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**DETERMINANTS OF GOVERNMENT ACCOUNTING DISCLOSURE  
PRACTICES: EVIDENCE FROM KWARA STATE**

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*BY*

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## **DECLARATION PAGE**

I hereby declare that this thesis titled (Determinants of Government Accounting Disclosure Practices: Evidence from Kwara State) is a record of my research. It has neither been presented nor accepted in any previous application for higher degree.

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## APPROVAL

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## **DEDICATION**

This research work is dedicated to God Almighty, the most gracious and the most merciful.

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## ABSTRACT

*The series of agitations from member of the public on misuse of public fund and resources by government officials in the recent years have called for transparency and accountability from various public office holders. Therefore, this study examined the factors influencing the level of government accounting disclosure practices with evidence from Kwara State government. The study used an ex-post facto research design. The secondary data obtained through the annual reports prepared by Kwara State government between 2010 and 2019 were analyzed using descriptive and inferential statistics. The hypotheses for the study were tested using ordinary least square (OLS) regression analysis. The result of the study revealed that size of Kwara State increased the level of accounting disclosure practices by Kwara State government as shown by t-value of 2.59 with p-value of 0.041 at 5% level of significance. The result also showed that government debt level has a significant and positive effect on government accounting disclosure practices as depicted by t-value of 4.22 with p-value of 0.000 at 5% level of significance. The study further revealed that federal government fund dependency has a significant and positive effect on the level of government accounting disclosure practices as supported by t-value of 3.46 with p-value of 0.018 at 5% significant level. However, the study found that political competition has no effect on government accounting disclosure practices of Kwara State government. Hence, this study concluded that size of the State, government debt level and federal government fund dependency would lead to increase in the level of accounting disclosure practices of Kwara State government. The study therefore recommends that lawmakers in Kwara State House of Assembly, should always request for the accounts on the utilization of fund given to the State by central government and other revenues which would enhance the level of economic development of Kwara State. This would serve as a means of control on the executive arm of government in the State.*

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background to the Study

One of the ways through which organization, whether private or public set-up, communicate its economic activities with stakeholders is through preparation and publication of financial reports. The objective of the financial report is to show the financial performance, financial position and changes in the financial health of the organization (IAS 1). However, this objective seems to be lacking as stakeholders are having the problem of getting access to the necessary information required to making effective economic decisions. Public organizations have largely been challenged to have the problems of being transparent and accountable to its citizens who may use it to checkmate the performance of the government (or public office holders) on how public resources are being utilized (Tavares & Cruz, 2017).

Pinna and Torres (2010) opined that for government to be transparent, it has to be accountable to its citizens. However, the economic downturn and mismanagement of public resources by public officials have renewed the demand for accountability by citizens. Samaratunge, Alam and Teicher (2008) stated that lack of accountability by the government leads to mismanagement of public funds.

The problem of transparency and accountability could be found in every country of the world. However, this menace has been largely found in the developing countries, Nigeria inclusive. For instance, the report of the Transparency International on Corruption Perception Index for 2019 showed that Nigeria was ranked at 146<sup>th</sup> position among one hundred and eighty-three (183) countries taken into consideration in the world. When compared with the Corruption Perception Index in 2018, Nigeria was ranked 144<sup>th</sup> position. This shows that the level of transparency and accountability by the public office holders (politicians) continue to deteriorate

as the position fell in the two years, that is, 2018 and 2019 (Corruption Perception Index, 2019). The index showed that developing countries, especially African countries occupied the least positions while country with best accountability and transparency rate is Denmark.

The level of accounting disclosure of the state governments in Nigeria could have been the consequence of the ranking in the world. In the same vein, transparency survey was also conducted in Nigeria by the Nigerian States financial and budget transparency. The result of the survey conducted revealed that Kwara State is among seven (7) States where citizens have limited access to financial reports and budget documents. Kwara State was ranked at 23<sup>rd</sup> position in the Transparency Index survey conducted in 2015 by Nigerian States Budget Transparency Survey 2015 reports. This report could be evident by the low level of implementation of capital projects where huge sum of money was claimed to have been spent on these projects without physical confirmation of the completed projects (Nigerian Bureau of Statistics, 2018).

Disclosing reliable and relevant information on the financial performance and financial position goes a long way in assisting government to attract more stakeholders as well as winning the hearts of the member of the public. However, some factors may be considered when preparing the financial statements of any of the tier of government (local, state or federal government financial report). Different factors have been considered such as size of the state/municipality, debt level, age of the state, auditor type, political competition, federal government fund dependency, firm size, firm age, firm leverage, firm risk, auditor tenure, auditor fee, board and audit committee attributes, amongst others (Arifin, Tower & Porter, 2013; Keerasuntonpong, Dunstan & Khanna, 2015; Adi, Martani, Pamungkas & Simanjuntak, 2016; Fauzan, 2017; Adiputra, Utama & Rossieta, 2018; Nurlianto & Aswar, 2020; Dewata, Jauhari & Khoirunisa, 2020). However, this study focused on size of the state, debt level of government, political competition and federal government fund dependency.

In order to ensure government transparency and accountability, the accounting regulatory body in the world formulated a new system of preparing and presenting the financial statement of government through the introduction of the International Public Sector Accounting Standards (IPSAS). The aim of the IPSAS is to improve the level of information that will be disclosed by the government or public sector enterprises. This was as a result of the drawbacks of government accounting and the growing demand for improved government accountability and promoting a more performance-based public sector. Despite this reform, the low level of accounting disclosure practice by government and other public sector is still on the alarming rate. Hence, this study investigated the factors determining government accounting disclosure practices with evidence from Kwara State.

## **1.2 Statement of the Problem**

The continual rise in the case of corrupt practices by the government officials in Nigeria, especially in the States has raised serious concerns to every stakeholders of the State. This has consequently led to rise in the call for government accountability and transparency to its citizens through disclosing the economic activities of the State in the management of its revenue, capital project execution, on-going projects, assets, liabilities expenditures, amongst others. Effective accountability and transparency will allow the citizens have more confidence in the government, have access to external loan and other funds, amongst others. On the other hand, lack of accountability by the government may lead to increase in crime rate, protests from the citizens, inability to raise fund from national and international market for economic development, problem of planning and control, amongst others (Tavarez & Cruz, 2017).

This is evidenced from the various cases filed by the Economic and Financial Crimes Commission against previous government office holders for money laundering and embezzlement. In 2015, Kwara State was among the seven (7) states that keeps information on

financial status and budget documents from its citizens and was finally ranked at 23<sup>rd</sup> position in transparency index (Nigerian States Financial and Budget Transparency Survey report, 2015). Recently, the call for government accountability took another dimension through peaceful protest (ENDSARS) in which one of the aims of the protest was call for government transparency to its citizens. However, the reluctance of the government in disclosing adequate information about the activities of the State could be as a result of some factors that influence their level of disclosure and accountability (Ayila, 2015).

For instance, the debt level of the state government can contribute to low level of disclosure. It could be argued that state with high level of debt with high debt service rate in the local and international market will not be willing to disclose such information in the financial reports. This could lead to difficulty in fund raising from banks and other sources for the implementation of capital projects, hence loss of public confidence in government activities by the member of the public.

In addition, the size of the state may also determine the level of accounting disclosure by the government. It was argued that small community or state would find it difficult to demand for accounting disclosure on the usage of the taxes paid to the government for economic development because there is high tendency that they may not have the confidence or form a pressure group that can demand for accounting information. This will not only lead to low accountability but also decrease in the level of transparency of the financial statement prepared by the government (Keerasuntonpong, Dunstan & Khanna, 2015; Fauzan, 2017).

More so, state that is being dominated by one party (weak political environment) and followed by majority of the citizens could be less concerned in demanding for accountability of how their tax monies are being utilized for the development of the economy, thereby leading to low level of accounting disclosure and transparency on the side of the government (political office

holder). For instance, in Kwara State, the same political party ruled for twelve years in both legislative and executive arm of the state.

Furthermore, fund received from federal government could also affect the level of accounting disclosure practices by Kwara State government. It was observed that the central government hardly request for the utilization of the amount given to each state in the country which give room for the State government not to disclose information about the actual amount received in the financial report for the year, hence low accounting disclosure practice, hence low level of disclosure in the financial statement.

The previous studies reviewed were conducted in developed countries (see Garcia and Garcia-Garcia, 2010; Pina, Torres and Royo, 2010; Sol, 2013; Frias-Aceituno, Rodriguez-Ariza and Gonzalez-Bravo, 2013; Tavares & Cruz, 2017; Rios, Benito and Bastida, 2014; Tejedo-Romero & Joaquim, 2015; Garrido-Rodriguez, Hernandez and Zafra-Gomez, 2018; Bolivar, Galera, Subires and Munoz, 2018; Holyoke and Cummins, 2019,) such as Spain, Portugal, United States of America and other developing countries such as Indonesia (see Arifin, Tower and Porter, 2013; Adi, Martani, Pamungkas and Simanjuntak, 2016; Adiputra, Utama and Rossieta, 2018; Nurlianto and Aswar, 2020; Dewata, Jauhari and Khoirunisa, 2020), Malaysia (see Ghani and Said, 2010), New Zealand (Keerasuntonpong, Dunstan and Khanna, 2015). These studies had reported divergent results and have employed various factors influencing disclosure practices by government. The results of these studies may not be applicable to Nigeria and the Kwara State in particular as there is difference in government practices.

Studies reviewed in Nigeria had centered on private sectors like banking industry, manufacturing companies among others (see Isa, 2014; Ayila, 2015; Maimako & Ayila, 2015; Tsegba, Semberfan & Tyokoso, 2017; Awodiran, 2019). Based on the depth of literature found and reviewed on the subject matter and to the best of the researcher's knowledge, there is no

empirical study found on the factors influencing accounting disclosure practices by Kwara State government in the Nigerian context. Two of the studies (Ayila, 2015; and Maimako and Ayila, 2015) reviewed in Nigeria focused on commercialized government enterprises. This shows the dearth of the studies on either local or state government disclosure practices in Nigeria. Therefore, this study filled the gaps identified in the literature.

### **1.3 Research Questions**

The following research questions were raised based on the aforementioned problems:

- i. What is the effect of state size on the level of accounting disclosure practices of Kwara State government?
- ii. To what extent does government debt level affect the level of accounting disclosure practices of Kwara State government?
- iii. How does political competition influence level of accounting disclosure practices of Kwara State government?
- iv. To what extent does federal government fund dependency influence accounting disclosure practices of Kwara State government?

### **1.4 Research Objectives**

The main objective of this study is to examine the factors determining the level of accounting disclosure practices of Kwara State government. The specific objectives were to:

- i. investigate the effect of state size on the level of accounting disclosure practices of Kwara State government;
- ii. assess the extent to which government debt level affect the level of accounting disclosure practices of Kwara State government;

iii. examine the influence of political competition on the level of accounting disclosure practices of Kwara State government; and

iv. investigate the influence of central government fund dependency on accounting disclosure practices of Kwara State government.

## **1.5 Statement of Hypotheses**

To achieve the objectives stated, the following null (H<sub>0</sub>) hypotheses were formulated and tested;

H<sub>01</sub>: The size of the state has no effect on the level of accounting disclosure practices of Kwara State government;

H<sub>02</sub>: Government debt level has no effect on the level of accounting disclosure practices of Kwara State government;

H<sub>03</sub>: Political competition has no influence on the level of accounting disclosure practices of Kwara State government;

H<sub>04</sub>: Federal government fund dependency has no influence on the level of accounting disclosure practices of Kwara State government.

## **1.6 Justification for the Study**

The various calls for government accountability and transparency by citizens of different states in Nigeria especially in Kwara State has prompted the reason for conducting this research study. Previous studies such as Munoz, Bolivar and Hernandez (2016); Fauzan (2017); Garridor-Rodriguez, Hernandez and Zafra-Gomez (2018); Marsella and Aswar (2019) conducted on the factors influencing accounting disclosure practices had reported various determinants as well as found conflicting results. For instance, the studies of Arifin, Tower and

Porter (2013); Tavares (2014); Rios, Benito and Bastida (2014); Arifin (2014); Tejedo-Romero and Joaquim (2015); Keerasuntonpong, Dunstan and Khanna (2015); Adi, Martani, Pamungkas and Sumanjuntak (2016); Munoz, Bolivar and Hernandez (2016); Laupe, Saleh, Ridwan and Mattulada (2018); Marsella and Aswar (2019); Mnif and Gafsi (2020) found that political competition/strength, municipal/local government size, leverage/government debt level/government financial conditions, central government fund transfer, interest group activity are factors that influence increase the accounting disclosure practice.

In contrast, the studies of Munoz, Bolivar and Hernandez (2016); Fauzan (2017); Garridor-Rodriguez, Hernandez and Zafra-Gomez (2018); Marsella and Aswar (2019) amongst others reported that political competition, local government size, leverage and central government fund did not have effect in the accounting practice of their various sample areas. These divergent results on various determinants of government accounting disclosure practices in developed countries call for further investigation in the Nigerian context with reference to Kwara State government.

The outcome of this study would be relevant to the academic field of knowledge as there are scanty studies that have examined various factors affecting accounting disclosure practice by state government as well as serve as a reference to future researchers in the area of government accounting disclosure practices. In addition, the result of the study on federal government fund dependency would enlighten policy makers and regulators (federal government and state legislative House) on the need to demand for report on the utilization of the allocation distributed to various states. The result of the study would also assist the state government on factors that need to be considered when preparing the financial report of the State.

## **1.7 Scope of the Study**

The study focused on the factors determining accounting disclosure practices of Kwara State government. This state was chosen as it was the oldest state in the North-Central region in Nigeria as well as its level of development compared with other states that were carved out from the states and some states in the region. The study covered years 2010 to 2019. The year 2010 represents the year in which Nigeria adopted IPSAS framework while the last prepared financial statement by Kwara State government is for the year 2019.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

This chapter focuses on the concepts of both dependent and independent variables used in the study, discussion of theories related to the study, review of the prior studies on the subject matter and the gaps identified in the reviewed literature.

#### **2.1 Conceptual Review**

The section discusses the concepts of accounting disclosure and the factors influencing the level of accounting disclosure practices.

##### **2.1.1 Government Accounting Disclosure Practices**

There are many views of accountability but all of them hold the role of information accessibility at their core. For instance, Kaufmann and Kraay (2002) argued that accountability is the increased flow of timely and reliable economic, social, and political information, accessible to all relevant stakeholders. Pollitt (2005) agreed that a comprehensive public disclosure of information by public bodies is the main gateway to provide improved and wider accountability.

These instruments provide citizens and non-governmental organizations with the right of access to government information and data, although this term tends to refer to the free flow of information throughout society rather than to a more specific idea (Mendel, 2008).

The government accounting standards require a disclosure of certain information. The disclosure aims to further explain the financial statement figures and government financial management including the non-figured information in the front page of financial statements (Sukmadilaga, Pratama, & Mulyani 2015). Silvia (2013) describes the variance in the width

and types of disclosure of government financial statements caused by the characteristics of users, the binding rules, and the system supervision in each entity.

This concept of comprehensive disclosure is, in fact, consistent with the public accountability paradigm which addresses the widespread demand for greater accountability of public institutions and officials. The paradigm recognizes the entitlement by a diverse group of stakeholders to information. Based on this paradigm, a valuable annual report would include a wide range of summarised, relevant information in a single document that enables stakeholders to obtain a comprehensive understanding of an entity's objectives and performance in financial and non-financial terms (Coy, Fischer & Gordon *et al.*, 2001). Furthermore, the comprehensive disclosure is important because traditional financial reporting measures had been inadequate in providing a complete account of business and governmental activities (Marcuccio & Steccolini, 2009). As part of the public sector reform process which pushes for greater accountability and external disclosure (Marcuccio & Steccolini, 2005), public sector reporting needs to be consequently reformed and this can be done by introducing greater disclosures.

Government transparency/accountability becomes an important source for citizens to have a better understanding of public policies, increase trust of the public, reduce corruption, and hold officials accountable for their actions and the resulting outcomes. Transparency is based on the accessibility and disclosure of information, which is a public good that improves the functioning of markets (Sol, 2013; Stiglitz, 2000).

### **2.1.2 Factors Influencing Accounting Disclosure Practices**

Various factors influencing accounting disclosure practices had been discussed in many previous studies conducted on both private and public sectors. In the private organizations, the factors considered include but not limited to firm size, profitability, leverage, auditor type, audit firm size, firm complexity, international affiliation of firm, auditor tenure, audit fee,

corporate governance attributes. The studies conducted on the public sector considered form of government (government/council type), reliance on debt, audit quality/type, political environment/competition, institutional forces, political visibility, municipal's size (local government or state size), central government fund dependency, municipal's experience, government debt level, press visibility, political majority, household internet access, amongst others (Arifin, Tower & Porter 2013; Tavares, 2014; Rios, Benito & Bastida 2014; Arifin, 2014; Tejedo-Romero & Joaquim 2015; Keerasuntonpong, Dunstan & Khanna 2015; Adi, Martani, Pamungkas & Sumanjuntak 2016; Munoz, Bolivar & Hernandez 2016; Laupe, Saleh, Ridwan & Mattulada 2018; Marsella & Aswar 2019; Mnif & Gafsi 2020). However, this study focused on size of the state, government debt level, political competition, interest group activity and federal government fund dependency. These factors have been considered as key factors that influence government accounting disclosure practice in developed and other developing countries. Therefore, this study considers whether these factors would also have effect on government accounting disclosure practices in Nigeria by focusing on Kwara State as its case study.

#### **2.1.2.1 Size of the State**

Size of the state refers to the total number of citizens residing in a municipality (state/local government) in particular period of time (Martiani & Liestiani, 2010; Arifin, *et al.*, 2013). Large states are those that have a large number of citizens and also those that extend through a significant-sized territory. Citizens living in extensive state in places far from the government headquarters will be more dependent on the information provided in the published financial report when it comes to obtaining information about how the taxes and other revenues generated are being utilized in terms of investment in both capital and recurrent expenditure. Therefore, the most intense demand for detailed reporting is in large state.

Large municipalities also have an advantage regarding the provision of financial reporting through the website. This task will be favoured by the fact that large municipalities have a greater number of skilled staff who can develop an appropriate website environment and keep the information updated. Small municipalities often have to subcontract these services and are more reluctant to make these investments. Larger population constituencies may be more likely to form coalitions, and a highly sophisticated constituency may use various means to exert pressure on the local authority (Keerasuntonpong, *et al.*, 2015).

The public's demand for information can also depend on the size of the constituency. A community or state that aimed at deriving benefits from their share of taxes may decide to form interest groups so as to seek or lobby for specific service benefits demand for information to measure resource availability and use (Ingram, 1984; Keerasuntonpong, *et al.*, 2015). The greater the size of a constituent group, the more coalitions they can form to pressure a local authority to provide a wide array of information (Ingram, 1984). This is synonymous with the private sector, where larger firms with a wider range of shareholders are exposed to greater demands and pressure for information (Cooke, 1989). Bakar and Saleh (2015) in Cheng (1992) opined that voters lack the incentives or zeal to directly demand for information from the political office holders about the policies of the state but as the society increases in population in terms of urbanization, economic and social differentiation, diverse organizations developed to represent these segmented interest.

The size of state (municipal) has been measured using different proxies by previous studies. For instance, Carlos, Mar and Pilar (2008) measured size of local government as the number of the population size and budget revenue; Garcia and Garcia-Garcia (2010) measured size of the municipal as the population of the municipality in thousands; Arifin *et al.* (2013) measured size of local government by the total number of local government parliamentarians; Adi *et al.*

(2016) proxy size of local government by the log numbers of budget plan. In this study, size of the state was proxy with the natural logarithm of the budgeted revenue in a year.

### **2.1.2.2 Political Competition**

Political competition of a state was defined as the strength of opposition that a political entrepreneur expects to encounter in the future (Baber, 1983; Cheng, 1992; Bakar & Saleh, 2015). It is assumed that strong political competition will manifest in pressures placed on the political structures to disclose accounting information for public consumptions (Cheng, 1992; Bakar & Saleh, 2015). More so, as economic development and social diverse increase, political competition is expected to increase and consequently put pressures on the political system to effect accounting disclosure.

Politicians may ignore the electoral promises made to citizens without any immediate penalty after being elected into office (Garcia & Garcia-Garcia, 2010). After assuming office, policy makers face a time horizon of several years and may give priority to particular goals rather than the general interest of the citizens, knowing how difficult it is for citizens to inflict any penalty in the short run. Nevertheless, this opportunistic behaviour may be diminished if there is a strong opposition to monitor the governing group. Political rivals will be prompt to inform public opinion of any deviation in the actions of the government from electoral promises made and publicizing the lapses of the present government administration. Therefore, the supply of potential officeholders serves to restrain the deviation between voter and politician interests (Zimmerman, 1977; Arifin, Tower & Porter, 2013).

Consequently, policy makers may have an interest in keeping the promises made to the electorate if they want to be re-elected. This indicates that the higher the incentives, the greater the level of political competition (Baber, 1983). Communication strategies also play a role here. If the governing group is fulfilling its commitments, it too will be interested in using all

available reporting vehicles to communicate this to the citizens (Baber & Sen, 1984). The website again may be one of the most effective tools for reporting information (Laswad Fisher & Oyelere, 2005).

Political competition has been measured in different ways by previous researchers. For instance, Cheng (1992) measured political competition using the percentage of seats held by minority party in the legislature and the percentage of vote for the winning party. Garcia and Garcia-Garcia (2010) proxy political competition with Inverse of Herfindahl–Hirschmann index (HHI)\* computed from the percentage of votes obtained by the different political parties in the municipal elections. Arifin, Tower and Porter (2013) measured political competition as the proportion of local parliament members who are independent of the executive (Chairman). For the purpose of this study, political competition was proxy with percentage of members of ruling party to total members in the State House of Assembly.

### **2.1.2.3 Federal Government Fund Dependency**

Inter-government grants are used in many countries to finance and implement developmental projects at both State and local government level in the world, Nigeria inclusive (OECD, 2006). This represents the amount shared from the federation account of the nation to the three tiers of government (federal, state and local government). In Nigeria, this is popularly termed as “federal government allocation” which is given to each state towards the end of each month. This is shared based on the size of the land mass of each state and local government size. This assists the government in implementing some important project such as provision of health care facilities, security, education, community development, amongst others (Congressional Research Service, 2019). The receipt of such funds by central or supranational governments requires the recipient to disclose information to account for the use of the funds received, seeking to demonstrate that public managers have acted according to their responsibilities

(Ingram & DeJong, 1987). Thus, governments in need of this funding are obliged to provide high quality public financial reports because their fund providers demand to see how the transferred funds are used, thus achieving more and better accountability (Bakar & Saleh, 2011). Copley (1991) also stated that resources obtained from other public bodies must be accountable to the providing authority, to demonstrate that the assigned funds have been used in accordance with the objectives of the program for which they were granted.

## **2.2 Theoretical Review**

This sub-chapter discusses various theories related to the subject matter. The study explains the assumptions, the philosophies behind these theories and how they are related to both dependent and independent variables employed in this study. These theories include agency theory, institutional theory and stewardship theory.

### **2.2.1 Agency Theory**

The origin of agency theory could be traced to Ross and Mitnick in 1973. Barro (1973) adapted the agency model to the representative democracy settings, focusing on the existence of different interests of citizens and their political representatives, stating that the electoral process and certain political structures could be used as mechanisms to balance these interests. Jensen and Meckling (1976) explained that agency theory involves an agreement in which individuals (principals) hire a third party (agent) to carry out and provide certain services on their behalf. This relationship implies that the principals give the agent some authority to make decisions on their behalf.

Agency theory centers on the relationship between the principal and the agent where one (shareholder) employs the service of the other (agent) to oversee the affairs of the organization and report the activities and outcome of the firm on how the resources were utilized in achieving the goal of the firm. The interest of both the principal and the agent may not be the

same, thereby leading to conflict of interest between the two parties. In this study, the principals are the citizens who pay tax to the government to run the affairs of the state or country while the agents are the officers elected into governmental positions (such as the president, governor, senators/members of house of representative, local government chairmen).

However, if both the principals and the agent are utility maximizers, it is likely that the agent will not always work for the principal's best interests, but rather for his own self-interest. This will lead to the problem of information asymmetry where one party (the agent) has more information than the other party (the citizens). This would put the incumbent in a position where an increase in his self-interest is approximately equal to an increase in the electorate's interest.

In conditions of perfect information, without hidden actions and knowledge, voters would elect their political representatives on the basis of a proximity rule that is, minimizing the distance between their policy preferences and those of politicians in government (Lane, 2013). However, in reality, where asymmetric information exists, the agent's main preoccupation is the pursuit of rent and opportunistic action. In representative democracies, an agency issue happens when agents (politicians) make decisions that have an effect on the behavior and life of the principal (citizens). This relationship implies that the agent will make such decisions that are in the principal's best interests.

However, the problem arises in circumstances where agents are self-interested individuals guided by their own interests, which are opposite to the ones of the principal. What is considered in this theory as an additional incentive for such an agent's behavior is information failure, or asymmetrical information, when, unlike principal, agents have much more knowledge and information in decision-making processes. In terms of asymmetric information, Hart and Holmström (1987) stressed that the relationship between the agent and principal is

determined by two difficulties – moral hazard (hidden action) and adverse selection (hidden knowledge).

Moral hazard implies that one party (agent) enters risky activities, knowing that the other party (principal) will bear the potential cost of the risk while adverse selection arises where one party assumes more risk due to more knowledge and information, knowing that the other party (with less knowledge and information available) will bear the cost of the risk (Branco, 2020). In such circumstances, a risk exposed principal interacts with self-interested risk-avoidant agents.

Jensen and Meckling (1976) identified three types of agency costs which include principal's monitoring expenditures, agent's bonding expenditures, and residual loss. Agency relationship points to the divergence of interests of the principal and the agent. The principal has the ability to reduce this divergence by providing certain incentives to the agent and introducing improved and more powerful control mechanisms that will reduce the agent's unwanted behaviour (principal's monitoring costs). Principal's monitoring expenditures imply a broader concept than merely observing an agent's behavior. They also include ways in which a principal can control an agent, e.g. through compensation packages, budget constraints, compliance and operating rules, etc.

According to Gandía and Archidona (2008), politicians are able to maximize their wealth by being re-elected by voters. On the other hand, the wealth of voters depends directly on the actions and moves of their agents, which is why they have an additional incentive to track the agents' pace. In the context of reducing information asymmetry and self-interest of agents, some studies have proposed appropriate control mechanisms to increase public sector accountability and transparency (Soudry, 2006). These mechanisms consist of *ex ante* (increased monitoring in administrative procedures) and *ex post* measures (the existence of oversight of some superior authorities). Furthermore, traditional principal-agent theory lists

two basic forms of incentives (in reducing corruption and policy distortions): premiums and rewards for good governance (referred to as 'carrots'), and penalties for mis-governance (referred to as 'sticks').

Accordingly, increasing transparency, i.e. reducing information asymmetry, reduces the principal-agent problem and increases the efficiency of resource allocation (Holmström, 1979). It is widely discussed that the voluntary provision of information in the financial statement can reduce information asymmetry and thereby limit potential conflicts between agent and principal that are present in the context of hidden actions and knowledge (García and García-García, 2010; Birskyte, 2019; Branco, 2020). According to agency theory, a more active principal, i.e. more active electorate, will require greater accountability and transparency of the agent (government).

In order to increase the possibility of re-election, politicians seek to create an image of a more transparent and accountable governance. However, by providing more information, they are facing a trade-off (Lassen, 2006). Also, greater transparency leaves less opportunity for the agent to pursue self-interested goals, which leaves more room for maximizing the principal's welfare. For transparency to serve as a cornerstone in reducing information asymmetry, Alt, Lassen and Skilling (2006) pointed out that voters should be informed in a timely and clear way about the actions of the politicians they have elected, that is, voters need a high level of transparency so that elected political representatives (primarily citizens' representative bodies) have greater opportunities to control public resources throughout the political process.

Some of the basic criticisms of principal-agent theory can be found in some of its assumptions (Zogning, 2017); for example, that the market is not affected by social relations, that the behaviour of one party is purely self-interested and that cooperation implies a contract between the parties, that the behavior of the parties is rather homogeneous and predictable. However, in

the real world, parties are not only interested in the financial aspect but also in their status, complacency and community (Hirsch, Friedman and Koza, 1990). Also, in the complex environment in which the parties reside, their actions are rarely homogeneous and not easy to control (Zogning, 2017).

### **2.2.2 Legitimacy theory**

The origin of this theory could be traced to Dowling and Pfeffer (1975). They see legitimacy as "a condition in which the value system of a particular unit coincides with the value system of the broader social environment of which the unit is a part. The theory was formed within the framework of organizational legitimacy. This theory assumes that all organizations seek to align their operations following the bounds, standards and rules that exist in the social environment in which they are located. Accordingly, organizations will voluntarily publish information about their activities if they find that society expects them to do so (Denis & Gordon, 2001; Deegan, 2002).

In other words, social expectations and pressures are intertwined with the social perception of organizational operations. On the other hand, if an organization does not align its operations with the social system of values, beliefs and norms through economic and social actions, there is a high probability of sanctioning such behavior by society. This social punishment can even lead to the organization's downfall (Schiopoiu Burlea & Popa, 2013).

Deegan (2002) in Shocker and Sethi (1973) pointed out that legitimacy theory implies some form of 'social contract' between the entity and the culture in which it is located. The survival, quality and growth of all relationships within this contract depend on the coherence of their social value systems. While, the survival of an entity can be said to depend on two conditions being met (Cuganesan, Ward & Guthrie, 2007) - meeting the expectations of society, and providing financial, communal and political benefits to certain categories the entity derives its power from.

More generally, the legitimacy proposes that the endurance and growth of an entity rely on the way the entity manages constant change and upcoming challenges, and how it responds to the constant pressures of society.

Although this two-party relationship (entity / organization and society) arose from corporate social responsibility, the same arguments apply to governmental legitimacy, which can be interpreted through a principal-agent relationship. In the context of government transparency, this theory explains the behavior of agents in meeting principal's demands for higher transparency and accountability levels. Since they can be penalized in the case of disrespect for such values, politicians opt to voluntary disclosure to ensure their political survival. If government legitimacy is disrupted, politicians increase transparency in order to restore citizen confidence and the legitimacy of elected public officials, thus securing a good reputation of the government (De Araújo & Tejedó-Romero, 2016).

Public authorities and government institutions are increasingly recognizing the importance of transparency for accountability. Efforts are being made to increase the transparency of the entire political process, and in particular fiscal issues and the budget cycle, to explain the legitimacy of political actions and decisions. Greater transparency and its adequate measurement can significantly affect the perceived government's accountability and legitimacy, and citizens' trust in government (Hood & Heald, 2006).

Accordingly, greater fiscal transparency, emerged in response to external pressures, fosters citizens' confidence in government and the modernity of its operations, which underpins good governance. The greater the pressure and demands of the public, the more likely it is that authorities will apply structures and practices that are perceived by society as legitimate and acceptable, thus homogenizing governance practices (DiMaggio and Powell, 1983). In this context, increasing transparency and strengthening accountability policies come from the influence of environmental factors, as opposed to institutional factors where internal

government decisions foster greater transparency levels. However, the limitations of legitimacy theory are reflected in the agent's constant response to social norms and waiting for the 'approval' of principals to perform socially desirable activities, thus neglecting the agent's proactiveness (Guthrie & Parker, 1989).

### **2.2.3 Institutional Theory**

The origin of institutional theory could be traced to Tobert and Zuxker in 1935 but was popularized by DiMaggio and Powell in 1983. Institutional theory postulates that organizations are influenced by external or internal pressures in forming their structure (Zucker, 1987). This theory explains actions and decision making in public organizations. Institutional theory argues that organizations that prioritize legitimacy will have a tendency to try to adjust to external expectations or social expectations where the organization is located. Adjustments to external expectations or social expectations result in the tendency of organizations to separate internal activities and focus on systems that are symbolic to external parties. Public organizations that tend to gain legitimacy will tend to have similarities or isomorphism with other public organizations (Ridha & Basuki, 2012).

Institutional theory gives the view that external pressures originating from the external environment of organizations such as politics, norms, institutional practices in the form of functional and social pressure, will affect the survival of an organization (Ashworth *et al.* 2007). Institutional is based on the idea that to survive, organizations must convince the public or society that the organization is a legitimate entity and is worthy of support. Institutional Theory illustrates three types of drivers (i.e., coercive, normative, and mimetic) that generate isomorphism in organizational strategies, structures and processes (DiMaggio & Powell, 1983).

Coercive pressures occur when a superior organization has the power to create pressure on its hierarchical subordinates. In other words, a superior organization uses legal and political power

to influence lower levels to adhere to certain processes and structures in their management and/or governance mode. Coercive pressures come from the organizational (governmental) legal environment and higher political forces, activities and influences, which affect lower levels through enacted laws, directives, norms and other regulations. However, in certain circumstances and environments, institutional isomorphism conditioned by political and legal influences can affect lower level entities in such a way that they show symbolic actions rather than original and real changes.

Accordingly, in certain situations coercive forces only lead to the formal fulfillment of legal obligations, which does not bring about real changes in entity's behavioral patterns. Meyer and Rowan (1977) pointed out that at times when organizations create strategies to meet external commitments and pressure from the top, their actions can range from authentic change to the formation of "rational myths" (particularly pronounced in times of uncertainty and intricacy). In this context, if changes are introduced solely for the sake of external forces and to gain legitimacy, implementation may be delayed, because such an approach does not involve the intrinsic motivation and crucial change in the mindset of the stakeholders involved.

When it comes to accountability and transparency policies and budgetary issues, coercive pressures are particularly prominent in cases where national authorities impose laws, regulations, provisions or recommendations that affect the way in which local authorities demonstrate their ability, capacity and willingness to comply with these obligations. Less stringent forms of coercive pressures can also be found in the country's affiliation to a particular political or economic union or organization (such as the EU, OECD or the IMF recommendations and provisions).

Normative pressures come in the form of professional standards or good practices, most often presented by influential professional communities. The effectiveness of normative pressures

and the successful implementation of normative professional practices depend largely on the professional and educational background of individuals in the observed entity, as well as their willingness and commitment to encourage the implementation of professional norms of behavior. In this regard, organizational networking with other units within the same professional field is very important, as it enables the exchange of new ideas and practices, story-telling, insights and up-to-date information and models (DiMaggio & Powell, 1983).

Unlike coercive pressures, normative isomorphism contributes to a genuine change in the mindset of the individuals involved, including the general acceptance of well-defined methods and patterns of behavior within the observed entity (Seyfried, Ansmann & Pohlenz, 2019). In the context of budget transparency, normative pressures in the form of good practices, standards and models come from different networks and groups, such as accountability and transparency initiatives (e.g. GIFT, IBP, OGP) or domestic civil society organizations dealing with transparency issues. These organizations and initiatives can, through their norms, networking capacity and advocacy capabilities, influence the creation of transparency policies at both national and lower levels of government.

The existence of mimetic pressures implies that certain organizations carry out good or best practices in the environment, which is why other organizations follow such behavior. Since leadership behaviors are considered desirable, serving as a performance indicator in the appropriate field, other organizations are beginning to imitate and copy the leader. However, it should be noted that mimetic pressures come from uncertain and evasive situations and conditions within the observed entity. Namely, every entity (organization or government) faces many challenges, problems and more or less risky decisions. But often, the entity is incapable or unable to generate methods and techniques that can help address emerging problems and challenges. For this reason, such an entity observes other units in its field of activity, seeking to discover their structures and the way in which they solve similar existing problems. In this

way, the observed entity, without much hesitation, imitates the operation and governance mode of other units, considering it a beneficial and adequate solution (DiMaggio & Powell, 1983).

This imitative behavior often leads to “performance comparisons among organizations (governments), i.e. yardstick competition” (Mourao, Bronić & Stanić, 2020). Salmon (1987) explained such mimetic behavior in the frame of voters and elections. Namely, a voter in a particular community who is attentive to a particular policy, compares the outputs of his / her municipality in that policy area relative to the output of neighboring municipalities in that same policy area. If s(he) realizes that his / her community attains worse results in that particular policy area compared to neighboring municipalities, the likelihood that he will vote for the incumbent at the following elections decreases and vice versa, better outcomes would lead to increased probability.

## **2.3 Empirical Review**

This sub-chapter reviewed empirical studies on the factors influencing accounting disclosure practices in various countries of the world. The empirical reviews were divided into international and Nigerian studies. The international studies were divided into developed and developing countries.

### **2.3.1 Empirical Studies on Developed Countries**

Pina, Torres and Royo (2010) investigated the extent to which European Union local governments are using their websites to disseminate financial information in order to evaluate whether electronic-government (e-government) is promoting convergence towards more accountable local governments. The study extracted its data from the websites of seventy-five (75) European Union countries for the year 2006. The results of the ordinary least square (OLS) regression showed that the public administration style, the size of the city, and the audit of financial information by private firms are significant explanatory factors of internet financial

reporting practices. In contrast, the study found that maturity, wealth of the city, Internet penetration and corruption rate were factors influencing the level of internet financial reporting disclosure among the European Union countries. The study suggested that multilateral organizations are overly optimistic about the possible convergence in transparency and financial accountability through the use of common modes of internet financial reporting, that is, the introduction of information and communication technologies without the corresponding institutional reform is leading to limited success of internet financial reporting.

Garcia and Garcia-Garcia (2010) examined the factors that influence the degree of voluntary reporting of online financial information of Spanish local governments. The study obtained its data from the websites of the local governments chosen as sample and was analyzed using logistic regression analysis. The result of the study revealed that municipality's size, capital investment of the municipal and political competition is positively associated with the degree of online reporting. They explained that political parties in opposition as pressure groups that continuously force the governing party to demonstrate to the citizens its ability to offer greater achievements than any of its competitors would. This indicates that the higher the population size of the municipals, the higher the capital investment per capita in the last budget available and the number percentage of votes obtained by the ruling political party in the municipal elections improves the number of information disclosed in the online financial reporting of the municipals in Spain. In contrast, the study showed a negative and significant relationship between press visibility and voluntary financial disclosure. This implies that the high the press visibility (that is, number of Google quotes for each local government per capita), the lower the number of financial disclosures of local governments in Spain. The study also documented that budget for the accounting period is the most frequently reported item.

Frias-Aceituno, Rodriguez-Ariza and Gonzalez-Bravo (2013) examined the effect of societal values on local government transparency by applying Hofstede's cultural dimensions. The

study employed graphical presentation and Kruskal-Wallis statistical technique to analyze the data obtained through online questionnaire administered to one hundred and one (101) countries comprising fifty (50) respondents from Spain, twenty-three (23) respondents from Portugal and twenty-eight (28) respondents from Colombia. The results showed that countries with equilibrium in all cultural values are more transparent and those with a prevalence of masculine and uncertainty avoidance cultural dimensions are particularly oriented to social perspectives and show a higher preference for strategic and economic information.

Sol (2013) examined the influence of institutional, economic and social factors as determinants of local government transparency in Spain. The data extracted from the financial reports of one hundred and ten (110) municipalities in Spain for the year 2010 were analyzed using ordinary least square regression analysis. The results of the study indicated that large municipalities and leftwing mayors report better transparency indexes; while the worst results are presented by provincial capitals, touristic cities and mayors with absolute majority. The analysis of specific transparency categories generally shows the consistent impact of these determinants.

Rios, Benito and Bastida (2014) investigated the socio-economic, political and institutional determinants of central government budget disclosure, both through the Internet and other media in the European countries. The data for the study were collected through the questionnaire survey collected by IBP in 2010 on ninety-three (93) countries. The results of the ordinary least square regression analysis indicated that internet penetration, education level, relative central government size, budget surplus, administrative culture, political competition and incumbents' ideology are significant factors that determine central governments' budget disclosure. The study also concluded that countries whose central government discloses a large amount of budget information are concentrated in Europe, excluding South Korea, United States, Malaysia and New Zealand. Most of the Asian, Latin American and southern African

countries show a medium degree of budget disclosure while countries that present the lowest budget disclosure levels are mainly located in Africa.

Tejedo-Romero and Joaquim (2015) studied the factors determining the level of Local governments' transparency in times of crisis with evidence from municipality-level in Spain. The study employed panel regression analysis to analyzed the data collected from the financial reports of one hundred (100) municipalities in Spain for the years 2008 to 2012. The result of the random-effect regression analysis indicated that Unemployment rate, gender, electoral turnout, and political strength have a significant effect on the level of transparency. However, the study also found that the level of public investment of a municipality and fiscal pressure did not have significant influence on the level of transparency in Spain. The study concluded that the factors that best explain the variation in the level of transparency in the period of crisis are associated with political factors.

Chen, Pan, Wang and Shen (2016) investigated the relationship between level disclosure of government financial information and the cost of local government's debt financing with empirical evidence from provincial investment bonds for urban construction in China. The data for the study were extracted from the Wind database and CSMAR regional economic database of China's provincial government data for the 2006–2012. The results of the ordinary least square (OLS) regression analysis showed that financial information disclosure is conducive to public supervision and enhances government credibility, leading to a decrease in the cost of debt financing. Furthermore, increased government economic intervention increases the strength of the association between financial information disclosure and the cost of debt financing. Increased government audit prevention function weakens the strength of the association between financial information disclosure and the cost of debt financing.

Tavares and Cruz (2017) investigated the factors influencing the level of local government transparency in Portugal. Data for the study were sourced from financial reports of the municipalities under consideration for the year 2013 and were analyzed using ordinary least square (OLS) regression analysis. The study found that on the supply side, municipalities run by male mayors, with a larger number of consecutive terms in office, and larger margins of victory in local elections display lower levels of transparency. On the demand-side, the unemployment rate and the average age of the municipal population emerge as the best predictors and are both negatively associated with transparency.

Garrido-Rodriguez, Hernandez and Zafra-Gomez (2018) investigated the impact of explanatory factors on a bi-dimensional model of transparency in Spanish local governments. The study employed Tobit regression to analyze the data extracted from the databases of Ministry of Finance and Public Administration and Ministry of Interior of Spain for three hundred and ninety-five (395) municipalities in Spain for the year 2016. The results of the study indicated that on average local managers disclose information corresponding to 60% of the indicators considered, but that only 52% of these indicators of transparency present a moderate or considerable depth of content. Furthermore, the result of tobit regression analysis revealed that financial dependence, budget sustainability, citizen participation and inter-municipal cooperation are important factors that aid disclosure of more information in the financial statements of the sampled municipalities in Spain. In contrast, the study found that short-term solvency and political ideology do not influence the level of accounting disclosure in medium and large municipalities in Spain.

Bolivar, Galera and Munoz (2018) analyzed the accounting measurement of financial sustainability in local governments through political factors in Spanish municipalities. The study obtained data from the income statements of one hundred and thirty-eight (138) Spanish municipalities from 2006 to 2014 and were analyzed using the generalised method of moments

system. The study found that political competition, political fragmentation, mayor's profile political strength and women councilors are significant factors that influence the level of sustainability reporting by the sample municipalities in Spain. The study also revealed that short-term solvency and political ideology have no influence on the level of disclosures.

Holyoke and Cummins (2019) examined the effect of interest group and political party influence on growth in state spending and debt in the United States of America. The data for the study were extracted from the annual state budgets of fifty (50) states published by the National Institute for Money in State Politics for the years 2006 to 2015. The results of the fixed effect panel regression analysis indicated that interest groups have influence in decision and economic policies of the sampled states positively but the effect becomes negative as parties compete more for control of the state for their various members. However, the study concluded that government as the gatekeepers, lawmakers and their parties, more than interest groups, are ultimately responsible for a state's fiscal condition.

Mnif and Gafsi (2020) investigated the perspective of contingency theory on the analysis of central government accounting disclosure under International Public Sector Accounting Standards (IPSAS) among countries of the world. The study obtained data from the annual reports published on the websites of Ministries, Departments and Agencies and other one hundred (100) countries around the world for the period of 2015 to 2017 and were analyzed using panel regression analysis. The results showed significant differences in compliance levels with IPSAS disclosures across nations. The study also revealed a positive influence of the degree of government openness (political culture), quality of public administration and management and prior experience with International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) in the public sector on this level, whereas government financial condition is a non-significant factor.

### **2.3.2 Empirical Studies on Developing Countries**

Using 109 Malaysian local authorities, Ghani and Said (2010) examined the type and extent of financial information disclosed digitally. The study examined whether council size, performance and social obligation affect digital reporting or not. Binary logistic regression analysis was employed to analyze the data obtained from the online financial statements of seventy (70) local government in Malaysia. The results show that 64.2% maintain websites and out of this, 15.7% local authorities provide some disclosure on financial statements digitally. The results also show that performance and social obligation do influence the digital reporting practices among the local authorities. Further investigations reveal that lack of information technology facilities, inadequate specialised staff and lack of enforcement are among the factors deterring local authorities to disclose their financial information digitally.

Arifin, Tower and Porter (2013) investigated the level of fiscal policy disclosure within financial statements of Indonesian local governments. The data for the study were obtained from the Supreme Audit Institution database for the period of 31st December, 2009 for eighty (80) local governments from (that is, forty (40) local governments within Java and forty (40) local governments outside Java). The results of the multiple regression analysis indicated that number of parliamentarians have positive and statistically significant predictor of the extent of fiscal policy disclosure. This implies that local governments that have more parliamentarians in their jurisdiction communicate more extensively.

Furthermore, the study also revealed that the age of local governments and financial independence variables affect the extent of fiscal policy disclosure in Indonesian local governments positively. The findings of the study indicated that the local parliament generates pressure (coercive pressure) on the local government to disclose fiscal policy information in its financial statement. In addition, age of local government affects the extent of fiscal policy

disclosure in Indonesian local governments, that is, the older the age of the local government, the higher the likelihood of better quality of information to be disclosed because they are already been a long learning process. Finally, financial independence also influences the extent of fiscal policy disclosure. This implies that the higher the level of financial dependence, the more extensive disclosure of fiscal policies of local government financial reports. This is probably because the central government as the supporter of funds will ask for more detailed explanations from local governments which have higher levels of financial dependence as an evaluation tool in the following years. Thus, the local governments with higher financial dependence tend to be more expansive in disclosing fiscal policy information in their financial statements.

Arifin (2014) investigated the isomorphic pressures influencing the level of mandatory disclosure within financial statements of Indonesian local governments. The study used Tukey HSD and multiple regression analysis to analyze the data obtained from the financial reports of three hundred and eighteen (318) Java districts, Java municipalities, non-Java districts and non-Java municipalities for the years 2010 to 2015. The findings reveal that there is a moderate level of compliance with key mandatory disclosures (69.6%). The highest level of disclosure is on issues relating to Financial Statement Items (91.7%) whereas the lowest level is for Non-Financial Information Items (44.7%). Regression analysis shows that in Java/non-Java jurisdiction, the presence of a supportive assistance and training programme and the proportion of non-supporting parties in local parliament are positively significant predictors of the level of mandatory disclosure. This highlights the influence of mimetic outsider-insider and normative outsider pressures on mandatory disclosure practices within financial statements in Indonesian local governments. Moreover, the age of local government, the magnitude of the Human Development Index (HDI) and degree of financial independence are also positively

significant predictors of the level of mandatory disclosure within financial statements of Indonesian local governments.

Munoz and Bolivar (2015) conducted a meta-analytic study on the factors determining factors of transparency and accountability in local governments. The study reviewed empirical studies conducted between 1980 and 2015 and found that all the factors considered such as institutional factors (government financial condition, transfer and funds received from other public organizations and political conditions) and environmental factors (size of the local public administration and income level of the municipality) have positive influence on the level of transparency and accountability of local governments. This implies that both institutional and external factors considered in their study are critical factors that can make the administrators of local government to disclose more information the financial statement. However, they stated that the influence of the variables examined depends on the context or region in which the research is carried out.

Bakar and Saleh (2015) reviewed prior research studies undertaken on various factors influencing public sector accounting disclosure and to suggest future research in this area. The study focused on academic online databases by conducting keyword searches which are supplemented by backward and forward searching techniques. Relevant articles found are then reviewed and discussed based on four phases of their publication period: prior to 1990, from 1990 to 1999, from 2000 to 2009, and from 2010 and after. Three important observations are made. First, studies on US dominated research in this area but in recent years, more European and other developed countries are being included. Second, a vast majority of these studies tend to focus on local authorities. Third, the financial aspect of disclosure appears to be receiving the greatest attention but it is noted that researchers are starting to show a greater interest in reporting the concept of sustainability.

Adi, Martani, Pamungkas and Simanjuntak (2016) assessed the quality of disclosure in performance of the local administration report (LAR) in the local government which is published on the websites in Indonesia. The study obtained data from the websites of sixteen (16) local governments chosen as sample for the years 2009 to 2011 and were analyzed using descriptive analytical technique. The results of the study showed that show that the quality of the transparency of the reporting made by public bodies becomes crucial for public accountability. The study revealed that size of the local government, financial capability of the local government and regional income per capita influences the quality of website financial disclosures in Indonesian local government.

Munoz, Bolivar and Hernandez (2016) conducted a meta-analytic review on the incentives for digital versus hard-copy public financial disclosures. The study reviewed the empirical studies conducted in various countries between 1983 and 2015. The study concluded that financial condition, inter-governmental transfers, political competition, size of the municipality and wealth of the municipality are not incentives that determine the level of transparency of public financial accounting disclosures whether it is hard-copy or digital disclosures. The study also revealed that administrative style and the level of government of the municipality are the moderating effects that influence the results of analyzed studies.

Fauzan (2017) conducted an empirical investigation and analysis on factors influencing local government accounting practices in Indonesia. Data were collected from officers of local government in Yogyakarta and Central Java province, local government official website, The Audit Board of the Republic of Indonesia (BPK-RI) official website for the year 2006. The result of descriptive analysis shows that local government financial accounting practice is still in the 72.11% level on average. The outcome of the multiple regression analysis shows that training and central government have significant influence toward local government accounting practices but local government size, local government wealth, financial

autonomous, political competition, supports to selected executive, education major and legislative power have no significant influence toward local government financial accounting practices. This implies that local government that receives fund from central government tend to disclose more information in line with the required accounting practice in order to show how the money allocated to it is being utilized in the development of the local government. More so, the level of training and seminars attended on accounting programmes can have the required knowledge on how deal with different accounting entries in the financial statement.

Laupe, Saleh, Ridwan and Mattulada (2018) investigated factors influencing the financial disclosure of local governments in Indonesia. The data for the study were extracted from the financial reports of one hundred and ninety (190) local governments and 2014 Central Bureau of Statistics bulletin of Indonesia. The results of the multiple regression analysis revealed that results of this study shows that the higher the level of political competition, legislature size, and education level of community, the higher the disclosure level of financial statement of local governments. Conversely, audit findings measured by the amount of the monetary value audited by the audit board are proven to have no influence on the disclosure level of local financial statement. The study also conducted a sensitivity analysis. By changing the audit findings proxy with the amount of items findings in the audit findings from the audit board, the analysis proves that the new proxy has a positive influence on the disclosure level of local financial statements.

Adiputra, Utana and Rossieta (2018) investigated the factors influencing the level of transparency of local government in Indonesia. The study obtained its data from the financial reports of thirty-four (34) regional governments from Indonesia for the year 2016. The results of the study multiple regression analysis showed that the quality of financial reporting through the audit opinion and political environment have a significant positive effect on the transparency of local government in Indonesia. On the other hand, the size of the local

government and local government response rate on the regulation do not affect the transparency of local government in Indonesia.

Marsella and Aswar (2019) assessed factors influencing the level of financial statement disclosure in local government of Sumatra Island of Indonesia. The study obtained its data from the financial reports of one hundred and fifty-one (151) local governments of Sumatra Island for the year 2017. The result of the multiple regression analysis showed that results obtained that the transfer of funds and political competition did not affect the disclosure of financial statements. While financial conditions negatively affect the disclosure of financial statements, implying that the higher the leverage, the lower the level of disclosure but found income level in the municipality have a positive and significant relationship with the financial statement disclosure.

Nurlianto and Aswar (2020) investigated the factors influencing the degree of mandatory disclosure to local governments in Java and Sumatra Islands of Indonesia using a conceptual review approach. The study found that number of local government parliamentarians, local budget expenditure and the presence of assistance and trainings organized by the local governments influence the level of mandatory disclosure by the eighty (80) local governments in Indonesia.

Dewata, Jauhari and Khoirunisa (2020) examined the influence of complexity and audit findings on the disclosure regional financial statements in Indonesia. Secondary data were sourced from the Financial Statements that have been audited by BPK RI in the form of Notes to Financial Statements and LKPD Inspection Results Reports in Provincial Governments in Indonesia for the years 2012 to 2016. The result of the fixed-effect regression analysis revealed that the complexity of governance has a significant positive influence on the disclosure of local government financial statements, the weakness of the internal control system does not influence

the disclosure of local government financial statements and non-compliance with the law has a significant negative influence on the disclosure of local government financial statements. The results indicated that government with complex activities tend to have the required resources at hand to aid gathering of necessary information that is needed to prepare the financial statement of government in order to ensure transparency and accountability to its citizens. In addition, the result of non-compliance showed that the more irregularities that occur, the less the disclosure of LKPD. This could be as a result of government officials trying to cover up material/in material violations of laws and regulations as well as the mismatch of financial statement presentation by applicable regulations, which they do to reduce disclosure made.

### **2.3.3 Empirical Studies in Nigeria**

Isa (2014) assessed the determinants of accounting choice of non-current assets of IFRS adoption among Nigerian listed firms. Data was sourced through the annual reports and accounts of thirty (30) listed firms selected as sample for the year 2012. The result of the multivariate ordinary least square regression analysis shows that size of the firm and ownership concentration of the board increase the level of firms' compliance with IAS 16, 38 and 40. The study also found that size of the firm and ownership concentration of the board increase the level of firms' compliance with IAS 16, 38 and 40. The study also revealed that board composition, leverage and profitability have insignificant effect on the level of compliance with IFRSs.

Ibadin and Oladipupo (2015) assessed the determinants of intangible assets disclosure in quoted companies in Nigeria. The data sourced through the annual reports of one hundred and fifty-seven (157) companies listed on the floor of the Nigerian Stock Exchange for the period 2005 to 2010 was analyzed with the use of panel regression analysis. The study found that company age, leverage, profitability, foreign activities, size of the audit firm and company size

have significant effect on the level of compliance with IAS 38. The study also showed that industry type and foreign activities of the firm have insignificant influence of the level of compliance with IAS 38.

Ayila (2015) investigated the association between corporate attributes and the extent of compliance with accounting standards disclosures by commercialized government enterprises in Nigeria. The data obtained from the Office of the Auditor-General for Federation and the annual reports of the eighteen commercialized government enterprises using twenty-three (23) Statement of Accounting Standards (SAS), for the period 2002 to 2013 were analyzed using multiple regression analysis. The results of the study showed that firm size, audit firm size and professional qualification improved the level of compliance with accounting standards. The study also found that leverage, liquidity and firm effect have insignificant effect on the level of compliance of Nigerian government commercialized firms.

Maimako and Ayila (2015) assessed the association between firm effect and firm size and the extent of compliance with accounting standards disclosure by government enterprises in Nigeria. Using eight accounting standards, data was sourced through the annual reports of eighteen (18) government enterprises for the years 2002 to 2012. The result of multiple regression analysis indicates firm size and firm effects have significant positive effect on IFRS compliance level. The result of the study also revealed that leverage, audit firm size and current ratio have insignificant effect on IFRS compliance level.

Tsegba, Semberfan and Tyokoso (2017) investigated the effect of firms' characteristics on compliance level with IFRS by listed financial services companies in Nigeria. Data was sourced from the annual reports of thirty-one (31) financial services firms chosen as sample for the periods 2014 and was analyzed with the use ordinary least square regression analysis. The result of the study indicates that profitability increase the chance of financial service firms

complying more with the requirements of IFRS but corporate size, leverage, internationality and auditor type has no significant effect on the level of IFRS compliance.

Awodiran (2019) examined the determinants of compliance with disclosure requirements of IFRS 4 with evidence from quoted insurance companies in Nigeria. The data sourced through the annual reports of nineteen (19) insurance companies chosen as sample for the period 2012 to 2014 was analyzed with the use of panel regression analysis. The result of the study revealed that liquidity, profitability and leverage had significant effect on the level of compliance with IFRS 4 requirements but found size of the firm to be insignificant.

#### **2.4 Summary and Gap(s) Identified in the Literature**

The literature review indicated that there are some gaps still left unfilled. Therefore, this study provides further evidence to fill the gaps identified in the literature. Conceptually, the extant literature reviewed on determinants of government accounting practices in Nigeria showed that there are scanty literature (see Ayila, 2015; Ibadin and Oladipupo, 2015; Tsegba, *et al.*, 2017; Awodiran, 2019) on factors determining the level of government accounting practices such as size of the state, government debt level, political competition and federal government fund dependency as determinants of government accounting practices in Nigeria, with reference to Kwara State. Most of the literature reviewed in Nigeria focused on firm size, firm age, firm leverage, firm risk, board independence, auditor type, profitability, liquidity amongst others (Ayila, 2015; Ibadin & Oladipupo, 2015; Tsegba, *et al.*, 2017; Awodiran, 2019).

Considering geographical gap, it could be deduced from the extant literature reviewed that a very large number of the studies reviewed were conducted in developed countries such as Spain (see Rios, Benito & Bastida, 2014; Tejedro-Romero & Joaquim, 2015; Garrido-Rodriguez, *et al.*, 2018; Bolivar, Galera, Subires & Munoz, 2018), the United States of America (see Holyoke & Cummins, 2019), New Zealand (see Keerasuntonpong, *et al.*, 2015) and Portugal (see

Tavares & Cruz, 2017). Most of the empirical literature in developing countries were conducted in Indonesia (see Arifin, Tower & Porter, 2013; Adi, Martani, Pamungkas & Simanjuntak, 2016; Adiputra, Utama & Rossieta, 2018; Nurlianto & Aswar, 2020; Dewata, Jauhari & Khoirunisa, 2020) while others conducted meta-analytics studies (see Munoz & Bolivar, 2015; Abu-Bakar & Saleh, 2015; Munoz, *et al.*, 2016; Nurlianto & Aswar, 2020). However, the studies on Nigeria focused on the private sectors (see Isa, 2014; Ibadin & Oladipupo, 2015; Tsegba, Semberfan & Tyokoso, 2017; Awodiran, 2019). The two studies on government set up focused on government commercialized enterprises (see Ayila, 2015; Maimako & Ayila, 2015). This study is unique as it examined the factors influencing accounting disclosure practices in Nigeria, Kwara State in particular.

Theoretically, most of the studies reviewed (see Tavares & Cruz, 2017; Tsegba, *et al.*, 2017; Bolivar, *et al.*, 2018; Mnif & Gafsi, 2020; Ayila, 2015) in Nigeria employed both agency theory and legitimacy theory as theoretical framework underpinning their studies. This study is different as it employed the assumption of both agency theory and institutional theory to link the relationship between the dependent and independent variables of the study together.

## **2.5 Theoretical Framework**

The study employed the assumptions of both agency theory and institutional theory. This is because there is no single theory that provides an adequate explanation of the relationship between various factors influencing accounting disclosures, as each theory is based on specific assumptions and explains disclosure through a particular perspective. The agency theory covers factors such as size of the state and government debt level while institutional theory's assumption was used as a guide for political competition, interest group activity and federal government fund dependency.

Agency theory tends to solve the problem of information asymmetry where the agent (government) has more information at hand than the principals (citizens) thereby using such opportunity of the information to his advantage. Due to conflict of interest between the two parties and dissimilar interests, the agent may tend to use information available in taking opportunistic behavior in favoring himself through manipulation of accounting figures or hiding of vital information in the financial statement.

Therefore, agency theory suggests that state with larger population and more revenue/expenditure tend to demand for government transparency because there is high tendency to have more educated citizens who can use their exposure and knowledge to force government to disclose more information in the published financial statement. In addition, agency theory suggests that the incentive to reduce financing costs may lead politicians to provide financial information that signals a low level of financial risk as the creditors tend to increase the cost of debt when they perceive a higher risk. Therefore, public-sector managers will be willing to reporting information voluntarily, thereby reducing information asymmetries and also the risk perceived by creditors.

The study also adopts the institutional theory. The theory opined that there are external factors that can be used to exert force on the government to be transparent and accountable by disclosing more information about the financial activities of the government to its citizens. For instance, the theory assumes that state with fierce political competition can make the ruling government to disclose more information and forced government to disclose detailed activities of the government because they usually monitor the activities closely as they can use their weakness to gain public competence in the next general election. In addition, the central government can also put pressure on the state government to disclose information about the amount allocated to the state in order to show to the citizens of that state that they are not left

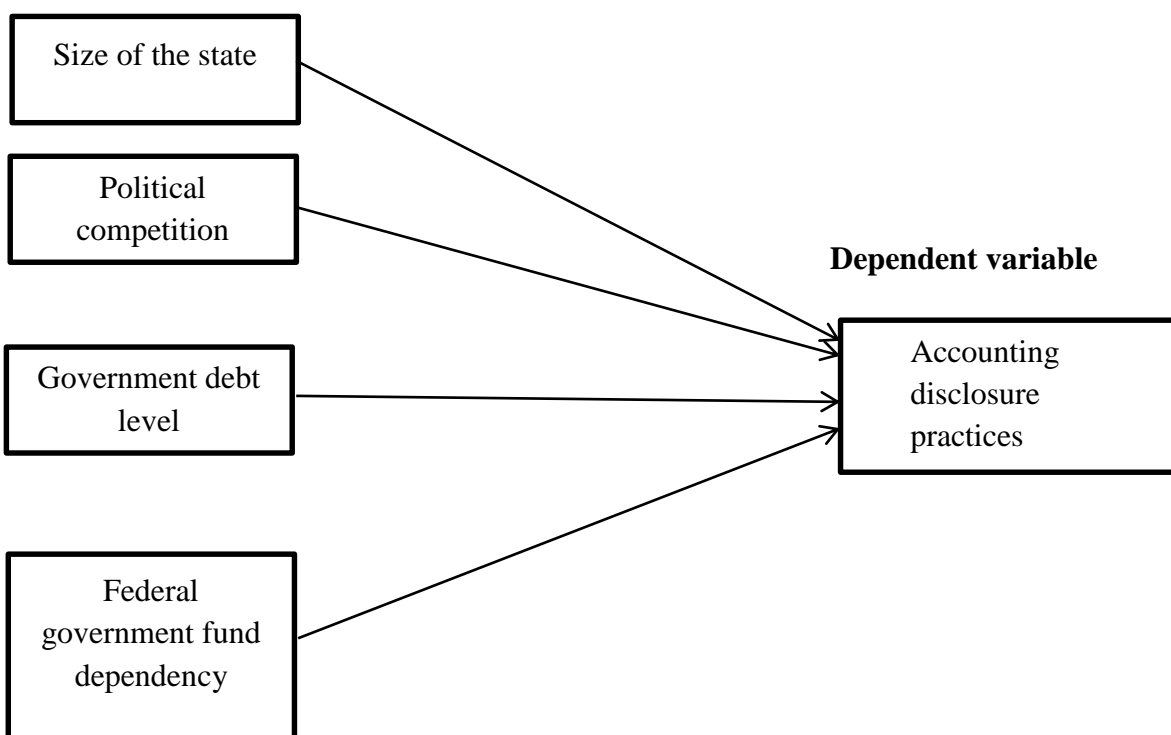
out of the country's wealth as non-disclosure can lead to sanction of the ruling executive governor.

## 2.6 Conceptual Framework

The section shows the diagrammatic representation of the relationship between dependent (accounting disclosure practices) and the independent variables (factors influencing government accounting disclosure practices). This was based on the assumptions of the theories reviewed and the prediction of the previous empirical research studies on the subject matter.

This is shown in figure 2.1 below:

### Independent variables



**Figure 2.1 Conceptual Framework**

**Source: Author's Conceptualisation (2021).**

The conceptual framework in 2.6 depicts the dependent and the independent variables of the study. The dependent variable is accounting disclosure practices while the independent

variables are the factors (such as size of the state; political competition; government debt level; press visibility and federal government fund dependency) influencing the level of information disclosed in the government financial reports by Kwara State government.

The study assumed that the factors employed in the study as independent variables would make Kwara State government to disclose more information in the state government's financial report. This notion was based on the results of the prior empirical findings on the study area (such as Arifin, Tower & Porter, 2013; Adi, Martani, Pamungkas & Simanjuntak, 2016; Adiputra, Utama & Rossieta, 2018; Nurlianto & Aswar, 2020; Dewata, Jauhari & Khoirunisa, 2020) as they found in their various studies that size of the municipality/state, government debt level, interest group activities, political competition and federal government fund dependency have significant influence on accounting disclosure practices.

More so, the construction of the conceptual framework was based on the assumptions of the theories (agency and institutional theories) adopted in this study. Institution theory assumes that external factors such as the level of federal government fund dependency, interest group activities and political competition can force (coercive pressure) the government to disclose more information about the utilization of the fund received from external sources for transparency purpose as well as having the opportunity of being re-elected. In the same vein, agency theory also assumes that larger state size and state with high level of debt would be willing to disclose more information about their actions in order to violating debt covenant and losing to their counterpart in the future election.

## **CHAPTER THREE**

### **METHODOLOGY**

This chapter discusses the method used in collecting and analyzing the data of the study, the research design, population of the study, the sample size and sampling technique, definition of variables and model specification.

#### **3.1 Research Design**

The research design employed in this study is a longitudinal research design. This is form of research design which repeated observations of the same individual or variables over a period of time in order to study and detect any changes that might occur during the periods. This design is appropriate as the study collected its data from Kwara State financial report over a period of time.

#### **3.2 Research Area**

The study is a case study research as it focuses on the factors that determine accounting disclosure practices with specific reference to Kwara State government disclosure.

#### **3.3 Data Collection Method**

The data for the study were sourced mainly from secondary source. The data for the dependent variable, that is, accounting disclosure practices was obtained from the International Public Sector Accounting Standards (IPSAS) disclosure checklist prepared by International Public Sector Accounting Standards Board (IPSASB) in 2016. This data was collected using content analysis technique. The data for the independent variables were sourced from various secondary sources. The data for political competition were sourced from the official website of Independent National Electoral Commission (INEC), while the data for the other independent

variables were sourced from the financial reports of Kwara State government for the period under study.

### 3.4 Model Specification

The study examined the factors influencing accounting disclosure practices of Kwara State government. The model of Keerasuntonpong *et al.*, (2015) was adapted and modified. The model was written as:

$$DISCLO_i = \beta_1REV_i + \beta_2SIZE_i + \beta_3STAFF_i + \beta_4MEDINC_i + \varepsilon_i \quad \dots\dots\dots 3.1$$

**Where:**

DISCLO<sub>i</sub> = disclosure index; REV<sub>i</sub> = operating revenue; SIZE<sub>i</sub> = Size of the municipality; STAFF<sub>i</sub> = Attributes of accounting staff; MEDINC<sub>i</sub> = median income per capita; ε = errors.

This model was modified to suit the objective of the current study because their model did not use political competition, government debt level, press visibility and central government influence. Therefore, the model of this study is written as:

$$GADL_t = f(\text{Factors influencing government accounting disclosure}) \quad \dots\dots\dots 3.2$$

$$GADL_t = \beta_1SIZE_t + \beta_2GDL_t + \beta_3PC_t + \beta_4FGFD_t + \varepsilon_t \quad \dots\dots\dots 3.3$$

**Where:**

GADL<sub>t</sub> represents government accounting disclosure level at time t;

SIZE<sub>t</sub> represents the size of the state at time t;

GDL<sub>t</sub> represents government debt level at time t;

PC<sub>t</sub> represents political competition;

FGFD<sub>t</sub> represents federal government fund dependency;

$\varepsilon_t$  = Error term at time t;

$\beta_0$  = intercept or constant of the coefficient

$\beta_1 - \beta_5$  = are the parameters of the estimate

### ***a priori expectation***

The *a priori* expectation of the study is that the factors considered in the study would increase the level of accounting disclosure practices of Kwara State government. The study assumed that the factors employed as independent variables would make Kwara State government to disclose more information in the state government's financial report. This notion was based on the results of the prior empirical findings on the study area (such as Arifin, Tower & Porter, 2013; Adi, Martani, Pamungkas & Simanjuntak, 2016; Adiputra, Utama & Rossieta, 2018; Nurlianto & Aswar, 2020; Dewata, Jauhari & Khoirunisa, 2020) as they found in their various studies that size of the municipality/state, government debt level, interest group activities, political competition and federal government fund dependency have significant influence on accounting disclosure practices.

### **3.5 Measurement of Variables**

The study has two variables which are dependent and independent variables. The dependent variable is the level of government accounting disclosure practices. The study employed the unweighted index score to measure the dependent variable. The contents of each annual report are compared to the items listed on a checklist and coded as one (1) or zero (0), depending upon whether or not the content conforms to the items listed on the checklist (Arifin, *et al.*, 2013; Coy, Tower and Dixon 1993). Accounting disclosure index is calculated as the ratio of number of information disclosed divided by the maximum number of items that are applicable

for the period. Such a measurement approach is suitable for measuring the level of disclosure in developing nations whose set of economic, politic and social conditions differ from those of developed nations. The information considered are information on revenue policy, expenditure policy, resource costs and usage, and comparison with previous periods of financial circumstances. This is in line with Arifin, *et al.* (2013).

$$TI = \frac{TD}{M} = \frac{\sum_{i=1}^m d_i}{\sum_{i=1}^n d_i} \dots\dots\dots (3.4)$$

**Where:**

TI = Total Disclosure Index

TD = Total Disclosure Score

M = Maximum disclosure score for each company

d<sub>i</sub> = Disclosure item

m = Actual number of relevant disclosure items

n = Total number of items expected to be disclosed

The independent variables for this study are the factors that influence the level of accounting disclosure practices by Kwara State government. The independent variables include the size of the state, government debt level, political competition, press visibility and federal government fund dependency.

**Table 3.1 Definition and Measurement of Variables**

<b>Variables</b>	<b>Construct</b>	<b>Definition and Measurement</b>	<b>Previous Studies</b>
<b>Dependent variable</b>			
Government accounting disclosure practices	GADP	Measured with ratio of items disclosed to total number of items expected to be disclosed in relation to revenue, expenditure, resources cost and usage in line with IPSAS compliance index, 2016.	Martiani & Liestiani (2010); Arifin (2014); Fauzan (2017); Laupe, <i>et al.</i> (2018).
<b>Independent Variables</b>			
Size of the state	SIZE	Measured with the natural logarithm of budget revenue in a year	Carlos, <i>et al.</i> (2008); Martani & Liestiani (2010); Adi, <i>et al.</i> (2016);
Government debt level	GDL	Measured with total debt of the state divided by total revenue of the state	Munoz & Bolivar (2015); Garrido-Rodriguez, <i>et al.</i> (2018); Bolivar, <i>et al.</i> (2018)
Political competition	PC	Measured with proportion of non-controlling parties (minority parties) to members in the State House of Assembly.	Arifin, <i>et al.</i> (2015); Misra (2017)

Federal government fund dependency	FGFD	Measured with the ratio of federal government allocation to total revenue of the state in a year.	Arifin, <i>et al.</i> (2013); Adi, <i>et al.</i> (2016); Misra (2017)
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**Source: Author's Compilation from previous Studies (2020)**

### **3.7 Data Analysis Technique**

The data collected from the financial reports of Kwara State were analyzed with the use of both descriptive and inferential statistics. The descriptive statistics used were the mean, standard deviation, maximum and minimum values so as to show the summary of the large data set collected on both dependent and the independent variables. The inferential statistics employed in testing the hypothesis stated in chapter one was multiple regression analysis. Prior to testing of the hypotheses, the study conducted some preliminary analyses such as normality distribution test, pairwise correlation test and multi-collinearity test in order to test the reliability of the data collected as well as avoiding spurious regression results.

## CHAPTER FOUR

### DATA PRESENTATION AND DISCUSSION OF FINDINGS

This chapter focused on the analysis of data collected through the annual report of Kwara State government for the period of the study. It analyzed the descriptive result, preliminary tests and discussion of findings on each variable.

#### 4.1 Descriptive Analysis

The result in table 4.1 focuses on descriptive summary of the data set extracted from the annual financial statement of Kwara State government covering the period of 2010 to 2019

**Table 4.1 Descriptive Statistics**

<b>Variables</b>	<b>Mean</b>	<b>Standard deviation</b>	<b>Minimum value</b>	<b>Maximum value</b>
GADP	0.294	0.1164	0.1	0.42
SIZE	10.9	0.1114	10.65	11.04
GDL	0.0945	0.1033	0.001	0.324
PC	0.0168	0.0217	0	0.042
FGFD	0.4007	0.0840	0.268	0.506

**Source: Author's Computation, 2021**

The results in table 4.1 depict the snapshot of the data collected for the study. The results showed that the mean value for government accounting disclosure practice (GADP) for the periods under review is 0.294 with standard deviation value of 0.1164. This indicates that, on average of ten years, the level of information disclosure by Kwara State government in line with the required accounting standards is 29.4%. This signifies that the level of financial and non-financial transparency of Kwara State government is very low. The results also revealed

that the minimum and maximum values of government accounting disclosure practice are 0.1 and 0.42 respectively. This implies that the least disclosure level is 10% while a period with the highest disclosure is 42%. This confirmed the result of the average value.

The result in table 4.1 also showed that the mean value for SIZE (measured with the natural logarithm of revenue in a year) of the state is 10.9 (in billion Naira) with standard deviation of 0.1114. This implies that, on average, the revenue of Kwara State government for the period under review, is around 10.9 billion naira. The result also revealed that the minimum and maximum values for size of the state are 10.65 and 11.04 respectively. This indicates that the period with the largest revenue generation is when the state generated around 11.04 billion naira while the least revenue generated in the periods under review is around 10.65 billion naira.

In addition, the results in table 4.1 showed that government debt level has a mean value of 0.0945 with standard deviation of 0.1033. The result indicates that, on average, the debt level of the State is within 9.45%. This implies that the ratio of government debt level to the revenue generated is low and shows that the state is lowly geared. The outcome in table 4.1 also revealed that during the period under review, the minimum and maximum debt level of the state is between 0.001 (0.1%) and 0.324 (32.4%) respectively. This result affirms the result of the average value.

Furthermore, the results in table 4.1 indicated that the level of political competition in Kwara State is very low as shown by a mean value of 0.0168 with standard deviation of 0.0217. During the periods under review (2010 to 2019), there are twenty-four (24) members in Kwara State House of Assembly. The result of the mean value implies that there was only one member from opposition party in the House of Assembly during the period under review. This is supported by the minimum and maximum values of zero (0) and 0.042 respectively. The value of zero (0)

indicates that for some periods, there was no member from other parties while the maximum value of 0.042 implies that there was only one member from other party aside from the ruling party in the state. This shows that stiff competition from opposition party that checkmate the executive in doing the right thing will be low or not there.

It could also be deduced from the results in table 4.1 that the mean value of federal government financial dependency is 0.4007 with standard deviation of 0.0840 with minimum and maximum values of 0.268 and 0.506 respectively. The result of the mean value indicates that on average, the federal allocation received by Kwara State government in the period under review is 40.07%. This implies that the State generated more revenue through internal sources than the allocation received from the federal government. The minimum value of 0.268 implies that there was a period when the federal allocation received is not more than 26.8% while the period with the largest revenue received from federal government to total revenue of the State is 50.6%.

## **4.2 Preliminary Analyses**

Prior to testing of hypotheses, the study conducted some preliminary analyses in order to ensure that the data collected for the study is reliable and relevant. The inability of the data to meet up with the assumptions of the various diagnostic tests can make the regression result to be spurious, hence giving unreliable outcome. Therefore, this study carried out normality distribution test using skewness and kurtosis, pairwise correlation test, multi-collinearity test using variance inflation factor and Augmented Dickey-Fuller unit root test.

### **4.2.1 Normality of Distribution Test**

The result in table 4.2 was used to test whether the data collected violates the assumption of the normality distribution. This was done using skewness and kurtosis method of testing for normality distribution problem. The rule of thumb is that any value outside the range of -3 and

+3 would lead to problem of normality distribution, hence against the symmetry distribution assumption (Gujarati, 2004).

**Table 4.2 Normality of Distribution Test**

<b>Variables</b>	<b>GADP</b>	<b>SIZE</b>	<b>GDL</b>	<b>PC</b>	<b>FGFD</b>
Skewness	0.4123	0.0988	0.0425	0.4678	0.9741
Kurtosis	0.2537	0.1351	0.2372	0.0057	0.2031

**Source: Author's Computation, 2021**

Based on the result in table 4.2, it could be deduced that the data collected did not suffer from normality distribution problems as none of the variables has values of skewness and kurtosis that fall outside the range of -3 and +3. The result indicated that the data are positively skewed.

#### **4.2.2 Multi-collinearity Test**

The study has four (4) independent variables. In order to ensure that these independent variables measure different aspect (that is, not measuring the same thing), the study conducted a multicollinearity test using variance inflation factor (VIF). The rule of thumb for multicollinearity is that if the value of VIF is greater than 5, there is problem of collinearity between two or more variables (Kleinbaum, Kupper, Nizam & Muller, 2008).

**Table 4.3 Multi-collinearity Test**

The result in table 4.3 depicts the outcome of the multicollinearity test using variance inflation factor (VIF) and tolerance level in order to ensure that two independent variables are not measuring the same thing.

<b>Variables</b>	<b>VIF</b>	<b>Tolerance (1/VIF)</b>
SIZE	2.297	0.435
GDL	1.091	0.916
PC	1.512	0.661
FGFD	2.560	0.391

**Source: Author's Computation, 2021**

The result in table 4.2.2 showed that there is absence of multi-collinearity problem as none of the independent variables has value up to 5. The variable with the highest variance inflation factor (2.297) is SIZE which is less than the benchmark of five (5). Therefore, the study does not have multi-collinearity problem.

### **4.2.3 Correlation Matrix**

High correlation among variables can lead to multi-collinearity problem and thus the reliability of model estimates will be affected (Gujarati & Porter (2009). Moreover, the problem of multi-collinearity can cause a problem when evaluating the significance of the variables in the regression. Therefore, it is important to explore the correlation among all of the independent variables (Tabachnick & Fidell,2007). The Pearson correlation matrix is a basic tool to detect the problem of multi-collinearity. Gujarati and Porter (2009) argued that if the correlation is greater than 0.80 for variables, the correlation is considered high. Therefore, in this study, multi-collinearity is not considered a problem if individual correlation coefficients are less than 0.80.

**Table 4.4 Correlation Matrix Result**

<b>VARIABLES</b>	<b>SIZE</b>	<b>GDL</b>	<b>PC</b>	<b>FGFD</b>
<b>SIZE</b>	1.0000			
<b>GDL</b>	0.0919	1.0000		
<b>PC</b>	0.6376	0.0211	1.0000	
<b>FGFD</b>	-0.2721	-0.1203	-0.7789	1.0000

**Source: Author's Computation, 2021**

It could be seen from the result in table 4.2.2 the highest collinearity is 0.6376 which is between political competition and size of the state and the lowest collinearity is -0.7789 between federal government fund dependency and political competition. Therefore, it could be deduced that there is no problem of multi-collinearity among the independent variables as all the variables have figures less than the threshold of 0.8

#### **4.2.4 Augmented Dickey-Fuller Test for Unit Root**

The data collected and analyzed in the study is in form of time series data. Therefore, there is need to conduct a stationary test using Augmented Dickey-Fuller (hereafter, ADF) unit root test. ADF is a unit root test for stationarity. Stationarity means that the statistical properties of a time series data do not change over time. Unit roots can cause unpredictable results in time series analysis. An ADF tests the null hypothesis that a unit root is present in a time series sample (Baltagi, 2005). The rule of thumb is that if the calculated test statistic is less (more negative) than the critical value, the null hypothesis is rejected and no unit root is present and vice-versa (Wooldridge, 2008). This implies that if the ADF t-statistics is less than the critical value, there is presence of stationary and non-stationary if otherwise.

**Table 4.5 Augmented Dickey-Fuller Unit Root Test Result**

<b>Variables</b>	<b>ADF statistics</b>	<b>Critical Values (5%)</b>	<b>Result</b>
Size	-3.824	-3.000	Stationary
GDL	-4.203	-3.000	Stationary
PC	-3.764	-3.000	Stationary
FGFD	-3.001	-3.000	Stationary
GADL	-4.963	-3.000	Stationary

**Source: Author's Computation, 2021**

The results in table 4.5 show that all the variables stationary as the variables have deeper negative values than the critical values of -3.000. Therefore, it is concluded that the variables do not have unit root and consequently, the data is stationary.

### **4.3 Restatement and Test of Hypotheses**

The result in table 4.6 was used to test the hypotheses raised in chapter one as well as answer the research questions.

**Table 4.6 OLS Regression Result**

The result in table 4.6 showed the outcome of the ordinary least square regression result. This was used to test the hypotheses of the study as well as answering the research questions raised in chapter one.

<b>Variables</b>	<b>Coefficient</b>	<b>Standard Error</b>	<b>T-value</b>	<b>P-value</b>
SIZE	5.7812	2.23	2.59	0.041
GDL	2.1120	0.5004	4.22	0.000
PC	0.0202	0.3886	0.052	0.625
FGFD	0.1702	0.04914	3.46	0.018
Cons_	10.4516	0.2709	38.58	0.000
R <sup>2</sup>	0.5646			
Adjusted R <sup>2</sup>	0.5530			
F-Statistics	6.32			
F-probability	0.0342			

**Source: Author's Computation, 2021**

Based on the table 4.6, it was revealed that the coefficient of determination (adjusted R<sup>2</sup>) is 0.5530. This indicates that the independent variables (size of the state, government debt level, political competition and federal government fund dependency) explained around 55.30% variation in the dependent variable (government accounting disclosure practices) in Kwara State. The remaining 44.7% represents other variables that could influence government disclosure practices that were not included in the model of the study. The study also found that the model of the study is fitted as shown by F-statistics value of 6.32 with p-value of 0.0342. This shows that the regression model is fitted at 5% level of significance.

Following the fitness of the model, the hypotheses were tested. The acceptance or rejection of the hypotheses was based on t-value and p-value at 5% significance level.

#### **4.3.1 Restatement and Test of Hypothesis One**

H<sub>01</sub>: The size of the state has no effect on the level of accounting disclosure practices of Kwara State government.

The result in table 4.6 revealed that size of the State has positive effect on the level of accounting disclosure practices of Kwara State as shown by t-value of 2.59 with p-value of 0.041 at 5% level of significance. This led to the acceptance of the alternative hypothesis which states that size of the state has no effect on the level of accounting disclosure practices of Kwara State government, hence rejection of the null hypothesis. The result implies that the larger the size of the state, the higher the level of government accounting disclosure practices. This indicates that when state generates more from its internal and external activities, the executive would be willing to disclose such information to the member of the public in order to show that the state is financially buoyant and not relying on external debt.

#### **4.3.2 Restatement and Test of Hypothesis Two**

H<sub>02</sub>: Government debt level has no effect on the level of accounting disclosure practices of Kwara State government.

It could be deduced from the results in table 4.6 that government debt level has positive effect on the level of government accounting disclosure practices in Kwara State. This is supported by a t-value of 4.22 with p-value of 0.000 at 5% level of significance. The result leads to the rejection of null hypothesis which stipulates that government debt level has no effect on the level of accounting disclosure practices of Kwara State government, thereby accepting the alternative hypothesis. This implies that a state government that took loan either from local or

international market would want to disclose information in relation to that loan in terms of the principal, interest and the amount remain unpaid in a particular fiscal year in order to avoid being sanction. This would increase the level of accounting disclosure practices by government of the state.

### **4.3.3 Restatement and Test of Hypothesis Three**

H<sub>03</sub>: Political competition has no influence on the level of accounting disclosure practices of Kwara State government.

The result in table 4.6 showed that political competition has no effect on the level of accounting disclosure practices of Kwara State government as evidence by t-value of 0.052 with p-value of 0.625 at 5% level of significance. This result leads to the acceptance of null hypothesis which states that political competition has no influence on the level of accounting disclosure practices of Kwara State government, thereby leading to rejection of the alternative hypothesis. The result indicates that whether there is fierce political competition or not in Kwara State, it would not determine whether or not the level of government accounting disclosure practice would increase or reduced.

### **4.3.4 Restatement and Test of Hypothesis Four**

H<sub>04</sub>: Federal government fund dependency has no influence on the level of accounting disclosure practices of Kwara State government.

It could be deduced from the result in table 4.6 that federal government fund dependency has a positive influence on the level of Kwara State government accounting disclosure practices. This is supported by t-value of 3.46 with p-value of 0.018 at 5% significance level. This result leads to the acceptance of the alternative hypothesis which states that federal government fund dependency has influence on the level of accounting disclosure practices of Kwara State

Government and rejection of the null hypothesis. This implies that a state government that receives fund in terms of monthly allocation from the central (federal) government would be willing to disclose the amount received and how it is being utilized for the benefits of member of the general public. This is because non-disclosure of information about the amount received and its utilization may lead to sanction from the central government.

#### **4.4 Discussion of Findings**

This section focused on discussion of key findings in relation to the research objectives of the study. The discussions are presented in the sequence of the research questions and objectives raised in chapter one for the study. Specifically, the study found that size of the state, government debt level and federal government fund dependency have significant positive effect on Kwara State government accounting disclosure practices. In contrast, the study found that political competition has no influence on government accounting disclosure practices in Kwara State.

Individually, the study revealed that size of Kwara State government has a significant positive effect on Kwara State government accounting disclosure practices. This indicates that state with large revenue generation and more educated population would demand more accountability and transparency from the government in terms of utilization of the revenue generated through the taxes collected from them and other resources put in their care, thereby making the government to be more accountable. This result implies that Kwara State has the population with educated people that can demand for transparency and accountability from the government of the state.

The result corroborates with the a-priori expectation as the study expected that the larger the size of the state government, the higher the level of accounting disclosure practices. The outcome of the study also concurs with the assumption of the agency theory which suggests

that state with larger population tends to demand for government transparency because there is high tendency to have more educated citizens who can use their exposure and knowledge to force government to disclose more information in the published financial statement. The result is in line with the findings of Rios, *et al.* (2014); Munoz and Bolivar (2015); Adi, *et al.* (2016); and Laupe, *et al.* (2018) as they revealed in their studies that the larger the size of the state (municipalities), the higher the level of disclosure practices by the government. On the other hand, the outcome of the study contradicts the findings of Munoz, *et al.* (2016); Fauzan (2017); and Adiputra, *et al.* (2018) who reported that irrespective of the size of the local government or municipalities, it has no effect on government accounting disclosure practices.

In addition, the study also found that government debt level has a significant and positive effect on government accounting disclosure practices. This implies that government with high level of debt will be forced to disclose more information in the financial statement in order to avoid sanction as well as reduce cost of debt financing, thereby leading to increase in the level of government accounting disclosure practices. Specifically, this implies that provider of loan facility to Kwara State government (capital market providers) would want to know whether or not the information regarding the principal and interest repayment are adequately stated in the financial statement as well as the balance yet to be paid. The result concurs with the a-priori expectation as the researcher expected that Kwara State government would want to disclose more information in order to avoid penalty for hiding information about financial capability of the State, thereby disclose more information in the financial statement.

The outcome of the study is in line with the prediction of agency theory which posits that the incentive to reduce financing costs may lead politicians to provide financial information that signals a low level of financial risk as the creditors tend to increase the cost of debt when they perceive a higher risk. Therefore, public-sector managers will be willing to report information voluntarily, thereby reducing information asymmetries and also the risk perceived by creditors.

The outcome corroborates with the findings of Sol (2013); and Chen, *et al.* (2016) as they reported that government discloses more accounting information so as to reduce the cost of debt financing. In contrast, the outcome of the studies of Fauzan (2017); Garrido-Rodriguez, *et al.* (2018) and Mnif and Gafsi (2020) found that government debt level did not have effect on the level of government accounting disclosure practices.

Furthermore, the study also found that federal government fund dependency has a significant effect on the level of Kwara State government accounting disclosure practices. This implies that Kwara State government, like other States in the country, receives fund from central government and tend to disclose more information in line with the required accounting practice in order to show how the money allocated to it is being utilized in the development of the State. The result confirmed the argument of institutional theory which posits that through coercive pressure, the federal government can force the state government to disclose information about the amount allocated to the state in order to show to the citizens of that state that they are not left out of the country's wealth as non-disclosure can lead to sanction of the ruling executive governor.

The result concurs with the a-priori expectation because the study expected that state government that receive allocation from the central government would disclose the amount received and how it was utilized, thereby increasing the level of accounting disclosure practices by the government. The outcome is in line with the findings of Arifin, *et al.* (2013); Adi, *et al.* (2016); Fauzan (2017); and Garrido-Rodriguez, *et al.* (2018) as they found that fund from central government would make the local or state government to disclose more information about the fund received in their financial statement and publish to the member of the public, thereby increasing the level of government accounting disclosure practices. In contrast, the study of Munoz, *et al.* (2016); Bolivar, *et al.* (2018) revealed that the level of accounting disclosure is not influenced by fund received from central government.

Furthermore, the study found that political competition has no effect on the level of accounting disclosure practices of Kwara State government as shown by p-value of 0.625 at 5% level of significance. This implies that whether or not other political parties call on the ruling party for transparency, it would not increase or decrease the level of information that would be disclosed by the ruling party in Kwara State. This could be as a result of the weak competition from other political parties during the period under review as the JJC political party (name of the actual party is withheld) due to non-uniformity among other political parties to stand firmly and challenged the party governing Kwara State. In addition, the whole of the twenty-six members of Kwara State House of Assembly were from the ruling party and this made it impossible to challenge the government, hence wine and dine together.

On one hand, the result of this study concurs with the findings of Fauzan (2017) and Marsella and Aswar (2019) as they reported that irrespective of the political competition, it would not affect the level of accounting disclosure practices. On the other hand, the result contradicts the findings of Arifin, *et al.* (2013); Rios, *et al.* (2014); Tejedro-Romero and Joaquim (2015); Munoz and Bolivar (2015); Bolivar, *et al.* (2018); Adiputra, *et al.* (2018) who found that strict political competition forced the ruling party to disclose more information as other political parties monitor the ruling party closely without space for breathing.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

This chapter centered on the summary of the study, the conclusions drawn from the major findings of the study, recommendations to ensure improvement, suggestions for further studies and limitations to the study.

#### **5.1 Summary**

The various calls by members of the public and other stakeholders on the low level of government transparency and accountability about the activities and the resources kept in their care has raised questions on the level of accounting disclosure practices by government at various levels. This could be attributable to various factors that could be taken into consideration while preparing the financial report for public consumption and other stakeholders by the government. Hence, this study examined the factors that could affect the level of accounting disclosure practices by Kwara State government.

The literature review was divided into three (3) segments which are conceptual review, theoretical review and empirical review. The conceptual review focused on the concepts of both dependent (accounting disclosure practice) and independent variables (factors determining the level of government disclosure practices). The study also reviewed relevant theories on the subject matter. The study was guided by the assumptions of both agency theory and institutional theory. In addition, the study reviewed previous empirical studies on the determinants of accounting disclosure practices in order to bring out the gaps in the literature clearly. The empirical review section was divided into two parts namely studies from international and local studies. The international studies were further divided into studies on developed and developing economies.

The study adopted an ex-post facto research design. The secondary data obtained from the annual reports of Kwara State government and official website of the Independent National Electoral Commission (INEC) for the period of 2010 to 2019 were analyzed using ordinary least square regression analysis.

The results of the study revealed that size of Kwara state, state government debt level and federal government fund dependency (federal allocation) have significant and positive effects on the level of Kwara State government accounting disclosure practices. On the other hand, the study found that political competition has an insignificant positive effect on the level of accounting disclosure practices by Kwara State government. The results imply that Kwara State has population that are educated as well as generate revenue, has low government debt level (leverage) when compared with her revenue and constant receiving of allocation from the central government would lead to increase in disclosure of more information about how the money generated and other resources are being utilized for development of the state. The result of political competition indicates that whether other political parties put pressure on the ruling party or not, it would not influence the level of accounting disclosure practices by Kwara State government.

## **5.2 Conclusion**

Relying on the empirical result and hypotheses tested in chapter four, the study concluded that: the larger the size of the state government, the higher the level of government accounting disclosure practices. This implies that Kwara State government generates more revenue internally through collection of taxes and other sources of internal income, hence would be willing to be more transparent in disclosing more information about the judicious utilization of such fund for improvement of standard of living and development of the State. Furthermore, the lower the state government debt level, the more the state government will want to disclose

such accounting information in the financial statement. This indicates that Kwara State government has low debt level and would use the medium to signal to the international market that revenue generated internally can be used to repay the loan within the agreed period of time. Finally, the more allocation received from the federal government by Kwara State on monthly basis, the more likely the state government disclose more information about its usage to the stakeholders in the state.

### **5.3 Recommendations**

The following recommendations were made based on the empirical findings and conclusion drawn in order to ensure improvement in the level of accounting information disclosure by Kwara State government:

- i. Kwara State government should look for more ways to derive revenue so as to provide more and detailed information about the amount generated and its utilization in the financial statement in order to ensure that the populace have access to how their monies (taxes) are utilized in the budget implementation.
- ii. Kwara State government should ensure that the debt owed by the state are repaid in order to lower the level of debt owed. This will encourage the state government to disclose relevant and reliable information in the financial statement in order to gain more trust from member of the public.
- iii. This study recommends that the regulator such as lawmakers in the State House of Assembly should always request for the accounts on the utilization of fund given to the State by central government and other revenues which would enhance the level of economic development of the State. This would serve as a means of control on the executive arm of government.

#### **5.4 Contributions to Knowledge**

This section presents areas in which this study contributes to literature on factors determining the level of government accounting disclosure practices with evidence from Kwara State.

i. Previous studies on factors influencing accounting disclosure practices in the Nigeria focused on private sectors. This study contributes to knowledge by looking at the level of accounting disclosure practices in the public sector using Kwara State government as a case study.

ii. In addition, prior Nigeria studies (Isa, 2014; Ibadin & Oladipupo, 2015; Tsegba, *et al.*, 2017; Awodiran, 2019) had examined various variables such as firm size, leverage, auditor type, audit firm size, firm age, amongst others in the private sector. This study is unique as it is one of the few studies that examined government size, government debt level, federal government dependent fund and political competition as determinants of government accounting disclosure practices.

iii. Furthermore, previous studies (Tavarez & Cruz, 2017; Bolivar, *et al.*, 2018; Mnif & Gafsi, 2020; Ayila, 2015) employed agency theory, legitimacy theory, contingency theory and institutional theory to link the relationship between the dependent variable and independent variables. This study is unique as it employed the assumptions of both agency and institutional theory to explain the relationship between the dependent and independent variables used.

#### **5.5 Limitations of the Study**

A number of limitations are associated with this study. The first limitation to this study is the measurement adopted. The study relied on annual reports of Kwara State government. This study did not take perception of the officials in the preparation and reporting of the financial report through questionnaire and interview. The secondary data used may not portray a truthful representation of their actual behaviour (Van Djike & Verboon, 2010). Therefore, drawing

conclusion from this study's findings with respect to actual behaviour must be done with caution.

The second limitation is in connection with the sampling method. This study only focused on Kwara State as its sample. This may prevent the generalization of the result to other government especially states from other regions of Nigeria.

Despite these limitations, they did not affect the findings of this study due to the fact that adequate empirical supportive evidence available in the study as the results is reliable, and fit for policy formulation and implementation.

### **5.5 Suggestions for Further Studies**

- i. Further studies may widen the scope of the study by covering more arms of government in various different states as well as more accounting practices of states in Nigeria so as to have more robust result.
- ii. Future studies may also be considered to cover other variables like culture, income level of workers, media visibility, interest group influence, amongst others that are not used to proxy in this study.
- iii. Further studies may use both primary and secondary sources of data to get more information and more robust result.

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