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Irene Nalukenge, Stephen K. Nkundabanyanga, Venancio Tauringana

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LITERACY, EXTERNAL USER-PRESSURE AND QUALITY OF ACCOUNTING INFORMATION OF UGANDAN SMEs

Irene Nalukenge, Stephen K. Nkundabanyanga and Venancio Tauringana

ABSTRACT

Purpose – *The overall purpose of this study is to investigate whether literacy levels and external user-pressure by the Uganda Revenue Authority affect the perceived quality of accounting information of Ugandan SMEs.*

Design/methodology/approach – *A postal questionnaire survey of 98 SMEs drawn from Kampala, Uganda was undertaken. Ordinary Least Squares (OLS) regression was used to determine whether literacy levels and external user-pressure affect the quality of accounting information controlling for firm size, accounting qualification and firm age.*

Findings – *The findings suggest that literacy levels and external user-pressure influence the perceived quality of accounting information. Accounting qualification and firm age were also found to be positively associated with the quality of accounting information. However, there is*

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no significant relationship between firm size and quality of accounting information.

Originality/value – *The study provides evidence of the effect of literacy and external user-pressure on the quality of accounting information in a developing country where such evidence does not currently exist.*

Implications – *Since accounting information is important for economic growth, the Ugandan government needs to spend more resources to improve the literacy especially among the SMEs. The Uganda Revenue Authority also needs to maintain pressure on SMEs to improve the quality of information provided by SMEs since such information is important for assessing tax payable.*

Keywords: Quality of accounting information; literacy; user-pressure; SMEs; Uganda

INTRODUCTION AND MOTIVATION

The overall purpose of this study is to investigate whether there is a relationship between literacy, external user-pressure (by Uganda Revenue Authority) and perceived accounting information quality. According to UNESCO (2004), literacy is the ability to identify, understand, interpret, create, communicate, compute and use printed and written materials associated with varying contexts. According to the Literacy Assessment and Monitoring Programme (2004) literacy is a continuum of learning that enables individuals to achieve their goals, to develop their knowledge and potential, and to participate fully in their community and wider society. In Uganda, the basic adult literacy rates are 79% for male and 59% for females (UNESCO, 2004). The low literacy rates in Uganda matter because literacy levels affect economic growth. For example, Barro (1991) tested the impact on growth of various human capital measures using cross-country data for 1960–1985 and found that both school enrolment rates and adult literacy rates yield a significant positive impact on growth. This finding was also confirmed by Naude (2004) who used panel data from 44 African countries for the period 1970–1990 and similarly found that literacy was among the variables with a positive effect on GDP per capita growth. Coulombe, Tremblay, and Marchand (2004), using data from the International Adult Literacy Survey (IALS) also found that literacy scores had a positive and

significant effect on both short-run growth and long-run levels of GDP per capita.

Literacy levels in Uganda are important because the majority of businesses within Uganda fall within the SME categorisation and are acknowledged as key contributors to the economic and regeneration plans for the most marginalised communities and rural areas. It is estimated that 800,000 SMEs are operating in Uganda, accounting for more than 90% of the country's private sector, and employing 90% of the workforce (Commonwealth Secreatariat, 2010). Literacy is also important because one has to be literate in order to produce accounting information which is important for evaluating SMEs financial health, feeding into the country's economic data and also providing the basis of assessment of tax payable to the Uganda Revenue Authority. Moreover, literacy is also a prerequisite for SME owners to enable them to produce high-quality accounting information in order to compete, access financial resources and find partners for growth and development (UNACTAD, 2002). Given the role SMEs' accounting information plays, it is surprising that there are relatively very few studies that have investigated the relationship between literacy and accounting information quality in developing countries where literacy levels are low. The only prior study to have investigated the relationship between literacy and accounting information was that by Jacobs and Kemp (2002). The study used three case studies in order to explain the presence or absence of accounting information among Bangladesh SMEs. Jacobs and Kemp (2002) concluded that literacy/illiteracy seemed to provide some evidence of the presence and absence of accounting information within the three SMEs they studied.

In addition to the possible influence of literacy on the quality of accounting information, the other source of influence on the quality of accounting information produced by Ugandan SMEs is the Uganda Revenue Authority. In Uganda, firms are required to keep proper books of accounts for tax purposes by URA (Companies Act, Chap 110, Laws of Uganda, 2000). Nevertheless the World Bank report (2005) noted that the role of financial statements in tax collection is minimal and that there is no legal requirement to submit a complete set of financial statements to the Uganda Revenue Authority. It is still, however, a fact that URA assesses tax payable on the basis of the company's financial statements. This compels all businesses to keep books of accounts for tax purposes. Should SMEs deliberately fail to provide the financial statements for the purpose of tax assessment the Uganda Revenue Authority has legal powers to compel the SMEs to provide such information, failure of which is punishable by

imprisonment, financial penalties or both (Income Tax Act, 1997 and the VAT Act, S65 (5)). Apart from the profit and loss account and the statement of assets and liabilities, a tax payer, is supposed to maintain records necessary to explain the information provided in a return or in any document furnished, to enable the accurate determination of the tax payable (Income Tax Act, 1997). For a company the financial statements must be certified by a public accountant. Since existing literature suggests that the quality of information is a function of the extent to which the legal framework requirements are enforced (e.g., Berry & Waring, 1995; Kothari, 2000), we argue that the extent to which the Uganda Revenue Authority enforces/requires keeping of proper accounting records for tax assessment is positively associated with the quality of accounting information of Ugandan SMEs.

The objective of this chapter is to investigate whether there is a significant association between literacy level, external user group pressure from the Ugandan Revenue Authority and quality of accounting information of Ugandan SMEs. This is achieved by surveying 152 SMEs in the district of Kampala, Uganda. Ordinary Least Squares regression is employed to determine any significant association between literacy levels, external user pressure and quality of accounting information whilst controlling for firm size, accounting qualification and firm age.

The chapter makes three important contributions to extant accounting literature. First, our chapter contributes to a limited number of studies that have investigated the influence of literacy on the quality of accounting information provided by SMEs (e.g., Jacobs & Kemp, 2002; UNACTAD, 2000). Although Jacobs and Kemp (2002) found that literacy could explain the absence or presence of accounting information, the study is limited to three SMEs and to simple accounting practices such as jotting down transactions. Our study is more comprehensive in the sense that it covers 152 SMEs and also covers various aspects of quality of accounting information such as relevance, reliability, timeliness and understandability. Second, by investigating the possible influences of individual characteristics such as literacy on the quality of accounting information we partly address the criticism by Fagerberg (1954) who challenges accounting academics to take an interest in accounting at a personal level. Similarly Jacobs and Kemp (2002) suggest that contemporary accounting research has only addressed accounting within an institutional setting ('private corporate', the public and voluntary sectors) to the exclusion of the individual.

A third and final contribution that our study makes is that unlike previous studies that investigated the relationship between company characteristics of large firms in developed countries and quality of

accounting information using secondary data typically obtained from annual reports, we use primary data in the form of a questionnaire survey to survey SMEs in a developing country.

The rest of the chapter proceeds as follows. The next section is literature review and hypotheses development. The third section is the discussion of the research methodology. The penultimate section presents and discusses the results. The final section is the summary and conclusion.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Literacy Level

The conventional principle has been that basic literacy is a necessary precursor to the emergence of book-keeping (Littleton, 1933). However, merely learning how to read and write (basic skills) alone cannot lead to the development of extensive accounting practices hence the need for functional literacy in as far as preparing quality accounting information is concerned (Jacobs & Kemp, 2002; UNACTAD, 2002). According to Clement and Tunji (2007) functional literacy is a form of literacy that is tailored to a particular need. It focuses on the fact that teaching within the context of knowledge and skills will help the people to acquire what will enable them to demonstrate some added proficiency in the performance of their work-related tasks. Papers by different accounting bodies highlight the functional skills that an individual should have to produce quality accounting reports (e.g. American Institute of Certified Public Accountants, 1999; International Federation of Accountants, Education Committee (IFAC), 2003). Some key competences identified are computer skills and possession of accounting knowledge (International Federation of Accountants, Education Committee (IFAC), 1998). Functional competences help in the preparation of accounting information in line with accounting regulations such as the Accounting Standards and Companies Act in enhancing the quality of accounting information. Functional skills enable capturing of complex transactions which would ordinarily not be captured with possession of just basic reading and writing skills. In addition functional competences help many individuals to produce accounting information in a format that is understandable to users, hence improving understandability to the user (Son, Marriot, & Marriot, 2006). Research by Jacobs and Kemp (2002)

found that the presence or absence of accounting information could be explained by literacy/illiteracy. Therefore it can be argued that the quality of accounting information highly depends on the literacy level of the individual. It can, therefore, be hypothesised that:

H_1. Literacy level is positively associated with the quality of accounting information in SMEs.

External User Pressure

SMEs must record and report financial transactions for taxation purposes (Argile's & Slof, 2003; Marriott & Marriott, 2000). In Uganda, incorporated SMEs are required to file accounts with the Registrar of Companies (Companies Act, Cap 110, Laws of Uganda, 2000). This implies that SMEs have to comply with the requirements of external users such as the Uganda Revenue Authority. These external users play an important role in the development of accounting practices. Financial institutions for example are interested in the ability of the borrowing small firm to pay back the loan by assessing the cash flows (UNACTAD, 2002) including forecasts (Berry & Waring, 1995) and therefore put in place conditions that have to be complied with. Some financial institutions for example provide ways of providing or representing financial information which can improve understandability of accounting information (Son et al., 2006). Edvardsson and Enquist (2006) therefore conclude that external user pressure for change exerted by the users can be a major driving force for quality of accounting information improvement.

According to Mizruchi and Fein (1999) firms constantly aim to maintain and increase legitimacy by complying with pressures that arise from their environment. Three types of pressures exist. They are mimetic, normative and coercive pressures (DiMaggio & Powell, 1983). Mimetic pressure arises from uncertainty. In situations when a firm possesses insufficient knowledge to evaluate alternative behaviours, the mere fact that another institution pursues a particular behaviour increases the legitimacy of this behaviour and hence the firm mimics this behaviour (Haveman, 1993). Normative pressure results from norms defined by institutions such as professions and industrial associations. Once a firm has internalized a norm and decision makers identify with the norm, behaviours that comply with norm legitimize the firm (Palmer, Jennings, & Zhou, 1993). Coercive pressure stems from institutions in a firm's environment that are powerful enough to reward or

sanction a firm's behaviour (Guler, Guillen, & Macpherson, 2002). Complying with requests from these institutions enables a firm to benefit from rewards and avoid negative sanctions (Dimaggio & Powell, 1983). Consequently, it can be argued that pressure from external users such as the Uganda Revenue Authority is a special form of coercive pressure (Hu, Hart, & Cooke, 2007). It arises exclusively from the requirements forced upon a firm by Governmental agencies (Braganza & Franken, 2007). SMEs should be highly motivated to comply with regulatory pressures because they aim to avoid the negative sanctions that are associated with non-compliance (Abrahami, 2005). For example, failure by an SME to provide accurate and timely financial information to the Uganda Revenue Authority will result in penalties or fines. An SME may therefore comply to avoid the consequences of non-compliance. It can, therefore, be hypothesised that:

H_2. Pressure from external users (Uganda Revenue Authority) is positively associated with the quality of accounting information in SMEs.

Control Variables

The work of Bartov, Gul, and Tsui (2000) suggest that failure to control for confounding variables could lead to falsely rejecting the hypothesis when in fact it should be accepted. For this reason we control for company size, accounting qualification and age. Company size has consistently been found to be associated with a number of attributes of quality of information such as the extent of disclosure (e.g., Cooke, 1991; Haniffa & Cooke, 2002; Managena & Tauringana, 2007). Firm size is an important determinant of disclosure and accounting policy choice and hence quality of financial statements. Both single-country and multi-country studies have shown that large firms disclose more information than small firms (Gray, Meek, & Roberts, 1995; Hossain, Perera, & Rahman, 1995). It is therefore reasonable to expect that medium-sized firms would disclose more quality financial information than small firms. Another variable that is controlled for in this study is accounting qualification. This is on the basis that a number of studies have documented evidence that suggests that finance experts are associated with accounting information quality (e.g. Mangena & Pike, 2005; Tauringana, Kyeyune, & Opio, 2009). We therefore argue that individuals who have accounting qualification will perceive the information they produce as of higher quality. We also control for firm age following Khan and Watts (2007) since a major criticism of extant research on the quality of

financial information is that it focuses almost exclusively on large, mature organizations as compared to newer and smaller firms. Moreover, firm age has been included in previous studies (Li, Pike, & Haniffa, 2008; Owusu-Ansah, 2005) as explanatory variables of the quality of accounting information. It can, therefore be hypothesised that:

H_3. Firm size is positively associated with the quality of accounting information in SMEs.

H_4. Accounting qualification is positively associated with the quality of accounting information in SMEs.

H_5. Firm age is positively associated with the quality of accounting information in SMEs.

RESEARCH METHODOLOGY

Sample

To achieve the objectives of the research, the population for the study was 250 SMEs which were registered with Kampala City Traders Association as on 31 December 2007. A sample of 152 SMEs was generated in line with Krejcie and Morgan's (1970) table guide for sample selection and surveyed through a postal questionnaire. Purposive sampling was used because we wanted SMEs whose accounting information was used externally by the Uganda Revenue Authority. The SMEs were defined according to the Uganda Investment Authority Small and Medium Enterprise Business Guide of 2008; firms employing up to 50 employees being defined as small and firms employing above 50 but not more than 250 employees being defined as medium firms. After three follow-on requests to those SMESs that had not responded, 98 responses had been received making a response rate of 64% which is quite high compared to most previous postal questionnaire surveys.

Questionnaire

The questionnaire which was used as a survey instrument consists of four sections: background information, quality of accounting information, literacy level and external pressure from Uganda Revenue Authority. The background information asked respondents to indicate how long the SME

had been in business, whether the respondent had an accounting qualification and the size of the SME in terms of number of employees (see Appendix). A five-point Likert scale to indicate the extent of agreement or disagreement with each of the statements ranging from 1 (strongly disagree) to 5 (strongly agree) was used to assess quality of accounting information, literacy level and pressure from the Uganda Revenue Authority. To ensure reliability of the instrument the Cronbach alpha test was performed. The Cronbach coefficient was above 0.7 and therefore the questions were reliable (Nunnally, 1978).

The Model

Regression analysis was employed to determine the predictive strength of the relationship between dependent and independent variables. In particular, the following regression model was tested:

$$\mathrm{QUAI} = \beta_0 + \beta_1 \mathrm{OLITE} + \beta_2 \mathrm{EXUP} + \beta_3 \mathrm{SIZE} + \beta_4 \mathrm{ACCQ} + \beta_5 \mathrm{FAGE} + \varepsilon_j$$

where the dependent variable, QUAI, is the average score of the 16 questions on the perceived quality of accounting information measured on a five-point Likert scale of 1–5 ranging from strongly disagree (1) to strongly agree (5). β_0 is the intercept, e_j the residual and the independent variables β_1 to β_5 are defined in Table 1.

Table 1. Description of Independent Variables.

Symbol	Variable Description	Acronym/ Expected Sign
β_1	Average score of the questions on literacy levels measured on a five-point Likert scale of 1–5 ranging from strongly disagree (1) to strongly agree (5).	LITE (−/+)
β_2	Average score of the questions on perceived pressure from the Uganda Revenue Authority measured on a five-point Likert scale of 1–5 ranging from strongly disagree (1) to strongly agree (5).	EXUP (+)
β_3	A dummy variable coded 1 if the firm is medium sized (i.e. more than 50 employees); 0 otherwise.	SIZE (+)
β_4	A dummy variable coded 1 if the respondent had pursued education leading to an accounting qualification; 0 otherwise.	ACCQ (+)
β_5	A dummy variable coded 1 if the firm had been trading for ten years or over; 0 otherwise.	FAGE (+)

RESULTS AND DISCUSSION

Descriptive Statistics

The descriptive statistics for dependent and independent variables included in the analyses are presented in Table 2. The statistics show that the mean rating for the dependent variable (quality of accounting information) (QUAI) is 3.6696 with a minimum of 1.67 and maximum of 5. The statistics for the independent variables show that the mean literacy is 3.5816 with a standard deviation of 1.1242.

The minimum and maximum for the external user pressure (EXUP) is 1 and 5 respectively. The minimum of 1 suggests that the Uganda Revenue Authority is viewed by some SMEs as having very little influence. The rest of the independent variables (SIZE, ACCQ and FAGE) are all measured dichotomously hence the minimum of 0 and a maximum of 1 as defined in Table 1. However, the data showed that in terms of size, 10 and 88 firms were classified as medium and small respectively. In respect of the accounting qualification, 78 respondents had not pursued education leading to an accounting qualification compared to 20 who had an accounting qualification. Finally, 82 firms had been trading for less than 10 years and therefore classified as 'youn' whilst 16 had been in business for 10 years or more and therefore classified as 'old'.

Correlation Analysis

The correlation analysis results of the relationship between quality of accounting information and the independent variables (literacy level,

Table 2. Descriptive Statistics for Dependent and Independent Variables.

Variable	Obs.	Mean	Std. Dev.	Min	Max
QUAI	98	3.6696	0.7572	1.67	5.00
LITE	98	3.5816	1.1242	1.29	5.00
EXUP	98	2.9286	1.5077	1.00	5.00
SIZE	98	0.8980	0.3043	0.00	1.00
ACCQ	98	0.2041	0.4051	0.00	1.00
FAGE	98	0.8265	0.3806	0.00	1.00

Table 3. Pearson Correlations Between the Dependent and Independent Variables (N = 98).

Variable	QUAI	LITE	EXUP	SIZE	ACCQ	FAGE
QUAI	1					
LITE	0.538**	1				
EXUP	0.531**	0.543**	1			
SIZE	−0.167	−0.273**	−0.196	1		
ACCQ	0.454**	0.484**	0.328**	−0.331**	1	
FAGE	0.284**	0.173	0.104	0.113	0.031	1

**Correlations significant at the 0.01 level (2-tailed).

external user pressure, size, accounting qualification and firm age) are presented in Table 3. The results show that the quality of accounting information is significantly positively related with literacy levels, external user pressure, accounting qualification and firm age. The results indicate that the highest correlation among the independent variables is between the literacy level (LITE) and external user pressure at 0.543 and LITE and accounting qualification (ACCQ) which is 0.484. The relatively low correlation suggests that multi-collinearity problems, which arise when there is a strong correlation between two or more predictors in a regression model, are unlikely.

High levels of collinearity (0.8 or 0.9) according to Field (2000) increase the probability that a good predictor of the outcome will be found to be insignificant and rejected from the model. As Table 3 indicates, there seems to be no serious problem of multi-collinearity with the data.

Results of Multiple Regression Analysis

Our multiple regression results of the relationship between the perceived quality of accounting information and the five independent variables (literacy, external user-pressure, size, accounting qualification and firm age) are presented in Table 4. The results indicate that the total variation in the quality of accounting information explained by the five independent variables is 42%. In particular, the results show that literacy (LITE), external user-pressure (EXUP), accounting qualification (ACCQ) and firm age (FAGE) are all significant explanatory variables of the perceived quality of accounting information. However, firm size is not a significant predictor of the quality of accounting information. The result relating to literacy

Table 4. Multiple Regression Results.

Number of obs = 98; $F = 15.062$; Prob. > 0.000; $R^2 = 0.450$; Adj. R^2 .420; MSE = .57654; Durbin Watson = 1.945

Source	SS	df	MS
Model	25.034	5	5.007
Residual	30.581	92	0.332
Total	55.615	97	

QUAI	Coef.	SE	*t*-value	Sig.	95% Con. Interval		VIF
					Lower bound	Upper bound	
(Constant)	2.229	0.311	7.174	0.000	1.612	2.846	
LITE	0.146	0.069	2.135	0.035	0.010	0.282	1.732
EXUP	0.158	0.046	3.396	0.001	0.066	0.250	1.432
SIZE	0.028	0.209	0.134	0.894	−0.387	0.442	1.176
ACCQ	0.454	0.170	2.666	0.009	0.116	0.793	1.392
FAGE	0.407	0.159	2.568	0.012	0.092	0.722	1.062
Mean VIF							1.3588

which indicates a positive association with the perceived quality of accounting at the 5% level of significance means that our first hypothesis (H_1) which predicts a positive relationship between literacy level and quality of accounting information is supported. This result is consistent with the suggestion that more literate individuals tend to view the accounting information as being of higher quality than those individuals within the SMEs that are less literate. These results are also consistent with the findings by Jacobs and Kemp (2002) who found a relationship between literacy and quality of accounting information.

The results of the external user-pressure also suggest that this variable is significantly associated with the quality of accounting information hence supporting the second hypothesis (H_2). The significance of the relationship at the 5% level suggests that the pressure from the Uganda Revenue Authority is perceived as having a positive impact on influencing the quality of accounting information produced by the SMEs. This is consistent with Gray and Roberts (1989) in the UK who found that taxation authorities had some influence, on the extent of disclosure of information in annual reports. However, this finding tends to contradict the suggestion by Jacobs and Kemp (2002) who argue that institutional and associated pressures on provision of accounting information do not necessarily operate in all societies particularly in countries that are poor, less literate and less urban

than the UK. The finding is also contrary to the conclusion by the World Bank (2005) report that noted that the role of financial statements in tax collection is minimal and that there is no requirement to submit a complete set of financial statements to Uganda Revenue Authority. The finding clearly shows that the respondents from the SMEs perceive the Uganda Revenue Authority as having a major influence on the quality of accounting information.

In terms of our control variables, the results suggest that accounting qualification and firm age are also significant explanatory variables of the perceived quality of accounting information. The results mean that our hypotheses four (H_4) and five (H_5) are confirmed respectively. The finding that those with some accounting qualification perceive the information they produce as of higher quality is consistent with similar research on audit committees and accounting quality (e.g., Abbott, Park, & Parker, 2000; Defond, Hann, & Hu, 2005; Klein, 2002; Lin, Li, & Yang, 2006 and Mangena & Pike, 2005; Tauringana et al., 2009). The finding that firm age is associated with the quality of accounting information is also consistent with previous studies which found a positive association when quality of information was measured in terms of timeliness (e.g. Owusu-Ansah, 2000) and disclosure (Owusu-Ansah, 2005). The result of the relationship between firm size and quality of accounting information, however, shows that there is no significant relationship although the relationship is in the predicted direction. This is in contrast to a number of studies that have used annual report data that found significant positive associations. A possible explanation is that this study surveyed perceptions whilst the previous studies are based on regression of secondary data.

SUMMARY AND CONCLUSIONS

The objective of this chapter was to investigate whether literacy level and external user-pressure (Uganda Revenue Authority) affects the quality of SME accounting information. We surveyed 98 SMEs using a postal questionnaire that required them to indicate on a five-point Likert scale the extent of their agreement with a number of questions relating to literacy levels, external user-pressure (Uganda Revenue Authority) and quality of financial information produced by them. We put forward and tested two main hypotheses relating to the question of whether SME literacy level and external user-pressure were important for the quality of financial information produced by SMEs. In our model we controlled for firm size,

accounting qualification and firm age. The results obtained through regression analysis show a significant and positive association between literacy level, external user pressure and quality of financial information. The results of the control variables indicate that accounting qualification and firm age are significantly associated with the quality of accounting information. However, firm size is not. Thus the overall conclusion is that literacy and external user pressure positively affect the quality of accounting information produced by SMEs.

We believe that our study makes an important contribution to extant literature in that it adds to the evidence on the influence of literacy levels on the quality of accounting information (e.g. Jacobs & Kemp, 2002). Our study also provides evidence of the influence of an external user group (Uganda Revenue Authority) on quality of information produced by SMEs in developing countries.

The contributions should be interpreted in the light of the following limitations. First, our study is cross-sectional rather than over a period. It is possible that the views expressed may change over time with changing literacy levels. Second, our study uses a postal questionnaire which might have been misinterpreted by some respondents especially given their literacy levels. Finally, we did not undertake follow-up face-to-face interviews which could have informed us why certain respondents answered questions the way they did.

Despite these limitations we believe that our study has important policy implications which are as follows. First, we recommend that the government commits resources to improve accounting functional literacy of SMEs accounting staff as well as educating them on the importance of accounting information. Second, we also recommend that the Uganda Revenue Authority provides more incentives to SMEs to have reliable accounting systems in place. This is because poor book-keeping means that the Uganda Revenue Authority has no reliable basis upon which to collect taxes. Poor record keeping also means that SMEs themselves are unable to evaluate their own financial situation, or demonstrate financial viability.

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APPENDIX: QUESTIONNAIRE

Dear respondent,

This questionnaire is intended to collect information on the quality of accounting information, literacy level, external user pressure from the Uganda Revenue Authority. The information provided is purely for academic purposes and will be treated with utmost confidentiality. In order to accomplish this study, you are kindly requested to complete this questionnaire. Your kind cooperation is highly appreciated.

Section A: Background Information

Please tick the appropriate box as appropriate

1. For how long have you been in business?

   (a) 1–3 years ☐ (b) 4–6 years ☐ (c) 7–9 years ☐
   (d) 10–12 years ☐ (e) Above 13 years ☐.

2. I have pursued an education leading to a qualification in an accounting field e.g. Certificate, Diploma, Business Administration, ACCA

   (a) Yes ☐ (b) No ☐

3. Size of the business in terms of number of employees.

   (a) Below 5 ☐ (b) 5–19 ☐ (c) 20–34 ☐ (d) 35–50 ☐
   (e) 51–68 ☐ (f) 69–84 ☐ (g) 85–100 ☐ (h) Above 100 ☐

Section B: Quality of Accounting Information

For each of the following statements please indicate by ticking the appropriate box to indicate the extent to which you agree with the following statements:

1: Strongly Disagree, 2: Disagree, 3: Uncertain, 4: Agree, 5: Strongly Agree.

	QUALITY OF ACCOUNTING INFORMATION	1	2	3	4	5
	Relevance of accounting information					
1	Accounting information in the books of account is vital in tax assessment, accessing credit and making other financial decisions.					
2	Information in the books of account is used in predicting future incomes.					
3	Accounting information is used in predicting expenses.					
4	Accounting information assists in making decisions about the allocation of resources.					
5	We use accounting information to confirm outcomes of planned activities.					
	Reliability					
6	All daily transactions that take place are recorded in this enterprise.					
7	There is no bias in the presentation of financial information.					
8	Incomes and expenditures are not under or overstated.					
9	There is faithful representation of incomes and expenditures of this business.					

	QUALITY OF ACCOUNTING INFORMATION	1	2	3	4	5
10	The accounting information is free from systematic or deliberate misstatements.					
11	The accounting information is free from material errors.					
	Timeliness					
12	Financial information is always available on time when needed internally and externally for decision making.					
13	Financial information is always available on time for external users					
14	Timely reporting does not compromise the presentation of accounting information.					
15	There are no undue delays in the presentation of accounting information.					
16	Decision making can be delayed because financial information is not available.					
	Understandability.					
17	Information is presented in such a way that sources and levels of income can be understood.					
18	Information is presented in such a way that expenditure items and levels are easily understood.					
19	Information is presented in such a way that you can understand the cash inflows and outflows of the business.					

Section C: Literacy Level

For each of the following statements please indicate by ticking the appropriate box to indicate the extent to which you agree with the following statements:

1: Strongly Disagree, 2: Disagree, 3: Uncertain, 4: Agree, 5: Strongly Agree.

	Literacy Level	1	2	3	4	5
1	I can write proficiently.					
2	I can read proficiently.					
3	I have had adequate short-term training in seminars/workshops/conference of what and how books of account are maintained.					
4	I know that transactions are classified and recorded in different books for example cash transactions, credit sales, credit purchases are recorded in separate books.					
5	I know that details such as the description, amount received and date are important to be captured for every transaction that occurs.					
6	I know that transactions of the owners are not mixed with the transactions of the business.					
7	I do not consider personal expenses to be business expenses for example payment of fees is not deducted from the business profit.					
8	I have been properly trained to prepare timely information for example through use of computers.					

Section D: External Pressure from Uganda Revenue Authority

For each of the following statements please indicate by ticking the appropriate box to indicate the extent to which you agree with the following statements:

1: Strongly Disagree, 2: Disagree, 3: Uncertain, 4: Agree, 5: Strongly Agree.

	EXTERNAL PRESSURE FROM URA	1	2	3	4	5
	Stringency of compliance conditions.					
1	Taxation authorities require that a record of every transaction that takes place is kept.					
2	Taxation authorities require that financial information is provided on time for tax assessment or else penalties are incurred.					
3	Taxation authorities require accounting information that is reliable or else penalties are incurred.					
4	Tax authorities at all times base on accounting information (profits or turnover) to charge the tax liability.					
5	Tax authorities do not use the accounting information to determine the tax liability but use their own estimations.					
6	Tax authorities provide methods or ways of reporting accounting information.					
7	The tax authorities always stress their information needs and requirements to tax payers.					
8	I maintain accounting information because it will be used by tax authorities in assessing tax.					

	EXTERNAL PRESSURE FROM URA	1	2	3	4	5
	Monitoring by the tax authorities.					
9	The tax authorities carry out tax audits to verify the tax liability.					
10	Tax authorities carry out random control visits and check the accounting records.					
11	Tax authorities make comparisons of businesses of the same size to ensure that tax liability is comparable.					
12	Where self-assessment is made, URA goes ahead to verify that the information provided by the tax payer is reliable.					