ISSN 2520-6303

Economics, Management and Sustainability

journal home page: https://jems.sciview.net

Macharia, M. W., & Ronald, M. O. (2023). Analysing the influence of accounting conventions on the financial performance of commercial banks in Kenya. *Economics, Management and Sustainability*, *8*(2), 32-43. doi:10.14254/jems.2023.8-2.3.

Scientific Platform

Analysing the influence of accounting conventions on the financial performance of commercial banks in Kenya

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OPEN ACCESS

Article history:
Received: January 11, 2023
1st Revision: August 22, 2023
Accepted: October 19, 2023

JEL classification:
G21
H83
M41

DOI:
10.14254/jems.2023.8-2.3

Abstract: The collapse of some commercial banks in Kenya in the recent past has raised the question of the credibility of financial information as a tool for investors to make informed decisions. The study sought to analyse the disclosure practices of accounting conventions on the financial performance of commercial banks in Kenya. The following specific objectives guided the study: to establish the influence of the disclosure, consistency, prudence and materiality of financial reports on the performance of commercial banks in Kenya. A cross-sectional survey was adopted. The target population was 42 respondents who formed the sample size by the census method. The data was collected through questionnaires, secondary data and annual reports and analysed quantitatively and qualitatively. Quantitative data was analysed using descriptive statistics and inferential statistics. The finding shows a moderate positive relationship between disclosure and the performance of commercial banks. The relationship is significant ($r = 0.322$, $p>0.01$). The result shows a moderate positive relationship between consistency and performance of commercial banks. The relationship is significant ($r = 0.369$, $p>0.01$). The results also show a moderate positive relationship between prudence and the performance of commercial banks at a significance of ($r=0.500$, $p>0.01$). On establishing the relationship between materiality and performance of commercial banks, it was found there is a moderate positive relationship with a significance of ($r = 0.317$, $p>0.01$).

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Respondents indicated that the consistency of financial reports has little effect on the net profit of commercial banks. Respondents indicated that prudence of financial reports leads to better organisational performance. The materiality of financial reports affects organisation performance. Prudence in financial reporting affected the decision-making among the investors in the banking industry. The study recommends that commercial banks' management ensure transparency, honesty, consistency and reliability during financial reporting.

Keywords: accounting conventions, financial performance, disclosure consistency, prudential and materiality

1. Introduction

An accounting convention is a common practice used as a guide when registering a business accounting transaction. They aid accountants in the preparation of financial statements of an entity with fewer problems. Accounting conventions are a necessary part of the accounting profession, as they involve registering transactions similarly in different organisations (Borio & Drehmann, 2009).

The International Accounting Standards Board focuses on developing a global accounting standard that replaces local standards. It harmonises variations in financial reports because of the diversity of legal systems, business structures, and tax systems and encourages cross-border transactions that improve data comparability. This enables users of financial reports to compare financial reports of different companies and assist in making informed decisions (Adeuja, 2015). Fraudulent accounting practices discredit financial reports and reduce the confidence of investors, depositors, lenders and bank regulators (Fridson & Alvarez, 2011).

Kenya's adoption of the International Financial Reporting Standards has been in phases; however, IFRS remain a standard with a framework of high-quality accounting information.

Kenya adopted the IFRS, which was later called International Accounting Standards (IAS), in 1999 through a resolution of the Board of the Institute of Certified Public Accountants of Kenya (ICPAK), the accounting institution with a legal mandate in Kenya (Oluoch, 2014).

On 228th February 2014, the Secretary of the National Treasury, by the Public Finance Administration Act, made appointments to the public sector general accounting committee. 2In 2accordance 2with 2the 2law, the functions of the board of directors are to give frameworks and establish acceptable standards for the development and management of accounting and financial systems by all state bodies and public bodies, standards that take into account any relevant factor, including best international accounting practices and the ability of the relevant entity to comply with the measures. The internal advantages of complying with accounting standards are essential. The key is the most reliable financial information that promotes better decision-making and accountability (Ismail & Rahman, 2011).

In Kenya, the most critical case of inaccuracies in the financial statements was that of CMC Motors. The management of CMC Motors and the board of directors opened secret accounts abroad in which they sent money from the company without disclosure (Matundura, 2014). Accurate financial reporting allows prudent financial management decisions, such as investment decisions, working capital management, capital structure decisions, dividend decisions and capital budget decisions.

In Kenya, there are 42 commercial banks. Thirty are locally owned, while 12 are foreign-owned. Shareholders publicly own three locally owned banks, while twenty-seven are private. Nine foreign-owned banks are locally established. In addition to the forty-two financial institutions, there are seven representative offices of foreign banks (CBK, 2016). They provide financial services to investors by providing loans and a means to transact business and enabling a business environment that helps the economy's growth. They provide access to finance and other activities, including leadership development, education entrepreneurship, agriculture, health, innovation, environmental sustainability, business development, humanitarian intervention, business ethics, community development, corporate governance, and job-related issues (Oluoch, 2014).

In January 2018, Kenyan banks introduced IFRS 9; it is expected that IFRS 9 will significantly change the accounting treatment of financial reports since they show the financial activity of an entity. International Financial Reporting Standard (IFRS) 9 replaced International Accounting

Standard (IAS) 39. It helps increase the required disclosure levels and is linked to companies in the financial markets and the legal approach to corporate transactions and taxes. Introducing IFRS 9 at the universal level helps combat international tax evasion by multinational companies. Bankers feared that the new accounting model would further slow down private sector credit growth, which fell from 17% in December 2015 to a low of 1.7% in August 2016.

2. The problem

Worldwide voluntary disclosure of annual and other reports has been among the fastest-growing research sectors in accounting and finance. In Kenya, the banking sector lost three commercial banks within a short period, namely the Dubai Bank, Imperial Bank and Chase Bank, which had reported healthy financial results (CBK, 2016). In the 1990s, another wave of collapsed banks: Trust Bank, Prudential Bank, Union Bank etc. The collapse of these large banking institutions in Kenya highlights weaknesses in financial reporting practices, which have not been sufficient to protect investors from losses. Susan, Chepng'eno and Joel (2017) stressed that several Kenyan banks have recently failed and that the certified statements of finance do not show early signals of these failures. The public is concerned about the credibility of these reports.

The performance of the banking sector in Kenya is critical as the sector contributes to the country's economic growth by providing investors with funds to obtain loans and financial deepening in the country.

Accounting conventions are rarely disclosed in the financial 2statements 2because they are generally 2accepted 2in 2periodic 2preparation 2and 2presentation 2of 2financial statements. If fundamental concepts and conventions are not followed in preparing and presenting financial statements, problems arise in financial statements' analysis, interpretation and reporting. Material facts, if not included, will mislead investors and other stakeholders. Therefore, it is essential to understand that the interpretation and meaningful analysis of financial statements that these basic concepts, hypotheses, principles and conventions used in the preparation must be constantly considered (Gunes & Atilgan, 2016).

3. Research objectives

The following research objectives guided this study:

i. To establish the influence of disclosure of financial reports on performance of commercial banks in Kenya.
ii. To assess the influence of consistency of financial reports on performance of commercial banks in Kenya.
iii. To assess the influence of prudence of financial reports on performance of commercial banks in Kenya.
iv. To establish the influence of the materiality of financial reports on the performance of commercial banks in Kenya.

4. Significance of the study

The study findings will be significant to the Kenya commercial banks' management, particularly finance and accounting managers. The study findings will be necessary to stakeholders as financial reports provide information to investors, promoters, debt suppliers and creditors to form rational and prudent decisions concerning investments, credit etc.

The findings will also be significant to policymakers in the banking sectors, including CBK, the treasury, the Ministry of Finance and the Capital Market Authority. The institutions will make policies to strengthen financial reporting in Kenyan commercial banks.

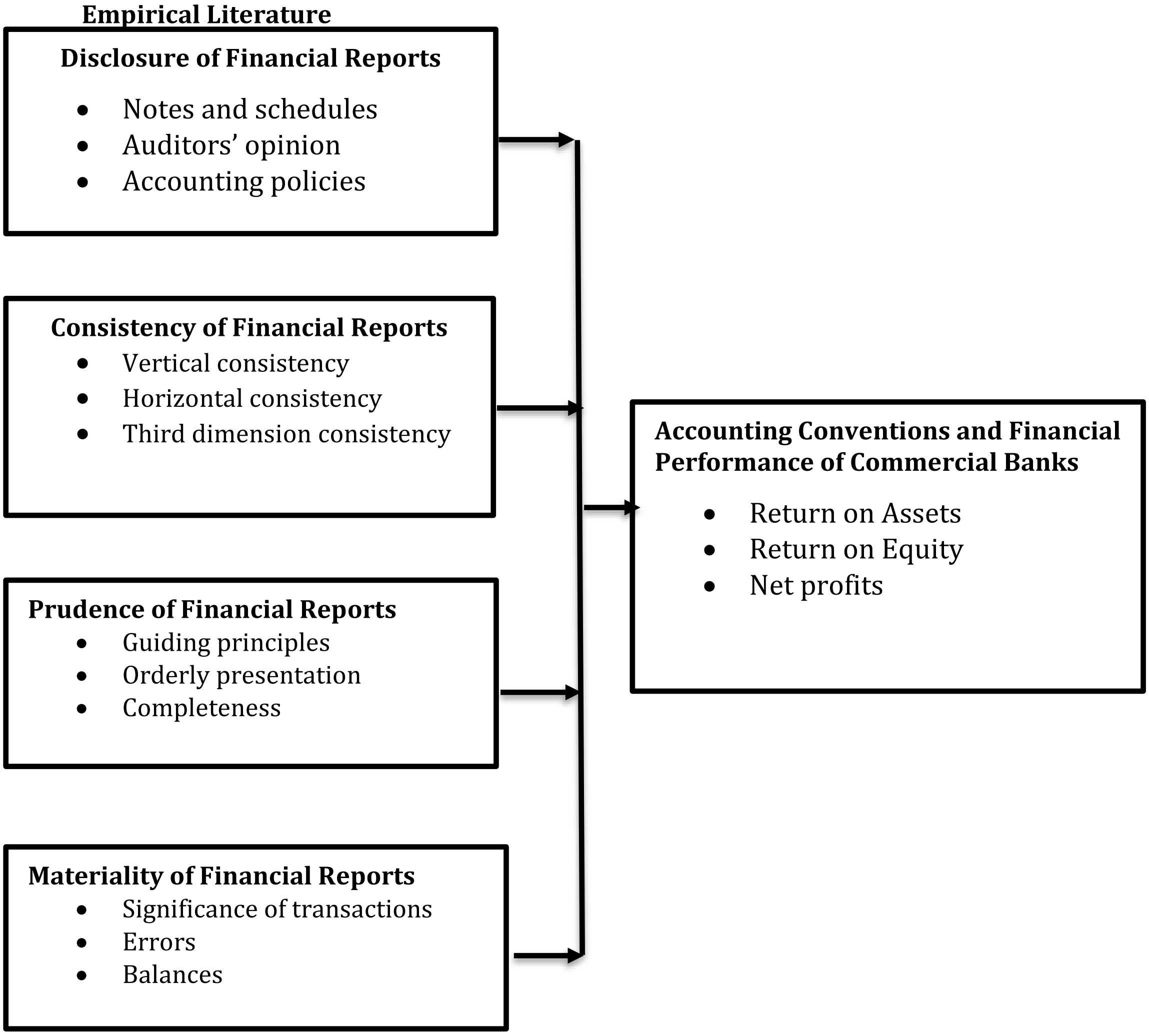
5. Literature review

The study was based on two theories: the theory base of accounting and Modern Financial Reporting Theory. *The theory base of accounting is Generally Accepted Accounting Principles (GAAP),* which consists of principles, concepts, guidelines and rules developed over time to bring uniformity and consistency to the accounting process and enhance its usage by different users of accounting information. Gaffikin (2003) authored the theory. The accounting information must be reliable, relevant and comparable for practical use in decision-making by stakeholders. The financial information is most effective if there is uniformity in accounting rules and rules that various firms follow (Richard, Myrtle & Jack, 2011). The theory base of accounting includes ideas, standards, regulations and hints that evolved 2to carry uniformity and consistency to the accounting procedure and enhance its utility to exclusive customers of accounting facts.

Modern Financial Reporting Theory explains the content of the financial statement in clear language, specifically for the student of accounting and finance. The theory was authored by Brian A. Rutherford in 1999. The new framework helps to explain why and how financial reporting is carried out. It explains why financial statements are prepared in the way they are done and why accounting standards specify the use of one method rather than another, how these specified methods relate to each other and show how the practice has developed and will continue to develop.

Figure 1: Conceptual Framework

Empirical Literature



Source: Researcher (2019)

Disclosure of financial reports

Financial statement disclosures provide essential information to stakeholders regarding an organisation's economic operations. They help stakeholders understand the fundamental details of the financial statements. It is a requirement under the accounting principles. Disclosure in financial reports includes preparing notes and schedules to support the accounting reports, having an auditor's opinion showing if proper books of accounts were maintained and if they represent accurate and fair values and accounting policies used (Gunes & Atilgan, 2016).

Consistency of financial reports

The consistency principle states that when a business adopts an accounting principle or approach, the same should be used in future accounting periods for comparability purposes. Auditors require the customers to follow consistency so that financial reports are comparable from one period to another. The auditors can refuse to give an opinion on the purchaser's economic statement due to violations. Consistency of financial reports includes following vertical consistency, horizontal consistency and third-dimension consistency in preparing the financial reports (Mohammadi, 2014).

Prudence of financial reports

The firm needs to be conservative in indicating the assets value without underestimating the liabilities and making provisions for bad debts. The result ought to be conservatively stated on the financial statements. Prudence is manifested both within the recognition and assessment process of the elements that form the monetary statements and the records presentation and disclosure process. An inclined point is represented by way of the impairment of property. The prudence of financial reports includes following the guiding principles, having an orderly presentation and ensuring completeness of reports (Fridson & Alvarez, 2011).

Materiality of financial reports

Items in the financial statement become material if they might affect users' financial choices. Universally, the materiality concept is the conventional accounting principle that reporting firms must disclose all such topics. Materiality is essential for users of financial statements. Financial reporting standards (IFRS) presume that IFRS compliance results in presenting accurate and fair financial performances and entity of cash flow. The materiality of financial reports includes having the significance of transactions, correcting errors and checking on balances (Bhatti & Hussain, 2010).

Financial performance

Financial performance shows how well a business is using its resources to generate income. According to Aduda (2011), organisational performance covers areas of business results such as financial performance (Profits, return on assets, return on investments etc.); market product performance (market share, sales, etc.); and shareholder performance (return of shareholder, aggregate economic values, etc.). The financial performance of commercial banks includes returns on assets, equity, and net profits.

Susan et al. (2017) studied the effect of the materiality of monetary reviews on the performance of commercial banks in Kenya. Based on the results, the study concluded that materiality affects the financial performance of industrial banks. The study recommends that the control of business banks in Kenya adopt powerful materiality practices consisting of internal audit, independence of internal audit, expert competence and internal controls to improve the banks overall financial performance. The study has not shown clearly the measures implemented by commercial banks to ensure materiality in financial relations, which leaves a significant gap.

6. Methodology

Research design

The study adopted a cross-sectional survey research design. This study analysed the data from the population, or the representative subset, at a specific time, i.e. transversal data. Zikmund (2010) argues that cross-sectional studies typically involve using transverse regression to classify the existence and magnitude of the fundamental effect of one or more independent variables on the dependent variable of interest at a given time. Therefore, the researcher believes it is ideal since the researcher collected data from Kenyan commercial banks.

Target population

There are 42 commercial banks in Kenya. The population that was used in the study is the financial managers of each of the 42 commercial banks. The target population was appropriate since financial managers know the influence of accounting conventions on the financial performance of Commercial banks in Kenya.

Sampling procedure and sample size

According to Emmel (2013), the sampling design refers to the part of the research plan that indicates how cases should be selected for observation. The research study adopted a census, given that the population is small. The entire population formed the sample size because the sample was too small, so the census was used. According to Emmel (2013), we use the census when the sample size is less than 84 respondents. The sample size was 84 respondents.

Research instruments

The questionnaires were used in collecting information from the forty-two financial managers from the forty-two commercial banks in Kenya. Questions to be asked were five on the Likert scale, giving the interviewee freedom of response. The questionnaires were self-administered, which the interviewees were asked to complete. Data collection forms were used to collect data on financial performance indicators.

Secondary data was collected by examining published literature, such as journal articles, published theses, textbooks, extracts from interviews and comments. The study used secondary data from the library records. These sources were examined to give an idea in the search for primary information. They offered information on the selection of variables, the development of tools and the discussion of results.

Piloting of research instruments

The pilot study was carried out to measure the reliability and validity of tools used in data collection before the primary survey. Zikmund (2010) refers to a small-scale preliminary pilot study before the main study.

7. Findings and discussions

80 respondents out of 84 questionnaires filled out and returned the questionnaires, representing 95% of the response rate. This showed a good response.

Working Experience

The findings on the respondents' work experience in the bank are presented in the table below.

Table 1: Working experience

Category	Frequency	Percentage
Below 1 year	11	**14**
1-5 years	22	**28**
6-10 years	22	**28**
11-20 years	16	**20**
21 years and above	9	**10**
Total	**80**	**100**

Source: Field Data (2019)

The study enquired about the respondents' views regarding the influence of the disclosure of financial reports on the performance of commercial banks in Kenya.

Table 2: Disclosure

Disclosure	Mean	SD
Disclosure affects the performance of commercial banks	3.1750	1.16679
The majority of banks are transparent and honest in disclosure and presentation of financial statements	3.0875	1.16046
The presentation of accounting information is uniform with other institutions which had adopted IFRSs	4.2750	0.88554
IFRSs (policies) have improved the presentation of financial statements and related disclosures	3.1625	1.25732
There is a need for notes and schedules on disclosure of accounting information	4.2750	0.88554
Transparency, reliability and auditors' opinion of financial statements was related to accounting standards	3.0375	1.11881

Source: Field Data (2019)

On whether disclosure affects the performance of commercial banks was indicated by (M=3.1750, SD=1.16679), the majority of banks are transparent and honest in disclosure and presentation of financial statements as evidenced by (M=3.0875, SD=1.16046). Respondents indicated that the presentation of accounting information is uniform with other institutions which had adopted IFRSs as indicated by (M=4.2750, SD=0.88554). IFRSs have improved the presentation of financial statements and related disclosures, as shown by (M=3.1625, SD=1.25732). Respondents believed there is a need for notes and schedules on the disclosure of accounting information as indicated by (M=4.2750, SD=0. 88554). Transparency, reliability and auditors' opinions of financial statements were related to accounting standards as indicated by (M=3.0375, SD=1.11881). The findings agree with Umoren & Enang (2015), who argued the disclosure of facts by the banks and an examination of the relationships between facts practice and the commercial stability of banks. The findings agree with Mubarak (2012), who argued that effects on the banks' financial performance improve the level of transparency and reduce the asymmetry of the information and capital costs, so regulators should promote the level of transparency and disclosure.

Table 3: Consistency

Consistency	Mean	SD
Consistency of financial reports affects the net profit of commercial banks	2.8125	1.29355
Vertical consistency of financial reports affects the return on assets of commercial banks	4.2750	0.88554
Consistency of financial reports affects the return on equity of commercial banks	3.5250	1.44936
Horizontal consistency in Reporting affects the financial performance of companies	3.3375	1.34017
There is a need to strengthen internal audit committees to be able to check on the bank's top management	3.3375	1.34017

Source: Field Data (2019)

The study sought the respondents' views regarding the influence of the consistency of financial reports on the financial performance of commercial banks in Kenya. The results were as indicated in the table above.

Respondents indicated that the consistency of financial reports has little effect on the net profit of commercial banks, as indicated by (M=2.8125, SD=1.29355). Vertical consistency of financial reports affects the financial performance of commercial banks, as shown by (M=4.2750, SD=0.88554). Consistency of financial reports affects the return on equity of commercial banks as evidenced by (M=3.5250, SD=1.44936). Respondents indicated that horizontal consistency in reporting affected the financial performance of commercial banks, as shown by (M=3.3375, SD=1.34017). There is a need to strengthen internal audit committees to check on the bank's top management, as evidenced by (M=3.3375, SD=1.34017). The study findings agree with Gunes and Atilgan (2016), who argued that the quality of the financial reports generated was the most important metric in how computerised accounting affects the accuracy of financial statements.

Table 4: Prudence

Prudence	Mean	SD
Prudence of financial reports lead to better organisation performance	4.2750	0.88554
Prudence requires the information presented in financial reports to be concise, complete and clear in presentation	4.2875	0.73250
Prudence of financial statement has benefits on investors and analysts.	3.5500	1.33975
Prudence in financial reporting increases confidence among investors	3.3375	1.34017
Prudence of the information contained in financial statements is essential for its relevance to the users	3.4750	1.36850

Source: Field Data (2019)

The study enquired about the respondents' views regarding the influence of the prudence of financial reports on the performance of commercial banks in Kenya. Respondents indicated that prudence of financial reports leads to better organisational performance as evidenced by (M=4.2750, SD=0.88554). Prudence requires the information presented in financial reports to be concise, complete and clear in a presentation shown by (M=4.2875, SD=0.73250). Respondents indicated that prudence in financial reporting increases confidence among investors; this was evidenced by (M=3.3375, SD=1.34017). Respondents indicated that prudence of the information recorded in financial statements is essential for its relevance to the users, as shown by (M=3.4750, SD=1.36850).

The findings agree with Bhatti & Hussain (2010), who argued that accounting prudence rules the financial indicators relating to the overall performance of the Jordanian insurance groups represented in the performance of the assets, Earnings Per Share (EPS) and the unit's market price. The study findings also agree with Fridson & Alvarez, (2011) who argued that this mechanism's dimensions, composition and structure on the relationship among accounting prudence increases an organisation's overall performance.

Table 4: Materiality

Materiality	Mean	SD
The materiality of financial reports affects organisational performance	3.5500	1.33975
Financial statements of one entity must adhere to the correction of accounting errors to enhance financial performance	3.4750	1.26266
Materiality is a secondary aspect of the understandability of financial reports	3.3375	1.13566
Banks need to adopt accounting policies that best reflect the existing industry practice	3.5375	1.24213
Materiality of financial reports should ensure checking on balances to improve financial performance	4.2750	0.88554

Source: Field Data (2019)

The materiality of financial reports affects organisation performance as indicated by (M=3.5500, SD=1.33975). Respondents thought that the financial statements of one entity must adhere to the correction of accounting errors to enhance financial performance, as shown by (M=3.4750, SD=1.26266). Materiality is a secondary aspect of the understandability of financial reports, as shown by (M=3.3375, SD=1.13566). Respondents thought Banks need to adopt accounting policies that best reflect the existing industry practice as evidenced by (M=3.5375, SD=1.24213). Banks need to adopt accounting policies which best reflect the existing industry practice. Banks must adopt accounting policies that best reflect the existing industry practice as shown by (M=4.2750, SD=0. 88554). The study findings agree with Fridson & Alvarez (2011), who argued that independence of internal audit, specifically accessibility of information, the reporting structure, qualification of internal auditors and the roles of internal auditors improve SMEs performance.

Table 1: Performance

Performance	Mean	SD
Adoption of IFRS has improved bank's transparency presentation of financial statements in the bank	4.3500	0.57589
Adoption of IFRS has led to increased bank's investment among commercial banks	4.2750	0.88554
Adoption of IFRS has improved bank's reporting on asset quality	4.3125	0.75630
Adoption of IFRS has improved bank's liquidity management	4.2875	0.73250
Adoption of IFRS has improved bank's return on equity	4.4000	090847

Source: Field Data (2019)

The study sought to find the extent to which respondents agree or disagree with adopting IFRS and bank performance. The above table shows the summary of results from respondents. Respondents indicated that adopting IFRS has improved the bank's transparency presentation of financial statements as indicated by (M=4.3500, SD=0.57589). Adopting IFRS has increased bank investment among commercial banks, as evidenced by (M=4.2750, SD=0.88554). Respondents believed adopting IFRS has improved bank reporting on asset quality, as evidenced by (M=4.2875, SD=0.73250). Adopting IFRS has improved bank liquidity management, as shown by (M=4.2875, SD=0.73250). Respondents believed adopting IFRS has improved the bank's return on equity (M=4.4000, SD=090847).

Table 2: Profitability of Commercial Banks

Year	Average Net profit in (billion Kshs)	Average Return on Assets %	Average Return on Equity %
2011	2.13	3.2%	30.78%
2012	2.57	3.1%	29.88%
2013	2.99	6.0%	29.16%
2014	3.36	3.3%	28.19%
2015	3.19	2.9%	24.79%
2016	3.51	2.8%	25.31%
2017	3.17	3.0%	26.11%
2018	3.12	3.4%	24.99%

Source: Field Data (2019)

Table 6 shows the profitability of commercial banks between the years 2011 to the years 2018. The table shows that the average net profit rose from 2.130 billion shillings to 3.51 billion Kenya shillings between 2011 and 2016 before fluctuating from 2016 to 2018. The researcher sought to investigate ROA trends in Kenya's commercial banks from 2011 to 2018. From the findings, it can be noted that 2013 recorded the highest value for the ROA, as shown by 6.0%, and 2016 recorded the lowest value for the ROA by 2.8%. The findings revealed that there had been a fluctuation in ROA during the seven years. The table shows that the highest return on equity was in 2011 at 30.78% and the lowest at 24.79% in 2015.

Table 3: Correlation

		Disclosure	Consistency	Prudence	Materiality
Disclosure	Pearson Correlation	1	.732**	.659**	.617**
	Sig. (2-tailed)		.000	.000	.000
	N	80	80	80	80
Consistency	Pearson Correlation	.732**	1	.772**	.609**
	Sig. (2-tailed)	.000		.000	.000
	N	80	80	80	80
Prudence	Pearson Correlation	.659**	.772**	1	.704**
	Sig. (2-tailed)	.000	.000		.000
	N	80	80	80	80
Materiality	Pearson Correlation	.617**	.609**	.704**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	80	80	80	80
	N	80	80	80	80
Performance Of Commercial Banks	Pearson Correlation	.322**	.369**	.500**	.317**
	Sig. (2-tailed)	.004	.001	.000	.004
	N	80	80	80	80

Source: Field Data (2019)

The study conducted a correlation analysis to establish the relationship between accounting conventions and financial performance of Commercial banks in Kenya. Table 7 shows a moderate positive relationship between disclosure and the performance of commercial banks. The relationship is significant ($r = 0.322$, $p>0.01$); thus, the use of disclosure influences the performance of commercial banks. The findings agree with Umoren & Enang, (2015) who argued that practices of disclosure of facts by banks and examining the relationships between facts practice and the commercial enterprise stability of banks. The results show a moderate positive relationship between consistency and performance of commercial banks. The relationship is significant ($r = 0.369$, $p>0.01$); thus, consistency influences the performance of commercial banks. The results also show a moderate positive relationship between prudence and the performance of commercial banks at a significance of ($r = 0.500$, $p>0.01$). Thus, the use of prudence influences the performance of commercial banks. On establishing the relationship between materiality and performance of commercial banks, it was found there is a moderate positive relationship with a significance of ($r = 0.317$, $p>0.01$). Therefore, materiality influences the performance of Commercial banks in Kenya.

Regression Analysis

The researcher conducted a multiple regression analysis to test the relationship among variables (independent) on the performance of commercial banks. The study applied the Statistical Package for Social Sciences (SPSS) Version 25.0 to code, enter and compute the measurements of the multiple regressions for the study.

Table 8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.729[a]	.532	.500	.29459

a. Predictors: (Constant), Materiality, Disclosure, Prudence, Consistency

Source: Field Data (2019)

Table 8 shows the results of multiple regressions. The value of R^2 is 0.532, revealing 53.2% variability in factors relating to Materiality, Disclosure, Prudence, and Consistency accounted for performance commercial banks variables in the model developed. The adjusted R^2 is an improved estimation of R^2 in the population. The value of adjusted R^2 is 0.500. This adjusted measure provides a revised estimate, 50.0% variability in the performance of commercial banks that is 0.500, revealing 50.0% variability in factors relating to Materiality, Disclosure, Prudence, and Consistency accounted for the performance of commercial banks due to the fitted model. The findings agree with Umoren & Enang, (2015) who argued that practices of disclosure of facts using banks and examining the relationships between facts practice and the commercial enterprise bring stability to banks.

Table 9: ANOVA

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regresion	7.288	5	1.458	16.796	.000[b]
	Residual	6.422	74	.087		
	Total	13.710	79			

a. Dependent Variable: Performance of Commercial Banks
b. Predictors: (Constant), Materiality, Disclosure, Prudence, Consistency

Source: Field Data (2019)

An ANOVA for Materiality, Disclosure, Prudence Consistency and performance of commercial banks was done, and the results are presented in Table 9. A p-value of 0.000, which is less than a 5% significance, implies that Materiality, Disclosure, Prudence and Consistency significantly influence the performance of commercial banks in Kenya.

Table 10: Coefficients a

	Model	Unstandardised Coefficients		Standardised Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.342	.355		3.785	.000
	Disclosure	-.027	.081	-.042	-.337	.737
	Consistency	-.085	.071	-.171	-1.200	.234
	Prudence	.293	.084	.495	3.480	.001
	Materiality	-.048	.070	-.080	-.687	.494

a. Dependent Variable: Financial Performance Of Commercial Banks

Source: Field Data (2019)

Table 10 illustrates the results of a linear regression analysis determining the effect of the independent variables (Materiality, Disclosure, Prudence and Consistency) on the dependent variable (performance of commercial banks). Using the results, we have the regression equation as: $Y=1.342+-0.027_1 +-0.085X_2+0.293X_3+-0.048X_4$. According to the regression equation established, taking all factors into account with a constant at zero, the performance of commercial banks will be 1.342. Taking all other independent variables at zero, a unit increase in disclosure will lead to a -2.7% decrease in the performance of commercial banks. A unit increase in consistency will lead to a -8.5% percentage decrease in the performance of commercial banks. A unit increase in prudence will lead to a 9.3% increase in the performance of commercial banks.

A unit increase in materiality will lead to a -0.4.8% decrease in performance. The study findings disagree with Fridson & Alvarez (2011), who argued that independence of internal audit, specifically accessibility of information, the reporting structure, qualification of internal auditors and the roles of internal auditors improve SMEs performance.

8. Conclusions and recommendations

Commercial banks are experiencing good results in financial reporting. However, lack of consistency affects or may affect the return on equity of commercial banks. Information presented in financial reports of commercial banks lacked clarity. Prudence in financial reporting affected the decision-making among the investors in the banking industry. There is little materiality on the understandability of financial reports among commercial banks in Kenya. Stakeholders could not rely on the opinion of the banks to make decisions based on financial data.

The study recommends that management of commercial banks should ensure that there is transparency, honesty and reliability of financial reports. They should ensure there is consistency during financial reporting. Investors should monitor the prudence of financial reports before deciding to invest in commercial banks. Central Bank of Kenya should ensure that commercial banks adhere to prudence during financial reporting.

Declarations

Ethics approval and consent to participate

Not applicable.

Consent for publication

Not applicable.

Availability of data and material

The data are available on request.

Competing interests

The authors declare no conflict of interest or competing interests.

Funding

This work received no funding.

Citation information

Macharia, M. W., & Ronald, M. O. (2023). Analysing the influence of accounting conventions on the financial performance of commercial banks in Kenya. *Economics, Management and Sustainability, 8*(2), 32-43. doi:10.14254/jems.2023.8-2.3.

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