emeraldinsight

# International Journal of Public Sector Management

Financial disclosure practices among Malaysian local authorities: a case study

Neilson Anak Teruki, Robert Ochoki Nyamori, Kamran Ahmed,

The current issue and full text archive of this journal is available on Emerald Insight at:
**www.emeraldinsight.com/0951-3558.htm**

# Financial disclosure practices among Malaysian local authorities: a case study



Neilson Anak Teruki
*Department of Social Science, Faculty of Agriculture and Food Sciences, Universiti Putra Malaysia Bintulu Campus, Bintulu, Malaysia*
Robert Ochoki Nyamori
*College of Business, Abu Dhabi University, Abu Dhabi, United Arab Emirates, and*
Kamran Ahmed
*Department of Accounting, College of Arts Social Sciences and Commerce, La Trobe University, Bundoora, Australia*

Received 7 June 2017
Revised 19 November 2017
9 February 2018
13 April 2018
Accepted 15 April 2018



## Abstract

**Purpose** – The purpose of this paper is to understand and explain the financial disclosure processes among Malaysian local authorities (MLAs).

**Design/methodology/approach** – Employing semi-structured interviews, data were collected from 26 members in five case study organisations, and interpreted using Gibbins *et al.* (1990, 1992) framework of financial disclosure.

**Findings** – The study finds that financial disclosure is influenced by a hierarchical structure consisting of accountants, the Financial Accounts Committee, the mayor and other managers. The decision to disclose or not disclose was influenced by how sensitive the issue was. External auditors and mediators influenced both the identification of issues, disclosure position and disclosure output. Though there are many laws governing financial accounting, MLAs opportunistically chose to apply the Federal Treasury Circular largely because the external auditors used it.

**Research limitations/implications** – This study contributes to the literature by illuminating who makes disclosure decisions, what influences these decisions and how. The study reveals hitherto un-researched contextual factors that affect disclosure, namely, religion and external auditors and the opportunistic choice of which laws and regulations to apply in financial disclosure. Future studies might want to apply this approach in other contexts to see what we can learn from them.

**Originality/value** – Using case studies in the study of financial disclosure provided valuable insights into the complex and multi-dimensional phenomenon of financial information disclosure. The application of Gibbins *et al.* (1990, 1992) framework in the public sector and in Malaysia is novel.

**Keywords** Case study, Malaysia, Local government, Financial disclosure

**Paper type** Research paper

## 1. Introduction

This study investigates the processes of financial disclosure among Malaysian local authorities (MLAs). Financial disclosure refers to "any deliberate release of financial information, whether numerical or qualitative, required or voluntary, or via formal or informal channels" (Gibbins *et al.*, 1990, p. 122). Studies investigating disclosure practices in the public sector have mostly focussed on the incentives for disclosure of financial information (e.g. Perez *et al.*, 2008; Laswad *et al.*, 2005); or on disclosure quality (Robbins and Austin, 1986). There is, however, paucity of studies that examine the organisational, social and environmental context within which financial disclosure occurs (Gibbins *et al.*, 1990;

The authors thank Manzurul Alam, Janet Lee, Menga Negash, Zahirul Hoque and participants at the AFAANZ Conference in Perth, two anonymous reviewers and the Editor of this journal, Sandra van Thiel for their comments which have improved the paper.

International Journal of Public Sector Management
© Emerald Publishing Limited
0951-3558
DOI 10.1108/IJPSM-05-2017-0138

Adams, 1997; Hopwood, 2000; Carpenter and Feroz, 2001). Those which have sought to address this issue have approached it from outside the context in which disclosure decisions are made by analysing financial reports, surveys or websites and speculating how the factors they study might have affected financial disclosure decisions (e.g. Garcia and Garcia-Garcia, 2010). Who makes particular disclosure decisions and the range of influences on this decision process is an empirical question that this study seeks to answer.

Furthermore, most previous studies have been conducted in western countries (e.g. Garcia and Garcia-Garcia, 2010; Laswad *et al.*, 2005; Robbins and Austin, 1986; Serrano-Cenca *et al.*, 2016). Little attention has been devoted to the issue of accounting disclosure in local governments in South East Asian countries (see exceptions Coombs and Tayib, 1999; Ghani and Said, 2010; Tooley *et al.*, 2010a, b). Those studies which have been undertaken have not addressed how MLAs arrive at the information in the annual reports (Coombs and Tayib, 1999) or websites (Ghani and Said, 2010) that they analyse. This study was undertaken within the context of Malaysia, a rapidly emerging economy, and specifically on local authorities. Focus on public sector financial disclosure in Malaysia is thus timely because this sector has been criticised as inefficient, unaccountable and corrupt (Siddiquee, 2006; Tooley *et al.*, 2010a, b; *The Sun*, 2006). But at the same time, the country has embraced new public management (NPM) reforms (Hood, 1995) which implies adoption of private sector-like practices in the public sector (Abdul Khalid, 2008)[1].

This paper contributes to the existing literature by providing a greater understanding of disclosure processes in the Malaysian local government sector. The study applies Gibbins *et al.*'s (1990, 1992) framework to answer the following research questions:

*RQ1.* Who are the actors involved in financial disclosure?

*RQ2.* What are the internal and external forces influencing them?

*RQ3.* How do they decide what and whether to disclose financial data?

The case study research method (Yin, 1989) employed in this paper provides important insights into the complex and multi-dimensional phenomenon of disclosure. This approach is deemed to be appropriate considering the dearth of disclosure studies employing it. The study should be of interest to policy makers who wish to enhance accountability to their citizens.

The paper is structured into seven sections as follows. The following section reviews the relevant background literature. Section 3 describes the Malaysian context, Section 4 outlines the theoretical framework and Section 5 describes the methods. Section 6 describes the results with Section 7 discussing the results and concluding the paper.

## 2. Literature review

Public sector financial disclosure studies can be categorised into two broad themes. The first consists of those which have been concerned to identify the use and users of government financial reports (e.g. Steccolini, 2004; Tooley *et al.*, 2010b). The second consists of those which have sought to identify the contextual factors that inform financial disclosure decisions (e.g. Laswad *et al.*, 2005; Serrano-Cenca *et al.*, 2016, Garcia and Garcia-Garcia, 2010; Styles and Tennyson, 2007).

The first type of studies have failed to reach a consensus as to the information needs of the users of financial statements (Steccolini, 2004). Tayib *et al.* (1999), for example, found that though taxpayers in Malaysia wanted information on the income and expenditure of their municipalities, the information provided by MLAs could not meet their needs. Some studies have found that though most local governments in many countries disclose financial information, citizens have difficulty in accessing it and even then the number of citizens using it is likely to be small (Jones, 1992; Brusca and Montesinos, 2006; Marcuccio and Steccolini, 2009). This situation has been attributed to lack of awareness of availability of financial disclosures (Tayib *et al.*, 1999) and their complexity (Stanley *et al.*, 2008) with Brusca and Montesinos (2006) calling for a "popular" form of financial reporting to enhance citizen use.

The second type of studies have focussed on understanding the contextual factors that explain financial disclosure. A number of these studies have been concerned with the relationship between size and financial disclosure. For example, Serrano-Cenca *et al.* (2016), Garcia and Garcia-Garcia (2010) and Styles and Tennyson (2007) found a significant and positive relationship between size, and voluntary online disclosure of financial data. Styles and Tennyson (2007) also found that size of the municipality was significantly related with the accessibility of financial information to residents. These findings were in line with earlier research findings by Allen and Sanders (1994). The above studies do not, however, delve into how user needs are implicated in the disclosure processes within the municipalities.

Contextual factor studies have also sought to understand the influence of leverage on financial disclosure. Laswad *et al.* (2005) and Perez *et al.* (2008) found a significant relationship between the cost of debt and online financial disclosure among New Zealand and Spanish local authorities, respectively. Robbins and Austin (1986) found a significant relationship between leverage and indexes of quality of financial disclosure, while Styles and Tennyson (2007) found the level of debt to be related to accessibility of financial information to residents of municipalities in the USA.

The wealth of the local authority, be it that of the authority or the citizens, has also concerned researchers with suggestions that wealthier local authorities will experience higher levels of financial disclosure. Laswad *et al.* (2005) found that the wealth of the local authority is associated with disclosure practices in local authorities in New Zealand. Styles and Tennyson (2007) found a significant relationship between financial position and accessibility of financial information to residents.

Further contextual studies have been concerned to test the hypothesis that the type or form of the local authority has an influence on financial disclosure. Laswad *et al.* (2005) found that the type of local authority was associated with disclosure practices in local authorities in New Zealand. Robbins and Austin (1986) found that irrespective of the index used, city council form was significantly associated with indexes of disclosure quality.

The influence of politics, specifically political will and political competition on financial disclosure, has also not escaped the attention of researchers. Serrano-Cenca *et al.* (2016) found that political will affects e-disclosure among Spanish local governments. Garcia and Garcia-Garcia (2010) and Gandia and Archidona (2008) found a significant relation between political competition and voluntary disclosure of budgetary and other financial information.

Researchers have also sought to study the influence of the press on financial disclosure among local authorities. Laswad *et al.* (2005) found that visibility to the press is associated with disclosure practices in local authorities in New Zealand. Perez *et al.* (2008) found a significant relation between internet and public media visibility on voluntary disclosure of budgetary and financial information. These findings are also consistent with those of Garcia and Garcia-Garcia (2010).

Context studies have also been concerned to identify the specific characteristics of residents of municipalities and how these affect financial disclosure. These characteristics include income per capita, level of education and internet access. Both Serrano-Cenca *et al.* (2016) and Styles and Tennyson (2007) found that citizens' income level affects e-disclosure among Spanish and US local governments, respectively. Styles and Tennyson (2007) also found a positive and significant relationship between higher income per capita and both financial disclosure and accessibility of financial information to residents. Perez *et al.* (2008) demonstrated a significant relationship between internet access and transparency of financial information provided over the web. Gandia and Archidona (2008) revealed a significant relationship between internet access and education level of the inhabitants, with voluntary disclosure of budgetary information.

The other contextual factors which have been studied and found to be significantly related to financial disclosure in local authorities include revenue transfers (Robbins and Austin, 1986), external validation (Styles and Tennyson, 2007) and capital investment (Garcia and Garcia-Garcia, 2010). In addition, Allen and Sanders (1994) showed that government size, and reporting requirements externally imposed by a higher level of government influenced the quality of disclosure as measured by a disclosure index. Allen and Sanders (1994) also found two internal factors, namely, professional involvement of CFOs, and participation in the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting (COA) programme, to influence this index. A regression analysis of the composite of these factors, however, found that it is only professional interest on the part of the CFO and participation in the COA programme which had a significant effect on disclosure. Though Allen and Sanders (1994) opined that "these factors provide an administrative context within which financial disclosure decisions are made" (p. 181), there is a need to illuminate how these decisions are made in practice.

In the context of Malaysia, Ghani and Said (2010) revealed that performance and social obligation influence digital financial disclosure practices among MLAs[2]. The study also found that disclosure was hampered by lack of expertise, technology and enforcement. The study focussed on the digital mode of disclosure, while our study focusses on the gamut of mechanisms through which disclosure is undertaken.

This brief and certainly limited review reveals that studies on public sector financial disclosure employ a proxy – the annual report or website – and to a lesser extent, questionnaire responses, to make inferences regarding decisions over financial disclosure. Our study is different because we sought, through case studies, to understand who makes disclosure decisions, why some information is disclosed and generally the process of disclosure among MLAs. We were guided by the theoretical framework of Gibbins *et al.* (1990, 1992) which we describe after explaining the Malaysian context.

## 3. Malaysia local government context

Malaysian local government represents the third tier of government and is the "government closest to the people" (Phang, 2008). MLAs consist of municipalities, city councils and district councils. These councils perform the same functions. City councils have a population of at least 500,000 and revenues exceeding RM100 million and are headed by mayors. Municipal councils have a population of at least 150,000 and revenues exceeding RM20 million. These are headed by a president. District councils are the smallest with populations under 150,000 and revenues less RM20 million. These are also headed by a president (Hazman, 2006 cited in Ghani and Said, 2010).

Local governments provide urban services using financial assistance or grants from the state and federal governments. MLAs are also answerable to a hierarchy of regulators, policy makers and other oversight bodies at the state and federal levels of government (Othman *et al.*, 2008). State and federal governments are therefore particularly interested in the performance of MLAs because inefficiencies and poor performance of MLAs reflect badly on the performance of the federal and state governments, which may affect their popularity leading to electoral loses in local elections (Tooley *et al.*, 2010b). With respect to financial reporting in MLAs, the Municipal Rates (East India) Act IX 1848 provided the avenue for the public to scrutinise financial accounts, the use of public funds and how Municipal Committees function (Kuppusamy, 2008)[3].

There were, however, no clear rules and regulations on the form and content of the statement of accounts of MLAs that were issued either before or after Malaysia became independent (Tayib *et al.*, 1999). Later, the Local Government Act 1976 (Act 171) was promulgated, which is still the most important instrument for accounting purposes as it outlines the requirement for MLAs to keep proper records and books of account. Part V of Act 171 provides the General Financial Provisions of MLAs, while Part VI provides details regarding accounts and audit of MLAs. Even though the statute (e.g. Sections 53 and 54) requires MLAs to keep proper records and books of account, it does not clearly direct and explain the form and content of these accounts. Instead, Section 54 gives authority to the state governments to determine the form and content of the reports. The state authorities are yet to announce any guidelines on this subject though (Tooley *et al.*, 2010b). There are thus no specific financial reporting requirements, either statutory or non-statutory, currently imposed on MLAs in preparing their annual financial accounts (Coombs and Tayib, 1999; Tooley *et al.*, 2010b)[4].

There have, however, been attempts to introduce IPSASs into the Malaysia public sector. Since 2005, the Malaysian public sector adopted IPSAs cash basis accounting. Following the Public Finance Strategic Reform Initiative – a government reform effort to enhance public sector transparency and accountability – it was decided to move the public sector to accrual accounting in 2011. The actual implementation of accrual accounting, however, continues to be pushed to the future (Ahmad, 2016).

The lack of strong regulations on financial disclosure, thus, represents a major weakness, which is amplified by lack of qualified accountants in the MLAs. Private sector professional bodies such as the Malaysian Institute of Accountants and the Malaysian Association of Certified Public Accountants have not shown sufficient interest towards improving public sector financial reporting. This has translated into MLA's financial reports being characterised by differences in content and format (Tooley *et al.*, 2010b), which makes our need to investigate disclosure practices among MLAs relevant.

MLAs' financial statements are not made available to the general public or council taxpayers but they are made available to councillors, the external auditor, the Ministry of Housing and Local Government (MHLG) and the state authority. Citizens, therefore, are often unaware of their existence (Tayib *et al.*, 1999). They are eventually published in the official government gazette after an audit process that depends on how quickly authorities prepare their annual accounts. Only a few MLAs with adequate financial resources prepare an annual report since it is not mandatory (Wahid and Aziz cited in Hassan *et al.*, 2007). Since there is no imperative for MLAs to prepare their reports in any shape or form, questions remain as to who makes disclosure decisions, what information they need to provide and the purposes for such information.

## 4. Theoretical framework

This study employs Gibbins *et al.* (1990, 1992) framework of financial disclosure. This framework is adopted because, as seen in the literature review above, there is paucity of studies focussing on the internal processes and activities associated with financial disclosure. This framework, which is derived from a private sector corporate context, is suitable for use in the public sector because of its emphasis on understanding processes of disclosure[5]. A higher understanding of the processes of disclosure contributes to a better understanding of the processes through which public sector organisations are held accountable. The model is also germane in the context of the developments that have sought to obliterate the differences between the public and private sectors, known as NPM (Hood, 1995). Within NPM, local governments are being constituted as markets (e.g. Nyamori, 2009) and a greater focus is placed on financial reporting as a means to accountability, what Guthrie *et al.* (1998) call "accountingization" (see also Hood, 1995).

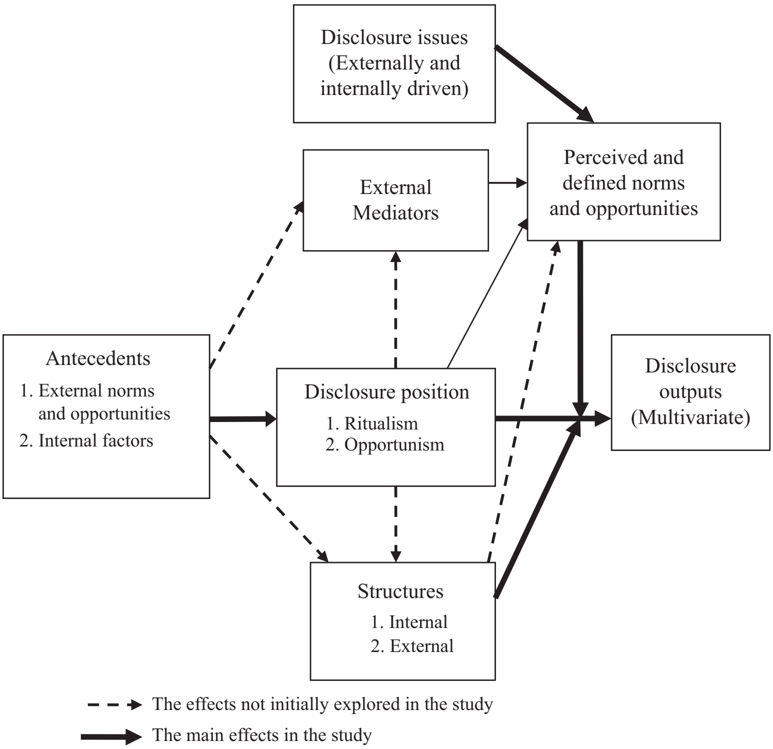
Gibbins *et al.* (1990) conceptualised financial disclosure as a process that consists of a number of activities that culminates in disclosure output. Gibbins *et al.* (1990) defined disclosure output – the end process of the disclosure process – as consisting of both "particular information" and "a variety of management related activities" (p. 129).

The particular information includes information set and content. The information set refers to information that fits a predetermined format while content refers to the "specific numbers or words disclosed" (p. 129). This latter category includes accounting calculations, policy choices and far reaching changes to the business in order to "produce a desired disclosure content" (Gibbins *et al.*, 1990).

Gibbins *et al.* (1990) argued that the way in which financial disclosure is managed can have significant consequences for the organisation. Management therefore engages in "various activities", namely, timing, redundancy, and *ex ante* and *ex post* interpretations in order to achieve desired outcomes. Redundancy refers to management efforts to provide information to different audiences by disclosing it using different media. Timing refers to the way managers deal with good or bad news. Beside these two activities, management may seek to influence the way others interpret the information when they receive it (*ex ante* interpretation) or after they receive it (*ex post* interpretation).

Disclosure outputs are the culmination of a disclosure process, which they defined as "[…] all activities and procedures, the individuals or groups involved, the alternatives considered, the timing and sequence of events, and the threads and connections among people and events" (p. 126). Gibbins *et al.* (1990) presented the disclosure process as producing disclosure output out of the interplay of five categories of variables that are linked in a unilinear direction, namely, disclosure position, antecedents of the firm's disclosure position, disclosure issues, structures, and external consultants and advisors (mediators) (see Figure 1).






**Source:** Gibbins *et al*. (1990, p. 128)

**Figure 1.**
Gibbins *et al.* model

Disclosure position refers to the firm's choice on how to manage disclosure. This position ranges from ritualism – where managers stick to certain accepted rules and norms regarding how disclosure should be managed – or opportunism – where managers seek to manage disclosure in a way that would benefit the firm. The antecedents influencing the firm's disclosure position may be internal or external. Internal antecedents include an organisation's history, strategy and internal politics, all of which contribute to beliefs about the appropriate way of managing disclosure. External antecedents on the other hand include legislation, regulation and existing standards, inter-organisational networks and organisation environment norms which exert coercive and/ normative influences[6] on the firm's disclosure position. Gibbins *et al.* (1990) argued that external and internal antecedents strongly influence whether and how disclosure issues are perceived.

Different disclosure issues activate different disclosure processes, in line with the perceived norms and opportunities in each. Where many issues are associated with opportunities, an opportunistic position may be taken while one with a preponderance of external norms (e.g. laws and regulations) is likely to activate a ritualistic position. Disclosure issues are in turn related to external consultants and advisors, who identify disclosure issues and the norms and opportunities associated with them. They also provide expert advice and thereby shoulder the risk of disclosure. Further, their involvement provides legitimacy to disclosures and might be used to justify pursuit of a "preferred course of action" (Gibbins *et al.*, 1990).

Disclosure output is also influenced by structures, which may be internal or external. Internal structures refer to existence of organisational arrangements where someone is assigned responsibility for disclosure or where there are clear guidelines for disclosure. Where internal structures exist, greater disclosure activity is likely. External structure on the other hand refers to the existence of organisations through which information to third-party organisations is channelled. Gibbins *et al.* (1990) contend that the degree to which sub-unit or individual managers in the organisation are given discretion over disclosure decisions will determine the nature of the entity's disclosure strategy. A diagrammatic representation of the model is presented in Figure 1.

## 5. Research methods

Gibbins *et al.*'s (1990, 1992) disclosure framework was used to partly frame the research questions, and to interpret the data. The data were collected from five MLAs case study organisations using 26 interviews over a period of four months from May to August 2010. The case studies consisted of one city council, three municipal councils and one district council. The five field sites were selected purposefully in order to obtain a mix of local governments of different characteristics in terms of size and organisational form (Table I, Panel A shows MLA category, revenue and population)[7]. This mix of local authorities with different sizes were chosen because prior literature (e.g. Allen and Sanders, 1994) posits that size influences disclosure practices. The study employed the explanatory case study method[8]. This approach enabled the researchers to understand the subjects' own description of social reality and the meanings that inform their actions (see Yin, 1989). Scapens (2004) argued that the explanatory case study is normally used when the researcher is attempting to explain observed accounting practices.

The interview questions were semi-structured and designed to allow the participants to interpret and describe the phenomena in their own way (Holland and Stoner, 1996). The interviewees worked at different levels, held different positions and were from a variety of backgrounds (Table I, Panel B for list of interviewees), but more fundamentally were chosen through a snowballing technique (that enabled us select those involved in financial disclosure).

*Panel A: characteristics of MLAs*

| Local government | Category | Revenue/Wealth (RM million) | Population/Size |
|---|---|---|---|
| 1. Alpha Municipal Council | Municipal Council | 186.7 | 913, 093 |
| 2. Omega Municipal Council | Municipal Council | 126.9 | 574,300 |
| 3. Gamma District Council | District | 43.0 | 243, 700 |
| 4. Delta Municipal Council | Municipal Council | 124.8 | 500,000 |
| 5. Beta City Council | City Council | 239.3 | 565,200 |

*Panel B: list of Interviewees*

| Council | Position | Department/Division | Length of service (years) |
|---|---|---|---|
| Alpha Municipal Council | Head of Finance Department (Director) | Finance | 15 |
| | Senior Assistant Director (Accountant) | Finance | 10 |
| | Assistant Director (Accountant) | Finance | 4 |
| | Assistant Director (Accountant) | Finance | 5 |
| | Assistant Director (Accountant) | Finance | 6 |
| | Assistant Accountant | Finance | 5 |
| | Assistant Accountant | Finance | 4 |
| | Head of Internal Audit Division (Director) | Internal Audit | 9 |
| Omega Municipal Council | Head of Department (Treasurer) | Finance | 11 |
| | Assistant Treasurer (Accountant) | Finance | 7 |
| | Assistant Accountant | Finance | 6 |
| | Assistant Accountant | Finance | 10 |
| Gamma District Council | Head of Department (Director) | Treasury | 5 |
| | Assistant Director (Accountant) | Treasury | 14 |
| | Assistant Internal Auditor | Internal Audit | 2 |
| | Head of Department (Evaluation Officer) | Evaluation | 4 |
| Delta Municipal Council | Head of Department (Director) | Treasury | 19 |
| | Assistant Director (Accountant) | Treasury | 11 |
| | Assistant Director (Accountant) | Treasury | 4 |
| | Assistant Accountant | Treasury | 6 |
| Beta City Council | Head of Department (Director) | Treasury | 18 |
| | Assistant Director (Accountant) | Treasury | 8 |
| | Assistant Director (Accountant) | Treasury | 3 |
| | Head of Internal Audit Unit (Director) | Internal Audit Unit | 3 |
| | Public Relations Officer | Public Relations and Corporate | 23 |
| | Assistant Director | Valuation and Property Management | 8 |
| Total | 26 interviewees | | |

**Table I.**
Characteristics of MLAs and list of the interviewees

Views of people with different work backgrounds and experiences enabled the researchers to obtain broader and diverging perspectives on the same topic or issue. The interview data were supplemented with internal documents and published sources, including annual reports, monthly management reports, legislative documents, financial reports, newspaper reports and MLAs' website reports. The audio interviews, interview transcripts, field notes and other documents were then coded using NVivo software. The interview data were read several times to gain familiarity with the information. The data were open coded and then systematically analysed and coded according to the themes in Gibbins *et al.* (1990, 1992). The classification of themes was, however, modified several times based on consultations with knowledgeable researchers to capture the Malaysian context (cf. Parent and Deephouse, 2007).

## 6. Research findings

The data reveal a web of relations between antecedents, issues, disclosure structure, external mediators, disclosure position and disclosure output that are difficult to disentangle as neatly as done in Gibbins *et al.*'s (1990, 1992) framework. We have therefore divided them into three broad sections, though even within these sections, other disclosure variables intrude – which is expected with our methodology. The next subsection analyses the relationship between antecedents, disclosure position and disclosure output.

### *6.1 Antecedents of disclosure, disclosure position and disclosure output*

The disclosure position of the organisation is influenced by internal and external antecedent conditions (Gibbins *et al.*, 1990, 1992). Table II shows important internal and external antecedents of MLAs' disclosure with quotes obtained from the interviewees.

Managements' view refers to both the individual experience of the mayor/president and collective management represented by the Financial Assessments Committee (FAC). The interviewees claimed that the mayor/president is the "controlling officer" of the council and, as such, is responsible for the local authority's income, spending and disclosure. The experience of the mayor/president in handling disclosure issues was considered to influence disclosure decisions. This experience enabled him/her to decide when to seek advice from accountants and when to instruct them on disclosure:

> Our President is very experienced in disclosure practices. He has been in the council for many years and has been dealing with the disclosure practices for a long time. He has the power to instruct us whether or not to disclose certain financial information […] Although most of the times he needs our advice, he can handle disclosure issue professionally based on his experiences (Finance Director of Alpha).

The quote suggests that the mayor/president would act either ritualistically or opportunistically depending on his/her previous experience regarding an issue. This finding suggests that more experienced mayors/presidents might disclose financial information more because they know how to navigate through the different political interests at play in a municipality.

As a collective, management's views on disclosure were expressed at the level of the various committees, where they were members. Specifically, the FAC was hugely influential because all disclosure issues were first brought to this committee, where they were approved. This committee provided a site where the mayor/president was able to exercise his/her influence in deciding what could or could not be disclosed, suggesting a ritualistic disclosure position following Gibbins *et al.* (1990, 1992).

The FAC was made up of a wide ranging number of professionals including accountants and lawyers. These professionals were able to influence disclosure decisions by virtue of their membership of the FAC, where all decisions on disclosure were made. Our respondents indicated that the experience and number of professionals who have been given the authority to deal with financial issues is a major internal influence on MLAs' disclosure practices. For example, the responsibilities of accountants in local councils are not merely limited to financial management; they are also tasked with advising the mayor/president and the FAC in making disclosure decisions.

The study also revealed that councils' previous disclosure practices and culture for dealing with financial disclosure influenced how disclosure is practiced in local councils. Specifically, the established rules and procedures of the councils defined the disclosure practices of councils

| No. | | Interview quotes |
|---|---|---|
| *Internal Influences* | | |
| 1. | A collective management view of how disclosure should be practiced | 1. Our President is very experienced in disclosure practices. He has been in the council for many years and has been dealing with the disclosure practices for a long time. He has the power to instruct us whether or not to disclose certain financial information […] Although most of the times he needs our advice, he can handle disclosure issue professionally based on his experiences (Finance Director of Alpha)<br>2. The President as a Controlling Officer must know all information in the council. We need first to inform or disclose any information to him. His decision is crucial. He has the power to make decision even though the decision is made by him alone. However, I must say that our President normally exercise his discretion and take into consideration of others' point of views and opinions. Especially when it comes to financial information disclosure, he normally seeks advice from the Director of Finance Department (Internal Auditor of Beta)<br>3. […]. Anything to do with financial must be brought to the Finance Committee Meeting. Although some matters are decided in other committees' meeting, when they come to financial matters, they need to be brought to the Finance Committee Meeting. All matters related to financial including financial policies must be approved in the Finance Committee Meeting […] (Public Relations Officer of Beta) |
| 2. | Historical antecedents, for example previous practices | 1. Our annual financial reporting and disclosure are greatly influenced by previous practices. We just follow the established rules and procedures of the previous practices […]. We disclose financial information as required by the regulation. What we disclose in the financial statements is a routine practices because what we disclose is more or less the same every year (Finance Director of Delta) |
| 3. | Number and experiences of professionals | 1. Given the position to advise the President and FAC in making disclosure decision, I would say experience and expertise are crucial. We have five accountants in the council. Accountants know best when it comes to accounting and finance matters in local council and we are the expert in this area. At the same time, given the workload as an accountant in the local council, we must adopt to the environment quickly. Even, if you do have the qualification, but you failed to adapt to the environment, you might fail to work as an accountant in the local council (Finance Director of Alpha)<br>2. Our President is very experienced in disclosure practices. He has been in the council for many years and has been dealing with the disclosure practices for a long time. He has the power to instruct us whether or not to disclose certain financial information […] Although most of the times he needs our advice, he can handle disclosure issue professionally based on his experience (Finance Director of Alpha) |
| 4. | Desire of the council to become more transparent | 1. Our council is becoming more transparent nowadays. This is better because when we are more open with the financial information, the public are able to see how we utilize their money. At the same time, this can change the public's perception that we always misuse their money (Finance Director of Beta) |
| *External influences* | | |
| 1. | Federal Treasury Circular and Accounting Standards | 1. In preparing of the budget, financial statements and annual report, we do refer to FRS by MASB. Besides that, we do refer to Financial Procedure Act 1957, Treasury Instructions and Treasury Circular (changes to Treasury Instructions) that is applicable to us. We also use the State Circular and Ministry of Housing and Local Government. However, those Circulars are more on work procedures […] Out of these, most of the time we refer to Federal Treasury Circular (Finance Director of Alpha)<br>2. For the presentation, form and content of financial statements, most of the time, we refer to Federal Treasury Circular […] In local council, for some of the revenues and expenses, we use accruals basis. For this reason, we normally refer to FRS (Financial Reporting Standards) by Malaysian Accounting Standard Board. Therefore, I would say that, we mainly refer and adopt Treasury Circular and we modify them to suit to our financial disclosure environment […] Sometimes we refer to FRS |

**Table II.**
Important influences on MLAs' disclosure

(*continued*)

| No. | | Interview quotes |
|---|---|---|
| 2. | Regulation – Local Government Act 1976 (Act 171) | 1. Basically, the councils operate based on their own Act, which is Local Government Act 1976 (Act 171). Besides, we do have several other laws such as The Street, Drainage and Building Act 1974 (Act 133); Town and Country Planning Act 1976 (Act 172) some other laws such as by-laws. These laws are created to help local council to run and operate their daily activities (Finance Director of Delta)<br>2. The general financial provisions are mainly explained by Act 171. This Act states that the local council must prepare their financial statements. However, the statement in the Act is very general. No detail requirement of the financial statements preparation and reporting are explained and mentioned in the act (Auditor of Beta) |
| | State and federal authorities | 1. The disclosure to the state authority is compulsory. It is provided in the Local Government Act 1976. For example, Section 60 (5) of Part VI states that "A copy of the statements and accounts shall be forwarded to the State Authority which shall cause it to be laid on the table of the State Legislative Assembly and, in the case of the City of Kuala Lumpur, of the House of Representatives" […] Finance (Director of Omega)<br>2. State government is like our parents. Disclosure of financial information to the state authority means we want them to know our financial position and performance and we want them to know which councils are having financial difficulties. If we are having financial difficulties, we normally request a grant or other form of financial assistances from the State Government. If we want to request the grant, for example, development grant, it will consider our financial position and performance. If the financial position of the council is strong, normally no grant will be granted. If we have the financial difficulties, normally State Government helps us. That is why disclosure of the financial information to state authority is crucial (Finance Director of Alpha)<br>3. We only disclose to the Federal Government when they request them (financial information). Normally, the request is made by Ministry of Housing and Local Government (MHLG). They normally request the information when they want to do the case study, to answer the question from Senate or National Hall and maybe for grant purposes. However, they normally request the information from the State Government, not directly from us (local council). We disclose our financial information to the state authority on monthly basis. Therefore, they (state authority) have all of our financial information. That is why they (MHLG) normally request the information from the state authority (Finance Director of Gamma) |
| | Disclosure structure | 1. In local council, we perform a lot of works and categories. So, to do all these jobs, we may have not enough staff and time. Therefore, from the administrative point of view, it stipulated in the Act 171 that the council needs to form the committees. These committees are chaired by the President and under him are the councillors. However, the councillors may sit on several other committees. One councillor may sit on three or four committees. The purpose of these committees is actually to expedite our work and decision-making. This means that we don't have to bring all issues to Full Council Meeting (Finance Director of Delta)<br>2. We need first to get approval from the Finance Committee and the Mayor, who normally sit in the Finance Committee to disclose anything in our financial statements. Most of the decision regarding the disclosure of financial information are decided in this committee meeting […]. I must say most of the time the management and the Finance Committee do not have much problem on what we want to disclose. They are very co-operative as long as we disclose the information in line with the established procedures (Finance Director of Beta)<br>3. The numbers of councillors in Finance committee are twelve including the Mayor. There are a total of twenty five councillors in Beta City Council. Besides the Finance Committee, we also have other committees such as Infrastructure Committee, One Stop Centre Committee, Sustainability Development Committee, Tender Committee and another nine committees. Overall, we have a total of |

(*continued*)

**Table II.**

| No. | | Interview quotes |
|---|---|---|
| | | fourteen committees in helping us to manage the council. However, only the Finance Committee is responsible for financial disclosure and policies (Finance Director of Alpha) |
| | Role of Treasury/ Finance Department | 1. We (Finance Department) just implement and perform what have been decided in the meeting (Finance Committee meeting) […]. The Treasury Director cannot make financial disclosure decision by his own. We can only recommend and advise on the financial matters in the meeting. We are operating under the supervision of controlling officer. Controlling Officer is the President. The President can make financial disclosure decision based on the advice from the Director of Finance Department (Finance Director of Delta)<br>2. We (accountants) advise the committee members (councillors) on some matters that the council cannot disclose to external parties by referring to rules and regulations such as Act 171 and Federal Treasury Circular […] The Finance Director and accountants can recommend and advise on the financial disclosure issues in the meeting. However, we (accountants) cannot make disclosure decisions by our own (Finance Director of Alpha) |
| | Role of the mayor/ president | 1. The President as a Controlling Officer must know all information in the council. We need first to inform or disclose any information to him. His decision is crucial. He has the power to make decision even though the decision is made by him alone. However, I must say that our President normally exercise his discretion and take into consideration of others' point of views and opinions. Especially when it comes to financial information disclosure, he normally seeks advice from the Director of Finance Department (Finance Director of Gamma)<br>2. In reality, the head of accountant for the local council is actually Mr. President. The Federal Treasury Instruction (FTI) states that the accountant need to get approval from the President on whatever he/she wants to disclose. In Financial Procedure Act 1957, the President is the "controlling officer" of the council. In the local council context, The President is responsible to make financial disclosure decision. The approval is in the hand of President. The reason here is that he is the controlling officer cum head of the local council (Finance Director of Alpha)<br>3. In Financial Procedure Act 1957, the President is the "controlling officer" of the council. In the local council context, The President is responsible to make financial disclosure decision. The approval is in the hand of President. The reason here is that he is the controlling officer cum head of the local council. The decision what to be disclosed in the President's hands, especially when it comes to the "sensitive issues (Assistant Finance Director of Delta) |
| | Role of the FAC | 1. The Finance Committee involves in the financial disclosure decision. This committee approves the decisions. This committee is a policy-maker. They approve our financial statements and budget […]. As I said, issue related to financial matters need to be brought to Finance and Assessment committee meeting. If we want to disclose whatever revenue or expenses, we need to be present and get approval in this meeting (FAC). This committee is very important. I would say this committee is the main committee for financial matters (Finance Director of Beta)<br>2. The Finance Committee meeting is where the financial regulations, procedures and policies are reviewed and decided. This includes the decisions on financial disclosure (Finance Director of Alpha)<br>3. I must say that most of the financial disclosure decisions are decided in the Finance Committee meeting. In other words, the matters are actually needed to be tabled, discussed and decided together in the Finance Committee meeting. In this meeting, The President as the chairman of the committee and as a Controlling Officer of the council can exercise his discretion (Finance Director of Delta) |
| | Role of the *Menteri Besar*/ chief minister | 1. In our local government, the mayor is the head of council, and comprised of 8 to as many as 24 councillors appointed by Menteri Besar of the state government […] (Finance director of Alpha) |

**Table II.** (*continued*)

| No. | | Interview quotes |
|---|---|---|
| | | 2. If the mayor does not agree with the decisions of other councillors, he/she can refer them to the Chief Minister or the "Menteri Besar" of the state whose decision is final (Finance Director of Beta) |
| *External Mediator* | | |
| 1. | Advice and views of external auditors | 1. […] approve the treatments and policies that are recommended by the external auditors […]. If they don't approve it, we cannot use the recommended treatments and policies […] (Finance Director of Delta)<br>2. The Auditor General plays important roles in our financial disclosure especially on the preparation of financial statements. They advise us especially on the disclosure of items in the financial statements […]. Basically, we prepare our financial statements according to Federal Treasury Circular and the Act (Act 171). The AG roles are to make sure whether or not we prepare our financial statements according to these regulations. Therefore, I must say that the form and content of our financial statements is guided by the circulars and advice from the AG (Finance Director of Alpha)<br>3. Most of the formats are advised by them […]. the contents of the financial statements are basically based on our activities. Although the Treasury Circular has provided a list of minimum statutory reporting requirements […] the circular (Treasury Circular) does not explain in detail the format as well as the form and contents of financial statements […] Therefore, I must admit that most of the presentations of our financial accounts are advised by the external auditors (Finance Director of Delta) |
| 2. | The disclosure practices of other councils | 1. I would say other councils' disclosure practices do influence our financial disclosure practices. For example, if we have newly created expenses or revenues, we need to find a way to disclose these new expenses or revenues. In this case, we will refer to other councils who have experienced and been through this process and have disclosed this kind of expenses or revenues in the financial statements […]. Normally, we follow their successful practices. It is a normal practice that we meet and call other accountants from other councils and have a discussion on the financial disclosure practices. I think every accountant in Selangor does this (Finance Director of Alpha)<br>2. Having the difficulties from the absence of the specific reporting requirements and standards, we normally follow the practices of other local councils. If I am unsure of certain accounting treatments, or unsure about new circular, I normally refer to the accountants from other local councils […]. We maintain a close relationship with other accountants from other councils […]. I must admit that the fellow accountants from other councils have helped us a lot. Most of the time, I refer to the fellow accountants at the same level. I even have a discussion and guidance from the accountants from larger council (Finance Director of Gamma) |

**Table II.**



which then tended to produce fairly stable levels of information in their financial statements, which we interpret as a ritualistic disclosure position following Gibbins *et al.* (1990, 1992).

The desire for favourable public perception was driving MLAs to become more transparent, translating to more disclosure output. The use of disclosure output to obtain favourable public perception is suggestive of opportunism following Gibbins *et al.* (1990).

The study shows that MLAs were subject to a number of laws and regulations both of which influenced their financial disclosure position to varying degrees, but that not all laws were considered important. The study showed that Act 171 is the most important legislation for accounting purposes in MLAs. As explained in the context, this legislation outlines the general financial accounting requirements of MLAs as well as the requirement for MLAs to keep proper records and books of account. Most interviewees argued that councils disclosed financial information because it was a requirement of Act 171. Compliance with the requirements of legislation are symptomatic of ritualism following Gibbins *et al.* (1990, 1992). This legislation does not stipulate the specific form and content of financial statements, however, which opens the door for MLAs to take opportunistic disclosure positions in their choice as to whether to disclose or not, and what to disclose.

The Act 171 enhanced the role of the mayor/president in financial disclosure. Section 10(7) of this Act states that if the mayor/president does not agree with the other councillors on certain decisions, he/she can refer them to the *Menteri Besar*[9] of the state whose decision is final and binding. Act 171 gives mayors or presidents substantial authority on how the local authorities are to be run, including their financial management and disclosure practices. The mayor/president as a "controlling officer" of the council is responsible for the local authority's income and spending and is answerable to the state government and influences what information is disclosed. The hierarchical structure of disclosure thus placed the mayor/president in a position of authority where s/he could influence financial disclosure if s/he chose to. The Act 171 influenced financial disclosure by specifying whom MLAs should report to. The Act required MLAs to report to state and federal governments. The councils were required to make monthly disclosures to the state authority so that it could determine which councils are financially sustainable.

The mayors/presidents were able to exercise their influence through control of the committees where financial decisions were made. Interviewees indicated that cases where the mayors/presidents were challenged are very rare because all financial disclosure decisions were later brought to the full council meeting for endorsement purposes, where most councillors were compliant. They opined that even if such a challenge arose, it was unlikely to succeed because the mayors/presidents were not elected officials but appointees of the *Menteri Besar* who was likely to back them. The law and by extension the influence of the *Menteri Besar* can be interpreted as an external antecedent which influences disclosure position and hence disclosure output *ala* Gibbins *et al.* (1990, 1992).

The absence of specific financial reporting requirements opened the door for opportunistic choice where accountants drew on other sources such as the Financial Procedure Act 1957, the FTC, circulars issued by the state authority, the MHLG and the Financial Reporting Standards set by the Malaysian Accounting Standard Board to prepare their financial accounts, budget and annual report. Presented with a choice of laws and standards, the data revealed that the accountants referred to the FTC for the preparation of financial accounts, which therefore affected the nature and level of information contained in the financial reports of MLAs, particularly the presentation, form and content. The choice of the FTC represented an opportunistic disclosure position because many of the external auditors relied on it and so using it ensured that the MLA was not only more easily auditable, but also that the auditor would be more positively disposed to the MLA. The choice also served to reveal the influence of external mediators and advisors on disclosure position as articulated by Gibbins *et al.* (1990, 1992).

The federal government was also influential in indicating whom the MLAs should report to. The interviewees revealed that they also disclosed financial data to the MHLG, but that they only did so if they were requested by the Federal Ministry. This suggests that there is a pecking order in terms of the importance accorded to the different institutions: deference to the Federal Ministry and disclosure to the MHLG only when required to do so by the Federal Ministry. Financial disclosure in these instances is interpreted as being ritualistic, following Gibbins *et al.* (1990, 1992).

The reasons for disclosure to the state and federal government were, besides ritualism, opportunistic. Our interviewees indicated that financial reporting to state governments was tied to persistent deficits in some local councils in Malaysia which required them to seek grants and contributions from both state and federal governments. Financial assistance to local governments, however, seemed to depend on the discretion of federal and state governments.

MLAs therefore used their reporting to obtain financial assistance from the state and federal governments. Once it had received the financial reports, the state authority would then take necessary action to help those councils that were facing fiscal difficulties. The financial statements were therefore deployed opportunistically to signal that the MLA needed financial assistance. We next discuss the web of relationships associated with antecedents and issues as delineated by Gibbins *et al.* (1990, 1992).

### *6.2 Relationships between antecedents and disclosure issues, disclosure structure, disclosure position and disclosure output*

The interview data reveal existence of a hierarchical disclosure structure consisting of the Treasury/Finance Department, the mayor/president, the FAC and the chief minister (Figure 2).

The Treasury/Finance Department was assigned overall responsibility for revenues, expenditures, payments, budget and accounting. This department was responsible for updating all accounting records and preparing monthly, quarterly and annual financial standing reports and financial statements. The interviews, however, revealed that the director of Finance/Treasury Department does not make financial disclosure decisions autonomously. The Treasury Director of Beta for example stated that "I don't have the authority to make financial disclosure decision". She did, however, indicate that once she had approval, and the item was included in the budget, then she would disclose it.

This view does not suggest though that the Treasury/Finance Department in MLAs plays no role in disclosure. On the contrary, the interviewees indicated that the accountants, particularly the finance/treasury director, advised and recommended disclosure issues during management and FAC meetings. The role of accountants in financial disclosure was thus mediated by a committee system. The various committees dealt with issues assigned to them so that only a few issues were presented to the full council meeting with the rest merely presented for the purpose of endorsement.

The FAC, which consists of councillors whose number varied from council to council, and was headed by the mayor/president, was assigned responsibility for financial aspects of the council. This committee was generally responsible for discussing and assessing

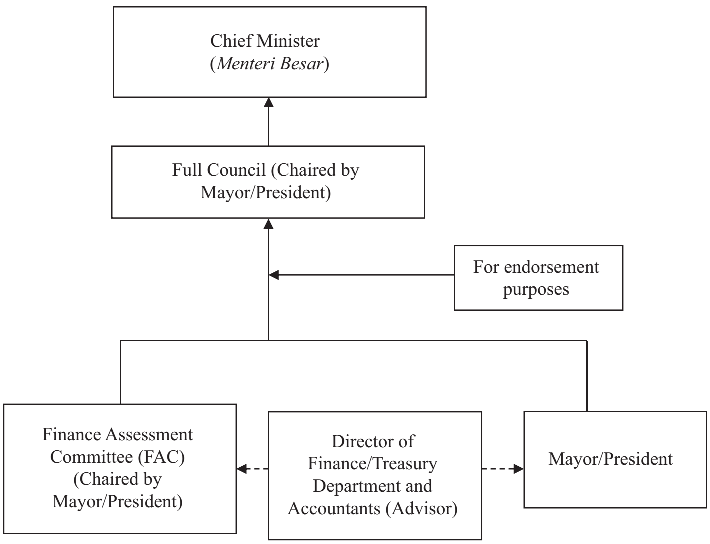



**Figure 2.**
Financial disclosure decision makers

financial issues, making financial disclosure decisions as well as approving financial policy and any changes to the policy:

> […]. Anything to do with financial must be brought to the Finance Committee Meeting. Although some matters are decided in other committees' meeting, when they come to financial matters, they need to be brought to the Finance Committee Meeting. All matters related to financial including financial policies must be approved in the Finance Committee Meeting […] (Public Relations Officer of Beta).

The study reveals that the FAC was the site where external and internal antecedents became imbricated in disclosure decisions. The FAC was, however, not the originator of the items over which it presided and which it approved. Instead, the FAC approved financial disclosure matters brought to it by others, who included the treasury or finance director and external auditors. The Finance Director of Delta explained that one of the functions of the FAC was to:

> […] approve the treatments and policies that are recommended by the external auditors […]. If they don't approve it, we cannot use the recommended treatments and policies […].

This quote underscores the significant role of external auditors in mediating financial disclosure decisions, which we shall examine more deeply in the next section. Further, the FAC's role in financial disclosure was mediated by the mayor who is its head and is also head of the council. The mayor mediated financial disclosure decisions directly or indirectly through delegation to the council accountants. But even where this power was delegated, the interviewees indicated that the mayor/president played a gatekeeper role, being the first person who needed to know the disclosure issues before they were disclosed to other stakeholders. On receipt of disclosure issues, the mayor/president categorised them and then decided on the disclosure position. For example, where the issues were politically sensitive, the mayor managed the disclosure to avoid damage to the council, which we interpret as opportunism (Gibbins *et al.*, 1990, 1992). Where the issues were not sensitive, they could be assigned to accountants, suggestive of ritualism. The mayor/president's mediation thus affects disclosure output through *ex ante* interpretation of the political impact of the disclosure in line with Gibbins *et al.* (1990, 1992).

Examples of a politically sensitive issue that the mayor or president needed to manage is the balance between economic logic and religious and personal sensitivities, again affecting the disclosure position. For example, one finance director stated that selecting a bank (local vs foreign, conventional vs Islamic) had been an issue in Malaysia and the ultimate decision regarding which bank and the type of account to select was decided by the mayor rather than the finance director in order to manage community expectations. This constitutes a very important aspect of the political context in which MLAs function. The decision takes into consideration the importance of religion in local authority decision making and financial disclosure, with the need to adhere to Islamic teaching trumping what might be considered to be rational economic decision making and disclosure. The need to manage these different expectations with an eye to avoiding conflict affects disclosure output by omitting details which have the potential to arouse conflict. Religion here might be viewed as an issue whose effect on financial disclosure position ultimately affects disclosure output following Gibbins *et al.* (1990, 1992).

The study reveals that the disclosure process is managed in a way so as to avoid full disclosure. Interviewees distinguished between "book" and practice: "book" is what they were required to do while what they did is actually different. They justified this departure from the "book" on the grounds of avoiding conflict or expediting decision making. Conflict is an essential part of the democratic process, but here conflict was being used as an excuse to avoid accountability. The mayor/president in this case was central to this process, controlling the information that was available to both the public, the committees and the council.

The mayor's overarching influence in financial disclosure is perhaps also influenced by the diversity of the composition of councillors who sit in the FAC which consisted of different professionals such as lawyers, accountants, lecturers, businesspeople and some members of non-government organisations. With such a diverse membership, it would be expected that the council would receive different views and opinions from the committee members. Interviewees indicated that all opinions and views were taken into consideration as each member in the committee had the right to give their opinion and view on each financial issue. Nevertheless, where a FAC meeting failed to reach consensus on certain financial disclosure issues or where there was a 50-50 split in votes, the mayor/president cast the deciding vote. It could be concluded that the experience and number of professionals who have been given the authority to deal with financial issues do influence the disclosure practices in MLAs. The FAC and council, however, receive only the information that the mayor deemed safe, suggesting that these professionals play only a symbolic role (Gibbins *et al.*, 1990, 1992). This interpretation is further bolstered by the fact that there almost always seemed to be a consensus on disclosure in MLAs. Though Ghani and Said (2010) argued that lack of expertise is hampering financial disclosure in MLAs, it would seem that the issue is more nuanced. The following subsection analyses the relationships between antecedents, external advisors and mediators, and disclosure output.

### *6.3 Relationship between antecedents, external mediators, disclosure position and disclosure output*

The study shows that most accountants in MLAs employ the FTC in the preparation and reporting of their financial accounts because these accounts are audited by the auditor general (AG) who normally makes extensive use of guidelines contained in the FTC. As such, legislative external antecedents influence financial disclosure through the mediating influence of other external antecedents, in this case the AGs, who define the norms of disclosure and provide opportunities for MLAs to take certain disclosure positions. We also interpret use of FTC in financial disclosure as being an opportunistic disclosure position (Gibbins *et al.*, 1990) because its use legitimatises MLAs to an important external mediator, the AG. The AG is unlikely to issue "unqualified audit certificate" to an MLA that has not prepared its financial statements according to his/her requirements[10].

Gibbins *et al.* (1990) highlighted the role of external advisors or mediators, which included identifying disclosure issues and related norms and opportunities (p. 132). Consistent with this theorisation, we found that beside the AG, external auditors were another important antecedent of MLAs' disclosure practices. The accountants and internal auditors interviewed emphasised the roles of the AG and appointed private auditors in their financial disclosure practices. Among other things, it appears that the external auditors gave advice to the accountants with regard to clarification and interpretation of accounting rules, updated them with new reporting policies, accounting standards and circulars, and advised them when there was conflict among circulars they had received. They also advised them on the presentation, form and content of their financial statements and provided them with technical advice and opinions. From the interview, it also emerges that the accountants normally follow the advice of the external auditors. We interpret this reliance on external auditors as ritualistic because the accountants seemed to follow their advice as a matter of course.

At another level, however, MLAs' reliance on these external advisors is also opportunistic: such reliance effectively shifts some risk associated with disclosure away from management, but also adds credibility to disclosure. The interviewees revealed that they always sought external auditor advice because their council wanted to improve the quality of their financial statements and that the council aimed for a clean audit certificate. In addition, the credibility and assurance of financial information presented in the financial reports of MLAs was made possible through auditing.

The mimetic and normative influence (cf. DiMaggio and Powell, 1983) of other councils on the disclosure process was also discerned. The interviewees revealed that the accountants working in these MLAs have maintained a good relationship with each other and will copy the practices of other councils especially those that implemented new practices successfully. The accountants working in MLAs often discuss their disclosure practices with accountants from other councils. Thus, we interpret this interaction and sharing between accountants in different MLAs as an example of ritualism as articulated in Gibbins *et al.* (1990). The following section discusses the paper and then concludes it.



## 7. Discussion and conclusion

The primary purpose of this study was to understand and explain the financial disclosure processes in MLAs, employing Gibbins *et al.*'s (1990, 1992) framework as an interpretive lens. The study reveals that financial disclosure in MLAs is influenced by both external and internal antecedents. The managements' view on how disclosure should be practiced, mayor/president preferences, previous disclosure practices and the number and experience of accountants were some of the internal antecedents of disclosure. Though previous studies (e.g. Allen and Sanders, 1994) have revealed the significant and positive role of the CFO in financial disclosure, our study reveals how professionals – including accountants – managers and politicians, especially the mayor/president, affect financial disclosure. Our study, however, adds a further insight, which is, that financial disclosure may be affected by the experience of the person of the mayor/president, which possibly enables them to navigate through different political interests. The study lifts the veil on the venerated position of the accountant in financial disclosure and shows other players to be perhaps more influential.

One of these actors is the auditor whose opinions and guidelines shape not only the choice of what laws and regulations to adopt but also what issues are important and how the information is presented. Previous studies have not examined this aspect, perhaps coming from the western-centric view of the independence of auditors. The study reveals that in the context of MLAs, the audit and preparatory roles of the auditors are intertwined. In this context therefore, auditor effectiveness might need to be re-conceptualised away from independence and towards the kind of advice they offer.

Previous studies (Robbins and Austin, 1986) have found municipalities led by city managers to be associated with financial disclosure because of the need to demonstrate professional competency. Our study confirms these findings by showing that mayors/presidents in the Malaysian context are more beholden to the political hierarchy to whom they rely for political and financial support. It is therefore not entirely surprising that the main audience for financial disclosure in MLAs is the state authority, auditor and MHLG, and not the general public. The disclosure to either of these actors is mandatory, but still MLAs take either a ritualistic position (we have always disclosed to them) or opportunism (to obtain financial assistance or achieve legitimacy from the external auditor). While previous studies suggest that municipalities disclose financial data to signal financial prudence, we find that MLAs disclose to signal financial distress. Put differently, financial disclosure appears to be directed more at securing financial support rather than for public accountability purposes.

The study reveals that legislation is an important external antecedent of financial disclosure. Though there are a varied number of laws governing financial accounting in MLAs, the MLAs chose the FTC as the guide to their financial disclosure. The reason advanced was that the auditors relied on it and so they would get a favourable opinion if they adopted the same guidelines as the auditor. We suggest that this choice is opportunistic *ala* Gibbins *et al.* (1990, 1992). Previous studies (e.g. Allen and Sanders, 1994) have identified externally imposed requirements as a factor in financial disclosure: our study reveals that opportunistic choice informs decisions regarding which requirements to comply with. We conclude that if the government wants financial disclosure to happen, it should make disclosure to the public mandatory and specify what is to be disclosed and in what form.

The study shows that financial disclosure is authorised at the highest level within the Council. Yet this authorisation exists within a complex hierarchical structure where at the bottom sit the accountants, followed by the FAC, the mayor, and the minister, in that order. It is not, however, such a neat linear structure because the mayor seems to bypass the FAC while accountants seem to make disclosure decisions when delegated by the mayor. The study shows that the mayor's decision to delegate is influenced by the disclosure issues: where sensitive, either there is no disclosure or the disclosure is aggregated so as to obfuscate the true story. The sensitivity of the information appears to influence disclosure position: where it is not sensitive, the information was routinely released, but where sensitive, it was withheld, suggestive of opportunism.

Specifically, where disclosure could potentially conflict with religion in this predominantly Muslim country, the MLAs often departed from the "book" and withheld disclosure or managed it in a way that was sensitive to its conflicting potential. Previous studies have not analysed the influence of religion on disclosure, so this is a contextual factor future studies might want to consider. Recent NPFM research (e.g. Guthrie *et al.*, 1998) which emphasised transparency and accountability and the objectivity of financial reporting would have to contend with this unique context where politics and religion are privileged. This finding suggests that mandatory requirements might not be associated with more financial disclosure (unlike Allen and Sanders, 1994) where religion is present.

There are strong relationships between the structures identified and the components of financial disclosure. The study found that committees – specifically FAC – plays an important mediating role in financial disclosure: all financial disclosure issues are brought before it and decided thereupon. This finding is consistent with Kuppusamy (2008), Haidar *et al.* (2004) and Holland and Stoner (1996) and in line with Gibbins *et al.* (1992), who suggested that significant disclosures and changes in accounting policy are approved by a committee consisting of senior officers. What is however significant from our findings is that this committee works at the behest of the mayor who can veto its decisions. We found that the committees are made up of a diversity of highly accomplished people. Yet though interviewees indicate that this diversity is influential in disclosure, the fact that there is almost always a consensus suggests that dissent is not brooked. Furthermore, the mayor exercises a casting vote where there is a tie, or appeals to the chief minister where there is dissent suggesting that he or she exercises inordinate influence. Thus though lack of expertise has been cited to explain low financial disclosure among MLAs (e.g. Ghani and Said, 2010), it seems as if their influence is over-emphasised.

The weaknesses of this study are that, first, time has elapsed between when the data were collected and when the results became published. As a result, a lot may have changed. Subsequent studies (e.g. Ahmad, 2016) suggest though that there have been minimal shifts in financial disclosure regulations in the public sector in Malaysia. Second, being a case study, the results cannot be generalised to local authorities in different contexts. This notwithstanding, the study demonstrates that case study-based research can contribute useful insights into the complex and multi-dimensional phenomenon of financial disclosure. This study enhances our understanding of the disclosure management and practices in MLAs. The findings of this study have contributed to the existing literature by providing greater understanding of the financial disclosure processes in the public sector. Specifically, the Malaysian context reveals that financial disclosure or the role of external auditors is not the objective apolitical process it is promoted to be in the mainstream accounting literature. Instead, the study reveals that the role of accounting is influenced by the context in which the account is required and is often deployed opportunistically to gain advantage or avoid conflict. This should be an important lesson for advocates of new public financial management.



## Notes

1. Since 2005, the Malaysian public sector has adopted IPSAs cash basis accounting. Subsequently, the government initiated the Public Finance Strategic Reform Initiative (SRI) in order to enhance public sector transparency and accountability. A requirement of SRI was, *inter alia*, for the public sector to shift to accrual accounting (Ahmad, 2016).
2. Ghani and Said (2010) use the term performance to refer to the economic well-being of residents. Prior studies (e.g. Laswad *et al.*, 2005) refer to this attribute as wealth. Social obligation on the other hand refers to the authorities' expenditure on development in the authority.
3. Municipal Committees were created in 1948 as a precursor to the present MLAs and were authorised to construct streets, to sell adjacent lands in lots, and to plan drainage systems. These committees were also made responsible for preservation of law and order, and to levy and raise assessment rates. Under Section 15 of the Act, the Municipal Committees were required to publish a statement of accounts for the interest of ratepayers (Athi Nahappan Report, 1970).
4. This is unlike the practise in developed countries. For example, in the UK, CIPFA has developed and implemented The Codes of Practice on Local Authorities Accounting in United Kingdom: A statement of Recommended Practice – guidance notes for practitioners; in Australia, AAS 27 Financial Reporting by AARF (1996) provided specific rules and regulations to govern the published accounts of local authorities. In the USA, the GASB issues standards governing accounting for local authorities.
5. This model was adapted to this public sector context by removing references to the private sector such as using "organisation" instead of firm. Other than these private sector specific constructs, the way it is operationalized in the private sector is appropriate for the public sector context.
6. Though Gibbins *et al.* (1990) make no reference to neo-institutional theory, their concepts of coercive and normative pressures are similar to those associated with isomorphism in neo-institutional theory (e.g. Dimaggio and Powell, 1983).
7. We had approached a number of authorities to give us access and three municipals councils welcomed our research while only one each of district and city councils did.
8. While the study is exploring a hitherto unexplored Malaysian context, it is informed by well-developed theoretical constructs drawn from Gibbins *et al.* (1990), therefore is explanatory. We seek to explain observed behaviour employing this theorisation.
9. *Menteri Besar* is the governor in each of the nine states in Malaysia that have a monarch. Four states without a monarch are governed by a chief minister (*Ketua Menteri*).
10. "An unqualified audit certificate" here means that the MLA would not be directed to revise the financial statements if they have been prepared according to the expectations of the Auditor General. The latter's requirements are partly informed by their reliance on FTC.

## References

AARF (1996), *Financial Reporting by Local Governments, Australian Accounting Research Foundation*, Melbourne.

Abdul Khalid, S.N. (2008), "New public management in Malaysia: in search of an efficient and effective service delivery", *International Journal of Management Studies*, Vol. 15, pp. 69-90.

Adams, M. (1997), "Ritualism, opportunism and corporate disclosure in the New Zealand life insurance: field evidence", *Accounting, Auditing & Accountability Journal*, Vol. 10 No. 5, pp. 718-734.

Ahmad, N.N. (2016), "Investigating the factors influencing users' resistance towards accrual accounting", *Procedia Economics and Finance*, Vol. 35, pp. 17-26.

Allen, A. and Sanders, G.D. (1994), "Financial disclosure in US municipalities: has the Governmental Standards Board made a difference?", *Financial Accountability and Management*, Vol. 10 No. 3, pp. 175-193.

Athi Nahappan Report (1970), "A report of the Royal Commission of Inquiry to investigate the workings of the local authorities in West Malaysia", Government Press, Kuala Lumpur.

Brusca, I. and Montesinos, V. (2006), "Are citizens significant users of government financial information?", *Public Money & Management*, Vol. 26 No. 4, pp. 205-209.

Carpenter, V.L. and Feroz, E.H. (2001), "Institutional theory and accounting rule choice: an analysis of four US state governments' decisions to adopt generally accepted accounting principles", *Accounting, Organizations and Society*, Vol. 26 Nos 7/8, pp. 565-596.

Coombs, H.M. and Tayib, M. (1999), "Financial reporting practice: a comparative study of local authority financial reports between the UK and Malaysia", in Caperchione, E. and Mussari, R. (Eds), *Comparative Issues in Local Government Accounting*, Kluwer Academic Publishers, London, pp. 53-68.

DiMaggio, P.J. and Powell, W.W. (1983), "The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields", *American Sociological Review*, pp. 147-160.

Gandia, J.L. and Archidona, M.C. (2008), "Determinants of website information by Spanish city councils", *Online Information Review*, Vol. 32 No. 1, pp. 35-57.

Garcia, A.C. and Garcia-Garcia, J. (2010), "Determinants of online reporting of accounting information by Spanish local government authorities", *Local Government Studies*, Vol. 36 No. 5, pp. 679-695.

Ghani, E. and Said, J. (2010), "Digital reporting practices among Malaysian local authorities", *Journal of e-Government*, Vol. 8 No. 1, pp. 33-44.

Gibbins, M., Richardson, A. and Waterhouse, J. (1990), "The management of corporate financial disclosure: opportunism, ritualism, policies and processes", *Journal of Accounting Research*, Vol. 28 No. 1, pp. 121-143.

Gibbins, M., Richardson, A. and Waterhouse, J. (1992), "The management of corporate financial disclosure: theory and perspectives", Research Monograph No. 20, The Canadian Certified General Accountants' Research Foundation, Vancouver.

Guthrie, J., Olson, O. and Humphrey, C. (1998), "Debating developments in new public financial management: the limits of global theorising and some new ways forward", *Financial Accountability and Management*, Vol. 15 Nos 3/4, pp. 209-228.

Haidar, A., Hai, L.H. and Pullin, L. (2004), "An impoverished neutrality? Public manager values in local government, Penang, Malaysia", *Local Government Studies*, Vol. 30 No. 1, pp. 88-107.

Hassan, N.S.A., Hassan, M.S. and Nor, H.M. (2007), "Financial reporting quality of local authorities in Peninsular Malaysia", paper presented at the World Association for Sustainable Development 5th International Conference, Brisbane, 10-12 April.

Holland, J. and Stoner, G. (1996), "Dissemination of price-sensitive information and management of voluntary corporate disclosure", *Accounting and Business Research*, Vol. 26 No. 4, pp. 295-313.

Hood, C. (1995), "The 'new public management' in the 1980s: variations on a theme", *Accounting Organisations and Society*, Vol. 20 Nos 2/3, pp. 93-109.

Hopwood, A.G. (2000), "Understanding financial accounting practice", *Accounting, Organisations and Society*, Vol. 25 No. 8, pp. 763-766.

Jones, R. (1992), "The development of conceptual frameworks of accounting for the public sector", *Financial Accountability & Management*, Vol. 8 No. 4, pp. 249-264.

Kuppusamy, S. (2008), "Local government in Malaysia: back to basics and the current scene", *Journal of Malaysian Chinese Studies*, Vol. 11, pp. 77-96.

Laswad, F., Fisher, R. and Oyelere, P. (2005), "Determinants of voluntary internet financial reporting by local government authorities", *Journal of Accounting and Public Policy*, Vol. 24, pp. 101-121.

Marcuccio, M. and Steccolini, I. (2009), "Patterns of voluntary extended performance reporting in Italian local authorities", *International Journal of Public Sector Management*, Vol. 22 No. 2, pp. 146-167.

Nyamori, R. (2009), "Construction and effects of markets on a local authority in New Zealand", *Accounting, Auditing and Accountability Journal*, Vol. 22 No. 7, pp. 1055-1086.

Othman, R., Taylor, D., Sulaiman, M. and Jusoff, K. (2008), "Perceptions of Malaysian local government managers on accountability typology", *Asian Social Science*, Vol. 4 No. 8, pp. 55-63.

Parent, M.M. and Deephouse, D.L. (2007), "A case study of stakeholder identification and prioritization by managers", *Journal of Business Ethics*, Vol. 75 No. 1, pp. 1-23.

Perez, C.C., Bolivar, M.P.R. and Hernandez, A.M.L. (2008), "e-Government process and incentives for online public financial information", *Online Information Review*, Vol. 32 No. 3, pp. 379-400.

Phang, S.N. (2008), "Transforming local government in Malaysia: implications for centralization and democratization", *Journal of Malaysian Chinese Studies*, Vol. 11, pp. 97-110.

Robbins, W.A. and Austin, K.R. (1986), "Disclosure quality in government financial reports: an assessment of the appropriateness of a compound measure", *Journal of Accounting Research*, Vol. 24 No. 2, pp. 412-421.

Scapens, R.W. (2004), "Doing case study research", in Humprey, C. and Lee, B. (Eds), *The Real Life Guide to Accounting Research*, Elsevier, Amsterdam.

Serrano-Cenca, C., Rueda-Tomas, M. and Portillo Tarragona, P. (2016), "Factors influencing e-disclosure in public administrations", *Environment and Planning C: Politics and Space*, Vol. 27 No. 2, pp. 355-378.

Siddiquee, N.A. (2006), "Public management reform in Malaysia: recent initiative and experiences", *International Journal of Public Sector Management*, Vol. 19 No. 4, pp. 339-358.

Stanley, T., Jennings, N. and Mack, J. (2008), "An examination of the content of community financial reports in Queensland and local government authorities", *Financial Accountability and Management*, Vol. 24 No. 4, pp. 411-438.

Steccolini, I. (2004), "Is the annual report an accountability medium? An empirical investigation into Italian local government", *Financial Accountability & Management*, Vol. 20 No. 3, pp. 327-350.

Styles, A.K. and Tennyson, M. (2007), "The accessibility of financial reporting of US municipalities on the internet", *Journal of Public Budgeting, Accounting and Financial Management*, Vol. 19 No. 1, pp. 56-92.

Tayib, M., Coombs, H.M. and Ameen, J.R.M. (1999), "Financial reporting by Malaysian local authorities – a study of the needs and requirements of the users of local authority financial accounts", *The International Journal of Public Sector Management*, Vol. 12 No. 2, pp. 103-120.

*The Sun* (2006), "Wake-up call for councils", *The Sun*, Web Edition, 17 February, available at: www.thesundaily.com

Tooley, S., Hooks, J. and Basnan, N. (2010a), "Stakeholders' perceptions on the accountability of Malaysian local authorities", *Advances in Public Interest Accounting*, Vol. 15, pp. 161-193.

Tooley, S., Hooks, J. and Basnan, N. (2010b), "Performance reporting by Malaysian local authorities: identifying stakeholder needs", *Financial Accountability and Management*, Vol. 26 No. 2, pp. 103-133.

Yin, R.K. (1989), *Case Study Research: Design and Methods*, Sage, Newbury Park, CA.

## Further reading

Giroux, G. (1989), "Political interests and governmental accounting disclosure", *Journal of Accounting and Public Policy*, Vol. 8 No. 3, pp. 199-217.

Gordon, T., Fischer, M., Malone, D. and Tower, G. (2002), "A comparative empirical examination of extent of disclosure by private and public colleges and universities in the US", *Journal of Accounting and Public Policy*, Vol. 21, pp. 235-275.

Hyndman, N. and Anderson, R. (1995), "The use of performance information in external reporting: an empirical study of UK executive agencies", *Financial Accountability & Management*, Vol. 11 No. 1, pp. 1-17.

Mack, J. and Ryan, C. (2007), "Is there an audience for public sector annual reports: Australian evidence?", *International Journal of Public Sector Management*, Vol. 20 No. 2, pp. 134-146.

Pilcher, R. and Dean, G. (2009), "Consequences and costs of financial reporting compliance for local government", *European Accounting Review*, Vol. 18 No. 4, pp. 725-744.

Ryan, C., Stanley, T. and Nelson, M. (2002), "Accountability disclosures by Queensland local government councils: 1997-1999", *Financial Accountability & Management*, Vol. 18 No. 3, pp. 261-289.

Trabelsi, S., Labelle, R. and Laurin, C. (2004), "The management of financial disclosure on corporate websites: a conceptual model", *Canadian Accounting Perspectives*, Vol. 3 No. 2, pp. 235-259.



**About the authors**

Neilson Anak Teruki is Senior Lecturer in Accounting at the Department of Social Science, Universiti Putra Malaysia. He obtained a PhD from the La Trobe University, Australia in 2013.

Robert Ochoki Nyamori has extensive teaching and research experience in Accounting in internationally recognised universities. He has taught Management Accounting, Financial Accounting and Government and Not-for-Profit Accounting at Abu Dhabi University since Fall 2015. Prior to that he taught Management Accounting and Public Sector Accounting at La Trobe University, Qatar University and Massey University. He was a Visiting Professor at KCA University in 2012 and Sultan Qaboos University in Oman in 2006. Robert's research is concerned with understanding and making a critical commentary on how the public sector is governed. His work has been published in some of the reputed journals in accounting including *Accounting, Auditing and Accountability Journal*, *Financial Accountability and Management Journal*, *Critical Perspectives on Accounting* and *Journal of Accounting Literature*.

Kamran Ahmed is Professor of Accounting at La Trobe Business School. His research interests are in corporate disclosure, corporate accounting policy choice, earnings management, international accounting harmonisation, accounting and reporting practices in South Asia, and microfinance reporting. Professor Ahmed has published in a wide range of scholarly journals including *Abacus*, *Accounting and Business Research*, *Critical Perspectives on Accounting, International Journal of Accounting*, *Accounting and Finance*, *British Accounting Review*, *Corporate Governance: An International Review*, *Journal of Accounting and Public Policy* and *Journal of Business Finance and Accounting*. He is currently an Associate Editor of *International Journal of Accounting, Auditing and Performance Evaluation* and is an Editorial Board Member of several journals including *International Journal of Accounting*. Kamran Ahmed is the corresponding author and can be contacted at: k.ahmed@latrobe.edu.au