (2000) stated that SMEs do not need to keep these functions in-house; they should transfer them to external governance, recognising that external providers can deliver superior results.

According to Kamita and Oluoch (2018), outsourcing has emerged as a pivotal strategic decision for businesses across the globe. It entails delegating specific operations or functions to external service providers, which could otherwise be managed internally by an organisation's employees. Carey, Subramaniam, and Ching (2006) stated that transformative practice has gained significant power in the corporate scene and is recognised as a vital tool for achieving cost-efficiency, improving operational effectiveness, and enhancing competitiveness. Kamyabi and Devi (2011c) further stated that within the realm of accounting, outsourcing plays a crucial role, allowing businesses to optimise their financial processes and, subsequently, augment financial reporting quality.

Outsourcing is a strategic practice often defined as sub-contracting specific services or activities to external entities with the expertise to handle these tasks efficiently (Carey et al., 2006). Kipsang and Mwangi (2017) stated that outsourcing is a conscious choice to entrust certain business functions to external service providers rather than maintain them in-house. This strategic decision can encompass a range of tasks, from routine administrative processes to highly specialised functions, and can be executed on-site or off-site (Carey et al., 2006). The outsourcing process involves two primary actors: the external accountant, including professional accountants and accounting firms, and the in-house accountant, a member of the organisation's staff responsible for performing accounting functions (Everaert et al., 2010). Outsourcing is a strategic decision to contract non-strategic activities or business processes necessary for goods' production or services' provision (Espino-Rodriquez & Padron-Robaina, 2004).

Accounting

Accounting is measuring, processing, and communicating financial information about economic entities. Accounting, often called the "language of business," constitutes a critical facet of financial reporting quality for Small and Medium Enterprises (SMEs) (Feyitimi et al., 2016; Kamyabi & Devi, 2011a). It is the process of measuring, processing, and communicating financial information about economic entities (Kamyabi, 2012). Effective accounting practices enable SMEs to adhere to regulatory requirements and provide stakeholders, including investors, creditors, management, and regulators, with decision-useful information (Kipsang & Mwangi, 2017). Accounting is the foundation upon which financial reporting quality is built; it is essential to grasp its multifaceted nature. It encompasses a range of activities, from recording financial transactions to summarising financial information into comprehensive financial reports (Mwangi et al., 2018).

Accounting is subdivided into several specialised areas: financial, management, auditing, and tax accounting (Ali et al., 2023). Financial accounting, in particular, assumes paramount importance in the context of financial reporting quality (Cahyaningtyas & Ningtyas, 2020; Kamita & Oluoch, 2018). It concentrates on reporting an organisation's financial information, including preparing financial statements, to external users such as investors, regulators, and suppliers (Kamyabi & Devi, 2011c). Within accounting, the bookkeeping process plays a foundational role (Kamyabi, 2012). It involves meticulously recording financial transactions and facilitating the presentation of financial summaries in reports (Swietla, 2013). The accounting field is not just a set of practices but a structured discipline guided by organisations, standards, and principles (Kamita & Oluoch, 2018). Financial statements, a cornerstone of financial reporting quality, are usually audited by accounting firms and are prepared under Generally Accepted Accounting Principles (GAAP). These principles are established by various standard-setting organisations, such as the International Accounting Standards Board (IASB) and the Financial Reporting Council of Nigeria (FRCN) (Ezekwesili & Okoye, 2019; Feyitimi et al., 2016).

Outsourcing Accounting Functions

The outsourcing of accounting and finance functions has witnessed a remarkable surge in recent years, transforming the way businesses manage their financial processes. Outsourcing of accounting functions has gained significant momentum in the 21st century; this trend will continue to grow. According to Kamyabi (2012), the evolution of outsourcing accounting practices can be attributed to several factors, including technological advancements, globalisation, and the recognition that outsourcing can offer substantial benefits. Cahyaningtyas and Ningtyas (2020) emphasise that specific components of accounting functions are particularly suitable for outsourcing. These encompass various financial and accounting services, ranging from general accounting to management reporting. Azucena, Balmeo, Borromeo, Jain and Sandoval (2015) further noted that the specific elements that can be outsourced include general accounting, audits, accounts payable, banking, financial service solutions, credit services, insurance processing, tax services, billing systems, accounts receivable, collections, credit management, compliance, and management reporting. Daproza (2021) noted that outsourcing accounting functions offers an opportunity to optimise specific operational aspects, such as outsourcing accounts payable processes, which can lead to substantial reductions in administrative costs without necessitating capital investments. It further stated that it would optimise the extent of data capturing, processing, invoice recording, and payment disbursement.

Agburu, Anza and Iyortsuun (2017) noted that one advantage of accounting outsourcing is enhancing compliance and risk management; it further stated that by outsourcing tax processing, SMEs could save time and mitigate the risks associated with late payments and filing errors. Feyitimi, Nasieku and Muturi (2016) opine that the regular changes in tax regulations and the need to keep pace with evolving technology could be formidable challenges for SMEs. It further stated that outsourcing alleviates this pressure, enabling businesses to remain compliant and technologically current. While the advantages of outsourcing accounting functions are substantial, it is imperative to tread cautiously and be mindful of the associated challenges. Ezekwesili and Okoye (2019) caution that outsourcing entails a loss of direct control over the quality of work. It further stated that maintaining stringent quality standards becomes more challenging when external service providers are involved. Elmuti (2003) stated that ensuring quality often falls on effective coordination and communication between the outsourcing entity and the service provider. Egiyi and Alio (2020) noted that coordination expenses and potential delays could affect management and business decisions; it further stated that establishing efficient communication and collaboration channels is essential to mitigate the challenges.

Financial Reporting Quality

Financial reporting quality is a pivotal aspect of modern business operations, serving as a cornerstone for informed decision-making for business owners. Adekanmi, Adeoye and Isinkaye (2021) articulate that financial reporting quality embodies the precision with which financial reporting communicates essential information about a firm's operations and anticipated cash flows. However, achieving and assessing financial reporting quality is multifaceted, encompassing financial data, disclosures, and non-financial information influencing decision-making processes (Yurisandi & Puspitasari, 2015). Rahmatika and Afiah (2014) opine that financial reporting quality hinges on the precision and clarity with which financial reports convey information about a company's operational performance and future cash flows.

Outsourcing is a strategic decision to contract non-core, often repetitive, specialised activities or business processes to external parties and capabilities to perform them more efficiently and effectively (Cahyaningtyas & Ningtyas, 2020). Mohammed and Adamu (2020) opine that outsourced tasks can be conducted either on-site or off-site; the main objective of outsourcing is the transfer of activities traditionally managed internally to external bodies. Saidu A. (2014) stated that in the realm of accounting, outsourcing involves entrusting accounting functions and responsibilities to external entities, distinct from in-house accountants or accounting staff. Mwangi, Mutiso, and Mungai (2018) further stated that there are two contrasting paradigms: the "external accountant," which includes professional accountants and accounting firms, and the "in-house accountant," which denotes internal business staff responsible for performing accounting functions.

Everaert, Sarens, and Rommel (2010) stated that outsourcing is not merely a cost-saving measure but a strategic decision that can enhance the competitive advantage of SMEs. Kamyabi and Devi (2011) opine that it is often guided by resource-based thinking (RBT), which suggests that firms should focus on activities that constitute their core competencies and outsource others. Maelah, Aman, Hamzah, Amiruddin, and Auzair (2010) further suggested that it would be better for a company with limited resources to outsource activities that do not constitute its core strengths. The strategic value of resources plays a crucial role in determining the outsourcing opportunity. Dinu (2015) stated that organisations contract out business processes to leverage specialisation, market discipline, flexibility, and cost savings.

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Small and Medium-Sized Enterprises (SMEs)

Small and Medium-sized Enterprises (SMEs) form the backbone of economies worldwide. They are pivotal in driving economic growth, creating employment opportunities, fostering innovation, and contributing significantly to a nation's GDP. SMEs are a diverse group of businesses encompassing a wide range of industries, and their relatively smaller size characterises them compared to large corporations. However, there is no universally agreed-upon definition of SMEs, as their classification can vary significantly based on factors like the number of employees, annual turnover, or industry-specific criteria. SMEs are significant contributors to employment. They create jobs significantly, offering opportunities to diverse segments of the population. They are often more labour-intensive than larger firms, making them vital for reducing unemployment rates and addressing societal challenges related to joblessness (Svedberg, Do & Karlsson, 2006). SMEs are sources of innovation and entrepreneurship (Talebi, 2009). Feizpour and Jamali (2009) opine that the size of SMEs often translates into liveliness and adaptability, which enable them to respond quickly to market demands and experiment with new ideas. It further stated that SMEs are often at the forefront of technological advancements and business model innovations. According to Taleb (2009), SMEs play a crucial role in regional development, helping to bridge the economic disparities between urban and rural areas. They often emerge as vital players in local economies, providing goods and services, generating income, and enhancing communities' overall quality of life.

One of the most common criteria is the number of employees. According to Feizpour and Jamali (2009), SMEs typically have fewer than 50 employees in many jurisdictions. However, this criterion is not universal; different regions may employ different thresholds. Another criterion, as stated by Bramford and Bruton (2006), involves financial indicators such as annual turnover or assets; smaller annual turnovers or asset values often categorise a business as an SME. According to Svedberg and Karlsson (2006), industry-specific criteria are sometimes used; certain industries may have unique characteristics that necessitate specific definitions for SMEs. These criteria may include factors such as market share or capital investment requirements. Some definitions are based on the concept of public accountability. Cahyaningtyas and Ningtyas (2020) identified SMEs as entities that do not have public accountability and do not need to file financial statements with regulatory bodies for issuing financial instruments.

A further distinction is made for micro-entities within the broader category of SMEs. Sian and Roberts (2006) differentiate micro-entities as the smallest entities within the SME spectrum. These entities are characterised by having fewer than ten (10) employees, including those with no employees at all. According to Daproza (2021), the diverse nature of SMEs and their varying definitions is essential when considering the impact of outsourcing on their financial reporting quality. SMEs often face unique challenges when it comes to financial reporting. Their resource constraints, limited access to specialised expertise, and the need to comply with accounting

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standards can create complexities. Egiyi and Alio (2020) opine that outsourcing accounting functions can significantly influence how SMEs manage their financial reporting. It offers opportunities for cost savings, access to specialised skills, and enhanced efficiency. However, Isaksson and Lantz (2015) opine that SMEs have challenges related to data security, quality control, and maintaining control over financial processes. Moreover, Kamita and Oluoch (2018) noted that the definition and classification of SMEs become crucial when assessing the impact of outsourcing. Size, financial position, and industry-specific factors can determine the extent to which SMEs engage in outsourcing practices. Micro-entities, the smallest entities within the SME category, may face distinct challenges and opportunities when outsourcing their accounting functions.

Theoretical Frameworks

The study will adopt a Resource-Based View (RBV) and Transaction Cost Economy (TCE).

RBV suggests that companies should focus on their core competencies and outsource areas where they lack technical competence. The study will use RBV to analyse whether outsourcing accounting functions improve SMEs' financial reporting quality in Lagos State, Nigeria. Cahyaningtyas and Ningtyas (2020) opine that RBV provides valuable insights into the dynamics and strategic considerations associated with outsourcing and its impact on financial reporting quality. According to Daproza (2021), RBV requires companies to use their resources strategically by outsourcing areas where they lack technical competence, thereby gaining a comparative advantage over their competitors. Transaction Cost Economy Theory (TCE), as developed by Oliver Williamson, emphasises the role of transaction costs in shaping organisations' boundaries and choices regarding outsourcing. The study will explore how TCE can help understand SMEs' decisions to outsource accounting functions concerning the financial reporting quality of SMEs in Lagos State, Nigeria. Egiyi and Alio (2020) opine that TCE enables companies to decide whether to internalise or outsource activities based on minimising transaction costs. Kamita and Oluoch (2018) opine that TCE provides a lens to analyse the transaction costs involved in outsourcing accounting functions and further state that it explores how asset specificity, uncertainty, and frequency of transactions influence SMEs' choices.

Resource-Based View (RBV) theory, as one of the theoretical frameworks, emphasises the strategic allocation of resources to achieve competitive advantage. It posits that firms should leverage their core competencies while outsourcing non-core functions. Ezekwesili and Okoye (2019) opine that SMEs in Lagos State can utilise RBV to make strategic decisions regarding outsourcing accounting functions. They further state that the RBV identifies the core competencies and outsourcing areas lacking technical competence. By integrating TCE and RBV theories, the frameworks will illustrate how SMEs in Lagos State can develop a holistic understanding of how outsourcing accounting functions can enhance financial reporting quality.

The theoretical framework elucidates the significance of Transaction Cost Economy Theory and Resource-Based View (RBV) in comprehending the complexities of outsourcing accounting functions and its impact on financial reporting quality.

METHODOLOGY

The study employed descriptive and exploratory research methods to address the research objectives effectively. Descriptive research was used to accurately depict the current status of outsourcing accounting functions among SMEs in Lagos State and their subsequent impact on financial reporting quality. Primary data were sourced through a structured questionnaire divided into two sections: Section A focused on collecting demographic information about the respondents. At the same time, Section B contained structured questions to assess respondents' perceptions regarding various factors related to the study variables. These factors were evaluated using a 5-point Likert rating scale. This questionnaire design facilitated the exploration of research questions and hypothesis testing.

The population of the study consisted of 300 registered SMEs in Lagos State as of December 2022. Among them, 268 were located within the Lagos metropolitan area, representing the core focus of the study, while the remaining 32 were situated outside the metropolitan region. The sample for this research was drawn from both groups. A simple incidental random sampling technique was employed to ensure every subject within the population had an equal opportunity for representation. The final sample size consisted of 190 respondents, including significant stakeholders in SMEs and members of the general public. These respondents were selected to provide diverse insights into the impact of outsourcing accounting functions on financial reporting quality. Data collected for this research was tested through statistical packages for social sciences (SPSS) using linear regression to test the hypotheses formulated.

Presentation and Analysis of Data According to Research Hypotheses

This section analysed the data collected based on the objectives, research questions and hypotheses. A total of one hundred and ninety (190) copies of the questionnaire were administered among SMEs in Lagos State, while one hundred and eighty-five (185) were fully completed and returned. The analysis was carried out using Statistical Packages for Social Science (SPSS) Version 23. Simple percentages were adopted to analyse the questionnaire responses, while linear regression statistics were used to analyse the hypotheses raised in this study. All statistical analysis was tested at a 5% level of significance.

H_{01}: Outsourcing bookkeeping services does not significantly affect the financial reporting quality of small—and medium-scale enterprises (SMEs) in Lagos State.

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Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.354[a]	.126	.123	.27733	.126	49.986	1	348	.000	1.601

a. Predictors: (Constant), outsourcing bookkeeping services
b. Dependent Variable: financial reporting quality

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.981	.101		9.705	.000
	outsourcing bookkeeping services	.603	.051	.354	7.070	.000

a. Dependent Variable: financial reporting quality

Interpretation

The analysis for the coefficient of the variables depicted that a unit increase in outsourcing bookkeeping services will lead to an increase in financial reporting quality by .603. Indeed, the R-square value .126 depicted that 13% of the factors considered were responsible for financial reporting quality, while other factors not considered among the variables were responsible for the remaining percentage. Thus, outsourcing bookkeeping services contributed to the quality of financial reporting at the beta value of .603 and t-value of 7.070. More so, the Durbin-Watson value is 1.601, meaning that autocorrelation is present. The statistical test of the significance of the model estimates is done by employing the simple regression analysis at a five per cent significance level. It was revealed from the analysis that outsourcing bookkeeping services has a significant effect on the financial reporting quality of small- and medium-scale enterprises (SMEs) in Lagos.

H_{02}: Outsourcing internal audit services does not significantly affect the financial reporting quality of small—and medium-scale enterprises (SMEs) in Lagos State.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.299[a]	.190	.087	.28298	.090	34.262	1	348	.000	1.664

a. Predictors: (Constant), outsourcing internal audit services
b. Dependent Variable: financial reporting quality

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.998	.119		8.401	.000
	outsourcing internal audit services	.366	.063	.299	5.853	.000

a. Dependent Variable: financial reporting quality

Interpretation

The analysis for the coefficient of the variables depicted that a unit increase in outsourcing internal audit services will increase financial reporting quality by .366. Indeed, the R-square value .190 depicted that 19% of the factors considered were responsible for financial reporting quality, while other factors not considered among the variables were responsible for the remaining percentage. Thus, outsourcing internal audit services contributed to financial reporting quality at a beta value of .366 and a t-value of 5.853. More so, the Durbin-Watson value is 1.664, meaning that autocorrelation is present. The statistical test of the significance of the model estimates is done by employing the simple regression analysis at a five percent significance level. It was revealed from the analysis that outsourcing internal audit services has a significant effect on the financial reporting quality of SMEs in Lagos state.

H_{03}: Outsourcing tax reporting services does not significantly affect the financial reporting quality of SMEs in Lagos State.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.502[a]	.252	.250	.25655	.252	117.081	1	348	.000	1.576

a. Predictors: (Constant), outsourcing tax reporting services
b. Dependent Variable: financial reporting quality

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.590	.102		5.756	.000
	outsourcing tax reporting services	.602	.056	.502	10.820	.000

a. Dependent Variable: financial reporting quality

Interpretation

The analysis for the coefficient of the variables depicted that a unit increase in outsourcing tax reporting services will increase financial reporting quality by .602. Indeed, the R-square value .252 depicted that 25% of the factors considered were responsible for financial reporting quality, while other factors not considered among the variables were responsible for the remaining percentage. Thus, outsourcing tax reporting services contributed to financial reporting quality at the beta value of .602 and t-value of 10.820. More so, the Durbin-Watson value is 1.576, meaning that there is a presence of autocorrelation. The statistical test of the significance of the model estimates is done by employing the simple regression analysis at a five per cent significance level. It was revealed from the analysis that outsourcing tax reporting services has a significant effect on the financial reporting quality of small- and medium-scale enterprises (SMEs) in Lagos state.

CONCLUSION AND RECOMMENDATIONS

Conclusion

It was concluded that businesses should concentrate on their area of core competence while the work of accounting preparation should be left in the hands of professional accountants. As companies grow, outsourcing should be taken as a matter of compulsion to optimise productivity and business performance. It is important to note that from the study, each independent variable analysed partially impacts the financial reporting quality among medium and small-sized firms differently. A firm would outsource any of its functions mainly because it cannot conduct it in-house. However, with defined standards, businesses need to prepare quality financial reports to support decision-making processes by users of this statement. One of the assumptions made by the study was the cost of outsourcing accounting services to small and medium-sized businesses in Nigeria.

Recommendation

Based on the conclusion made above, this study made the following recommendation:

i. The Financial Reporting Council of Nigeria (FRCN), established under the FRCN Act 2011 for professional accountants to render services to companies and public entities in Nigeria, should promulgate a regulatory framework that provides for the outsourcing of accounting functions and finance services.
ii. Authorities mandated to support small businesses, such as the Ministry of Industrialisation and Enterprise Development, must develop programmes to help these businesses manage and administer. As a result, these businesses can maintain quality financial reports that can be relied on in making financial decisions.
iii. The government must encourage outsourcing through moral suasion to enhance public confidence in implementing outsourcing accounting functions because of some significant impact on cost savings and operational efficiency of management of companies and public entities in Nigeria.
iv. Outsourcing accounting functions should be encouraged among SMEs to avoid excessive costs in workers' compensation insurance, medical insurance, retirement plans, and other incentives, as well as personal leave allowances, training, and staff turnover costs, if not eliminated.

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