# STUDY ON THE IMPACT OF POLITICAL INFLUENCE AND CORPORATE GOVERNANCE ON THE FINANCIAL REPORTING IN ETHIOPIA

**KENO TELILA MIJENA**

*Punjabi University, PhD Scholar Department of Commerce, Patiala, India*

---

**Abstract -** *Presently, the issue of financial reporting and information becomes an immense agenda of government, organizations and stakeholders in Ethiopia. This is because of the expansion of globalization, information technology, international trade, foreign direct investment, financial frauds and the change of financial reporting regulation and standards. Thus, the overall intent of this paper was to explore whether the political influence and corporate governance structure and policy were considerable affected the magnitude of financial reporting quality of organizations in Ethiopia. To address this, the paper employed both qualitative and quantitative research designs. Both primary and secondary sources were used. The paper used descriptive and inferential analyses conducted by STATA-13. The study found that the financial reporting of organizations in Ethiopia was significantly affected by the magnitude of political influence and corporate governance structure and policy. The study further explored that the political influence had statistically negative correlation with the quality of financial report in Ethiopia. The paper depicted that the financial reporting of the organizations was significantly affected by the extent of the poor corporate governance structures and rule in Ethiopia. Besides, the study identified that the weak corporate management structure and strategy had a positive and strong correlation with the meager quality of the financial reporting in the country. The study recommended that the concerned authorities should create independent and skilled board member and directors and other chief officers. The study further suggested that the concerned parties must reduce or else mitigate politicians' interest in the company and an attachment of organizations with politician/s and political parties as it diluted the financial reporting quality of the organization. Advisable if the country adopt Germany's two-tire corporate governance model in order to reduce the issues of corporate governance and financial reporting. Finally, the researcher recommended that the government and organizations should adopted mixed corporate governance theories such as stakeholder, stewardship, political and legitimate theories than agency theory.*

***Keywords: Political influence, Corporate Governance, Financial reporting, Organization***

## 1. INTRODUCTION

Currently, the issue of the financial report is realized as one of the fundamental ingredients and infrastructures of accessing investment funds, mainly, foreign direct investment in Ethiopia. Overtly available financial statements such as profit and loss statement, financial position and financial condition are aid internal and external users to make realistic business decisions of the organizations (Watts and Zimmerman, 1986). One of the essential tools of surmounts business constraints such as access to capital is enshrining high-quality financial reporting made in line with basic accounting standards. High quality of financial reporting is not just valuable for owners or stakeholders for making economic decisions but also to the country to attract international capital inflows as well as foreign investment. While the importance of high-quality financial reporting has been documented, it was distressing when recent corporate misdeeds and scandals advocate that financial statements quality require further examination (Sutton et.al, 2008 and Penman, 2003). Some studies have connected low-quality financial reporting with the influence of political matters (Leuz and Verrecchia, 2007 and Oberholzer-Gee, 2006). Besides political influence, corporate governance has also recognized to have an impact on financial reporting quality. Byard, et.al (2006) proposed that poor financial reporting is linked with political matters and poor corporate governance (Fan et.al, 2007). Although the earlier studies like Mohad (2009) recognized political influence and wrong corporate governance structure and mechanism as the basic causal factors of the poor financial reporting, to date, there was no study discovered in the context of Ethiopia. Thus, this study interested in investigating the influence of political matters and corporate governance structure on the financial reporting of organizations in Ethiopia.

### 1.1 Objective of the Study

The overall intent of this article was to investigate the effect of political influence and corporate governance on financial reporting in Ethiopia. Specifically, it addressed:

- To study whether the political matters influence the financial reporting in Ethiopia.
- The influence of corporate governance structure on the financial reporting in Ethiopia.

### 1.2 Research Question

• Are political influence and corporate governance affected the financial reporting of the organizations in Ethiopia?

### 2. Hypothesis:

HO1: Political influence does not have a significant impact on the financial reporting of organization in Ethiopia.

HO2: Corporate governance structure and policy does not have a significant influence on the financial reporting of organization in Ethiopia.

### 1.3 Statement of the Problem

The growth of globalization of finance, product market, international trade, market participants, foreign investment, technology, regulation in financial report and fraud augment the value of financial report globally. Ethiopia takes different measures such as the adoption of international financial reporting standards and E-accounting system to improve earning and disclosure qualities of financial statement of the whole enterprises. The country has created independent accounting, and auditing bureau refers to Ethiopia Accounting and Audit Office. The financial report became the hallmarks of the business, economic, social, political and environmental issues in the country. This is because of an increase in inflation, international trade, foreign investors, social responsibility, fraud and international financial reporting standards, auditing and taxation. Currently, there is a critical dispute between the Ethiopia government and companies about the financial report in the area of tax disbursement and financial frauds. Several political parties and activist are considered their quarreled the abuse of government investors because of their political ideologies. Even if the Ethiopia government has taken certain measures, the issue of accounting practice and reporting are still forceful. Regarding this (Luez and Verricchia, 2009; Ball et al., 2003; Mohad,2009; Naser and Nuseibeh, 2003, Faccio and MC. Connel, 2006; Tagesson, 2007; Agrawal and Knoeber, 2001, Bushman et.al, 2004, Fan et al., 2007; Darman, 2004 and Duffy, 2004) assured that the accounting practice such as financial reporting was affected both by external and internal factors including politician in the boards of directors, corporate governance, accounting standard, corporate size, nature of industry, law and its enforcement, firm fundamental and financial characteristics and policy. Therefore, this study investigated the impact of political influence and corporate governance structure on the financial reporting of the organization in Ethiopia.

### 1.4 Significance of the Paper

The importance of this paper rose to look at the impact of political influence and corporate government on the financial reporting of selected companies in Ethiopia. Accordingly, the output of this research provides a hint for policymakers, legislators and practitioners on how to build and implement efficient corporate governance structure and financial reporting legal frameworks and deciding on the extent of participation of politicians and government in the business atmosphere. Furthermore, these outputs propose that institutional details matter when considering the effect of political influence on corporate governance and financial reporting. The results of this study enable stakeholders to take proper measures and decision by utilizing information regarding financial conditions and performance of the organizations. High quality financial reporting such as balance sheet, income statement, and cash flows statement and internal control system useful not only for stakeholders when making business decisions but also to a country to attract international fund inflows and investment. The findings of this paper help to reduce the agency problem among various parties in the business environment such as government, investors, owners and managers and board of directors. In general, this paper will be broadening the existing piece of knowledge and experience on accounting practices and methods including financial reporting.

### 1.5 Research Methodology

The study used mixed approach because of distinct objectives addressed by diverse methods and tools. The study was used both primary and secondary sources of data. The data was collected by means of self administered questionnaires and published materials. The paper was selected 300 respondents including accountants, managers and auditors from purposely selected companies in Ethiopia. To identify the relationship between the predictors and dependent variables, the study used the subsequent research framework. For data analysis, the paper was employed both descriptive and ordered logistic regression analysis performed by STATA-13. Besides, the researcher used the below figure to predict the impact on political influence and corporate governance on the financial report of organizations in Ethiopia.

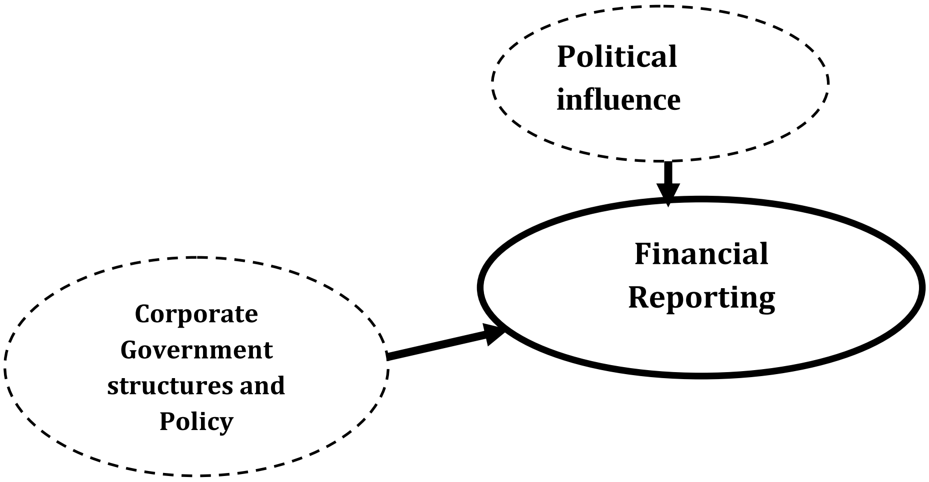


**Figure 1**

**Research Framework**

Source: By researcher

**2. REVIEW OF RELATED LITERATURE**

This piece discussed previous works on the determinants of the financial reporting quality of the organizations in Ethiopia. The political impact on financial reporting can happen through government possession, government holding of a golden offer and existence of legislator/s on the top managerial staff otherwise board of directors. Those organizations incorporated those were the legislature has share and golden offer possession and lawmaker/s ready, non-government claimed organizations yet with legislator named on the board, and other private co (Mohad,2009). Political meddling by the particular regime, for example, through buddy coalitions, generally simple access to credit or different facilities delighted in inefficient and unviable investment or speculation and ventures. Organizations that have the connection would take unique advantage as far as strong influence and leverage, low tax collection, and high market esteem and values (Faccio et.al, 2006).

The involvement of government and politicians in a company can create a double agency problem involving self-interested behaviour by both managers and politicians (Fan and Wong, 2004). Furthermore, Mohad (2009) stressed that politicians might supply information on public policy or regulations or offer a linkage between managers and government agencies (such as preferential access to credit) in return for financial incentives for example campaign financial contribution and social welfare expenditure that could gain constituency supports or vote during the election. Evermore, the involvement of politician/s in a company can affect management decisions and as a result, may affect the outcome of the company's economic decisions.

The involvement of politician/s interference, causing severe agency problem, the accounting system of the companies may also be affected because accounting systems are closely linked the agency problems (Tagesson, 2007). Government or politicians may prefer accounting systems which allows them to report a selective subset of information and for annual reports to be presented in their best interest (Leftwich et.al,, 1977). The manager may provide quality of financial statements to increase confidence among the current and potential investors and to reduce agency conflicts (Chow and Wong-Boren, 1987). Previous research works (for example, Agrawal and Knoeber, 2001, Bushman et.al, 2004, Fan et al., 2007) pointed out that politician can influence corporate government especially in terms of the board of compositions or management appointments. Agrawal and Kroeber (2001) found companies that have business relations with the government tent to include outside directors with backgrounds in a politician or have government representatives on their board. If the company's board of directors consists of members who have political influence companies chief executive officer will also be someone with political connections (Fan et al., 2007). Bushman et.al, (2004) found that political influence the compositions of management teams and board of directors.

Mohd (2009) expressed company characteristics as determinants of the disclosure quality and explained ownership structure and governance mechanisms must be strong enough to ensure better outcomes such as excellent performance, higher firm value and more top financial reporting quality. Fama and Jensen (1983) identified four necessary control instruments of individual's corporate governance instruments outlined by comprised legal and regulatory mechanisms, internal control mechanisms, external control mechanisms and product and market competition.

A system of strong governance allows a broad of directors to drive their companies forwards without restraining while excising this freedom within a framework of accountability (Cadbury, 1992). Also, it is aimed at treating the shareholders equally and preserving their rights (Darman, 2004). In other words, strong corporate with limited market mechanism like the managers' performance of government-owned companies, corporate governance become a fundamental control mechanism (Ernst, 2004).

The importance of corporate governance has been widely recognized in prior studies. It is noted as being an essential factor in firm value (La Porta et.al, 2000) and important control mechanism (Dechow et.al, 1995). Concerning government-owned companies, many of which have commonly been regarded as natural monopolies, comparison with similar companies to assess relative performance becomes difficult, and this makes it easier for managers to pursue their interests (Ernst, 2004). Consequently, with these limited market mechanisms to control for managers' performance of government-owned companies, corporate governance becomes a crucial control mechanism.

There is no standard definition of corporate governance used in the literature. Donaldson (1990) corporate governance as the structure whereby managers at the organizational apex are controlled through the board of directors, its associated structures, excessive incentives and other schemes of monitoring and bonding. Cadbury, (1992) from broader prospective corporate governance is defined as a system by which companies are directed and controlled. It consists of two components: Corporate, which refers to corporations and governance, which refers to the act, fact or manner of governing (Lanno, 1999). Stressing on stakeholder's rights, Demb and Neubauer (1992) stated that corporate governance is the process by which corporations are made responsive to the rights of stakeholders.

Moody's investors' services in Duffy (2004) and Mohd (2009) explained that weak corporate governance is the product of insider dominated board of directors, attendance of celebrity of executive officers, questionable board composition, including members with inadequate business experience or those who appear to be members due to political or other influence, risk pay schemes for top executives that could encourage short-term actions harmful to companies creditors, absence of an independent committee to nominate directors, accounting restatements or indications company is unusually aggressive in its accounting systems; indicating a lack of proper internal controls or active directors oversights, evidence for the company's audit committee is not firmly in charge of the relationship with the external auditors, high director absenteeism or lack of attendance at critical meetings, particularly those of the audit committee, lack of reasonable director turnover, which may indicate the absence of fresh perspective on the board, excessive member of takeover defense indicating entrenched management and desire to protect status quo, no respect for shareholder's view by rejecting shareholder proxy requests and incoherent ethics policy or one without a clear implementation plan.

The presence of a dominance shareholder, such as the government, in a company, has been argued to have a negative influence on the quality of corporate communication, by using the company's financial reporting system to benefit the dominants shareholder (Melis, 2004). When the owner of a company is part of management, they may have a personal interest in the information disclosed and incentives to manage the disclosures (Ball et.al, 2001). This creates a moral hazard and information asymmetry between the owner and outside investors. When the owner's holding in a company increases and governance mechanisms of the company are weak, then monitoring will be more challenging to perform (Morck et.al, 1988).

Shen and Chih (2007) generalized that corporations with quality corporate governance restraint are earning management and thus augment earning quality. Additionally, Lara et. al (2007) found that companies with stronger corporate governance report more conservative earnings. In general, prior studies have found that the characteristics of weak corporate governance structure such as the existent of dominants personalities, a lower proportion of independents directors, and the non-existence of audit committees are associated with low financial reporting quality. The evidence suggests that weak corporate governance reduces financial reporting quality.

Earning management has been found to be associated with board competency, the board size, audit committee independence, frequency of audit committee meeting and the existence of financial experts on the audit committee (Mohad, 2009). Independent boards of directors and audit committees have been found to control earning aggressiveness (Peasnell et al., 2005). Active boards are also positively related to earnings accuracy (Karamanou and Vafeas, 2005); earning in formativeness (Vafeas, 2000) and earnings credibility (Ashbaugh et al., 2005). One of the purposes of corporate governance is to mitigate agency costs by improving the quality of financial reporting. Prior studies have documented the links between internal governance mechanisms and financial reporting quality, measured in terms either of the quality of disclosure or of the quality of earnings. Associations found between disclosure quality and board characteristics: the proportion of independent board members (Chen and Jaggi, 2000).

Fauziah and Adamu (2012) were expressed agency theory as the initial theory of corporate governance, followed by stewardship, stakeholder resource dependency, political, legitimacy and social contract theories. Further the study argued that these theories indicate the cause and effect of parameters, like formation of board structure, audit committee, independent non-executive directors and the duties of upper management and their organizational and social responsibilities rather than its regulatory structures. So, agency theory stated corporate governance is a mechanism whereby board of director fundamental monitoring mechanism of reducing the problems resulted from the principal-agent relationship. In this context, agents are the managers, principals are the owners and the boards of directors act as the monitoring mechanism (Mallin, 2004) in Fauziah and Adamu (2012). Furthermore, the agency roles of directors indicate governance function of the board of directors in serving the shareholders by ratifying the decisions made by the managers and monitoring the implementation of those decisions. They were recommended that a mixture of various theories is best to describe an effective and efficient good governance practice rather than hypothesizing corporate governance based on a sole theory.

With the framework of agency theory, corporate governance provisions appear as a result of the agency theory conflict between the d/t parties of a company. As the difference between the interests and incentives of managers, shareholders and other resources providers, corporate governance mechanisms are put in place to reduce agency problems. Agency theory suggests that agency problems can be reduced by separating management and the control aspects of decision making (Mohad, 2009). In this regard, the board of directors, in terms of its size and composition, is recognized as being the most critical internal protections against issues arising from agency conflicts (Singh and Davison, 2003).

Also, corporate governance designed to monitor management's behaviour (Botica-Redmayne, 2004) and to monitor and determine a company's overall information disclosure policy. The focus of agency theory of the principal and agent relationship (such as shareholders and managers) has resulted uncertainty because of a variety of information asymmetries (Deegan, 2004). The separation of ownership from management can lead to managers of firms taking action that may not maximize shareholder wealth, due to their firm specific knowledge and expertise, which would benefit them and not the owners; hence a monitoring mechanism is designed to protect the shareholder interest (Jensen and Meckling, 1976). Additionally, previous works (such as Fauziah and Adamu 2012; Daily, Dalton and Cannella, 2003) provided to matters of agency theory about corporate governance. Initially, they were merely reduced corporate actors in to managers and shareholders whose interests are assumed consistent. Secondly, they disputed that humans are self-centered and reluctant to sacrifice their private needs for the interests of the others. The other corporate governance theory that used by this paper was political theory because it stated that an approach of voting support from shareholders, rather than buying voting power is crucial for the organization. Therefore, having a political influence in corporate governance may lead corporate governance inside organization. Public interest is much reserved as the government participates in corporate decision making, taking into deliberation cultural challenges (Pound, 1983) in Fauziah and Adamu (2012). The political model highlights the allocation of corporate power, profits and privileges are determined via the governments' favour. The political framework of corporate governance has a huge influence on designing corporate governance. For instance, in Ethiopia government has strong political influence on organizations including public and private companies. So, it was crucial study the influence of politics on corporate governance mechanisms and structures as well as financial reporting in Ethiopia.

Stakeholder theory explained that the organizations' must focuses on toning the needs of various stakeholders or parties in the business atmosphere to guarantee that each interest constituency obtains some extent of contentment. The legitimate theory postulated that the actions of firms are attractive, suitable, or fair with some socially constructed schemes of norms, values, beliefs and explanations (Suchman 1995). Similar to social contract theory, legitimacy theory is based upon the idea that there is a social contract among the general public and company. A firm receives permission to operate from the society and is ultimately accountable to the society for how it operates and what it does, because society offers firms the authority to own and use natural resources and to hire employees (Deegan 2004). Therefore, the legitimate theory expressed that company must see beyond income statement profit or the right of shareholders but also the right of the community at large. In the end, the stewardship theory explained that the company stewards must balance tensions among diverse beneficiaries and other interest groups. This theory focus on the extent of relationship among managers and the success of the firm, and therefore the stewards protect and the maximize wealth and value of shareholder through corporate performance and report. Fauziah and Adamu (2012) noticed that the critical idea of stewardship theory is social psychology as it gives emphasis for the behaviour of executives. The steward's behaviour is pro-organizational and collectivists, and has higher utility than individualistic self-serving behavior and the steward's behavior will not depart from the interest of the organization because the steward seeks to attain the objectives of the organization. Therefore, the deviant behavior of executives can influence the corporate performance and reporting quality of the organizations as well as the general public.

## 3. RESULTS AND DISCUSSION

### 3.1. Descriptive statistics

**Table-1**

| Descriptive statistics Impacts of Political Influence and Corporate Governance on Financial Reporting | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Items** | **Code** | **Strongly Agree** | **Agree** | **Neutral** | **Disagree** | **Strongly Disagree** | **Weighted Average Score** |
| **POLITICAL INFLUENCE** | | | | | | | |
| I believe that the presence of politician/s on the top of the board critically influence financial reporting quality of the organization in Ethiopia. | PI1 | 102 (34) | 161 (54) | 10 (3) | 20 (7) | 7 (2) | 4.13 |
| I consider that government ownership critically improves financial reporting quality of the organization in Ethiopia. | PI2 | 76 (25.33) | 135 (45) | 2 (0.67) | 55 (18) | 32 (10.67) | 3.56 |
| I think that giving special rights to public officials critically influence the financial reporting quality of the organization in Ethiopia. | PI3 | 85 (28.3) | 110 (36.7) | 37 (12) | 27 (9) | 41 (14) | 3.57 |
| I think that the connection of business the owners with political institutions critically influence the financial reporting quality of the organization in Ethiopia. | PI4 | 84 (28) | 170 (57) | 2 (0.67) | 27 (9) | 14 (5) | 3.9 |
| I believe that politician/s interference critically influence accounting system in context of agency problem. | PI5 | 97 (32) | 173 (58) | 1 (0.33) | 13 (40) | 3 (10) | 4.23 |
| I believe that politician can have influence on the corporate government particularly in context of compositions of board and management appointments. | PI6 | 78 (26) | 105 (35) | 27 (9) | 42 (14) | 48 (16) | 3.41 |
| **CORPORATE GOVERNANCE** | | | | | | | |
| I think that the corporate governance structure influences the quality of financial reporting in terms of earning and disclosure qualities in Organization in Ethiopia. | CG1 | 37 (12) | 210 ( 70) | 23 ( 8) | 13 ( 4) | 18 ( 6) | 3.79 |
| I believe that the company's corporate governance mechanism and structure influence the financial reporting in terms of disclosure and earning qualities of the organization in Ethiopia. | CG1 | 97 (32) | 173 (58) | 1 (0.33) | 40 (13) | 10 (3) | 4.23 |
| I think that in Ethiopia certain manager maybe provide financial reports to boost confidence among the current and potential investors and to reduce agency conflict. | CG3 | 120 (40) | 157 (52) | 0 (0) | 13 (4.00) | 10 (3.33) | 4.18 |
| I think that low board competency, board and size, audit committee independence, frequency of audit committee meeting and the existence of low financial experts on audit committee influence the quality of financial report in Ethiopia. | CG4 | 130 (43.33) | 121 (20.33) | 7 (2) | 25 (13) | 17 (6) | 4.07 |
| I believe that the lack of proper internal controls or effective directors' oversights influence the quality of financial reports in Ethiopia. | CG5 | 97 (32) | 125 ( 42) | 10 ( 3) | 55 (18) | 12 (4) | 3.79 |
| I believe that high director absenteeism or lack of attendance at key meetings influence the quality of financial reports in Ethiopia. | | 67 (22) | 176 ( 59) | 11 ( 4) | 22 ( 7) | 24 (8) | 3.8 |
| I consider that lack of reasonable director turnover influences the quality of financial reports in Ethiopia. | CG6 | 133 ( 44) | 104 (35) | 5 ( 2) | 43 (14) | 15 ( 5) | 3.99 |
| I believe that presence of dominance shareholders in the organization critically influence financial reporting quality in Ethiopia. | CG7 | 173 (57) | 59 ( 20) | 15 (5) | 35 (12) | 18 (6) | 4.11 |

**Source: Survey data**

In Table 1 depicts that the respondents in Ethiopia had mixed opinions about the influence of political influence and corporate governance structure on financial reporting quality of the companies.

To comprehend the respondents on the level of influence of political matters on their business organizations financial reporting quality, the researcher used PI. Thus, their weighted average scores of 4.13, 3.57, 3.9, 4.23 and 3.41 for PI1, PI3, PI4, PI5, PI6 and PI7 were depicted the presence of influence of political issues such as the official holding of share of interest and politicians on the top of the board on the financial reporting quality in turn. Also, majority of the respondents' agreed and strongly agreed with the statements sequentially. Few percent of the respondents disagreed and strongly disagreed with the issues, respectively. But, dominative percent of the participants were neither agreed nor disagreed with the issue.

The average weighted value of 3.56 for PI1 of government ownership indicated an incidence of the positive effect of regime ownership on the financial reporting quality of the organization in Ethiopia. This was true in view of Ethiopian Air Line, Ethiotelecom and Commercial Bank of Ethiopia earned more amount of profit and provided appropriate financial reports in line with International Financial Reporting Standards. On the other hand, professionals and competitors as well as the respondents were claimed that the organizations easily exploited the financial services and profit due to the legal opportunity and government ownership. For example, all of the employees of the public organizations likely and unlikely open bank account at the commercial bank that can be augmented the financial position and condition of the company. Equally, these maybe offer them the chance to get more income and value at the lowest level of competition and effort as well as costs. Moreover, the recent brief of the Office of the Federal Auditor General have assured the existence of wrong financial reports in major government owned organizations in Ethiopia.

We all knows the level of dominance and the reporting quality of Endowment Funds for the Rehabilitation of Ethiopia Conglomerate Company derived from seventeen individuals business organizations belongs to political party. In view of that, most of the board member and board of directors are politicians from one ethic group in a country. In the last two and a half decades, many professionals accused the company regarding financial reports both in terms of earning quality and disclosure quality, especially in the area of tax and custom disbursements. Moreover, there were many companies owned by politicians and politicians are on the top of the board or else have a relationship with a politician and provided an untrue financial report in the country. Evermore, there audit and media reports assured the presence of various affiliated organizations with political party or politicians and provided wrong financial reports especially in the areas of tax, corporate social responsibility, environmental issues and property and plants like machinery, land and natural resources.

Concerning the government ownership the finding was supported by the report of General of the Federal Audit Office 2015-16 as it reported the presence of financial mismanagements and irregularities of account documentations in several organization of central regime. Accordingly, the audit report identified unaccounted expenditure of 506 million birr from 68 federal institutions. It also found 98 institutions committing illegal disbursement of 190 million birr. Moreover, the report has depicted 488 million birr procurement committed by 97 institutions against the legal procedures of procurement (Yohannes, 2018). It also noted that a sum of 789.6 million birr payables has been found in the ledgers of 74 federal institutions; however, recipients of the 177 million birr are not identified and duration of the payables worth 580 million birr is not identified.

Currently, Media's such as Oromia Broadcasting Service Television (OBS), Oromia Media Network (OMN) and BBC Afan Oromo and Walta TV in (2020) were indicated an incidence of negative political influence on the financial reports of business organizations due to their political ideology, fraud and politician relationship in a country. For instance, Medias report showed that the Sodere Resort was banned from the market due to the political view of the owner. However, the government officials via Walta TV accused the company on financial reporting miss-presentation and miss-appropriation, mainly tax payment, customs and plant as well as property. On the other hand, the manager and owner of Sodare Resort claimed that the company banned by false allegation and his political view and identity. The manager of the company further insisted that the company periodically provide reasonably accurate financial report to the responsible bodies. Furthermore, Adama municipality administration has questioned the owner regarding the disbursement of tax and assets valuation. Then, the condition attested the existence of political influence on financial reporting in terms of both earning quality and disclosure quality in the country. Evermore, the dispute between the Abba Dula Mr. Dinku Dayasa who the icon of Oromo investor and the owner of Sodare Hotel one of the indictors for the presence of sever political pressure and unreasonable government interference in the business environment in the country. Generally, the findings have depicted the presence of agency problem of conflict of interest among the government, shareholders and manager as well as other stakeholders in the country.

More evidently, the bankruptcy of Mulune Kaka's business organizations has attested the influence of politics on the financial reporting of the organization in the country. Mr Mulune on the Oromia Broadcasting Service Television (2019) was dejectedly elucidated that his organizations are winding up due to his ethnic group and false allegation about the relationship with Oromo political organizations while he has provided the reasonably true and fair financial report. Therefore, politics in terms of a politician on board of director, government ownership and politician share of interest and politician relationship with organizations had a diverse influence on the quality of the financial report in the context of Ethiopia. Likewise, the output revealed that political influence linked with lower financial reporting quality in terms of a politician on the board of directors and politician share of interest and firm's politician relationship. On the other hand, the finding pointed out that political influence in the context of government ownership had a somewhat positive impact on the financial reporting quality of government organization such as Ethiopian Air Line, Ethiotelecom and Commercial Bank of Ethiopia. More and more, the abovementioned case assured by the concept of agency theory of conflict of interest that considerably impaired the financial reporting quality in the context of earning and discloser qualities.

The impact of political influence on the financial reports of government owned enterprises supported by the report of Federal Auditor General of Ethiopia during 2019. The office reported more than 170 government organizations were presented incorrect balance sheet and audit investigation into 129 of the organizations marked unsettled of 4.2 billion Ethiopian birr. The office further assured the existence of illicit expenses and revenues by the federal government in 2018/19. The auditor was depicted that unsettle cash of 763 million Ethiopia birr and the misused of 2.6 billion birr in the last five years devoid of objective evidence. Evermore, the auditor attested an absence of appropriate financial reports for about 430 million Ethiopia birr in state owned enterprises (Tadesse, 2019).

The auditor general's reported that 53 government offices and four branch offices had made 531 million Ethiopian birr unchecked and illicit expenses. Also, 3.6 billion Ethiopian birr receivables were not collected from seven public enterprises and huge infrastructure projects not completed timely. The auditor general was assured the presence other financial anomalies and irregularities regarding accounting record in various organizations of the federal government (Ezega.com, 2019). In general, the finding of this study about the impact of political power on financial report acknowledged by the report of auditor general as it has confirmed an incidence of the financial statements miss-presentation in government owned organizations in the country.

The finding was partly similar prior studies (for example, Mohad, 2009, Hillman and Hitt, 1999, Tagesson, 2007, Fan et al., 2007, Chen, 2004; Dechow, Sloan and Sweeney, 1995). Mohad (2009) concluded that political influence in viewpoint of politician on the top of boards and the presence of giving special interests or rights to the administration linked to the poor quality of financial report while regime ownership have positive relationship. Tagesson (2007) expressed the involvement of politician/s interference caused severe agency problem, the accounting system of the companies may also be affected as accounting system closely linked with agency problems. Zimmerman (1977) was justified that the regime or politicians may prefer accounting system which allows them to report selective subset of information and for annual reports to be presented in their best interest. In relation to government-owned companies, Ernst (2004) explained that many of them obviously monopolies compared with that of other organizations since it makes easier for managers delegated by the politician to pursue their own interest and politician on the financial report. The finding increased confidence of the researcher towards exploring the influence of politics on financial reports of the organizations in Ethiopia.

The review of independent audit reports of seventeen (17) public and private commercial bank indicated that their financial report both earning quality and disclosure quality were reasonably fair. The report further assured banks were realistically adopted the international financial reporting standards together with government regulation. However, the financial report of these banks disregarded the issues of environmental accounting and organization corporate social responsibly. This type of financial reporting was showed that these banks were highly focused on maximizing financial statement profit.

To apprehend the opinion of respondent's about the influence of corporate governance on the financial reporting quality, the paper used CG. Accordingly, the weighted average scores of 3.79, 4.23, 4.18, 4.07, 3.79, 3.8, 3.99 and 4.11 for CG1, CG2, CG3, CG4, CG5, CG6 and CG7 exposed that corporate governance structure and mechanism of the company affected the quality of financial reports in the context of earning and disclosure qualities in Ethiopia. Further, the simple percentages and frequencies were assured that the participants have been agreed and strongly agreed about the influence of corporate governance on the financial reporting quality of the companies in Ethiopia. More subtly, the opinions of the majority of participants indicated an incidence of weak corporate governance mechanism and structure in Ethiopia. In contrast, a little percent of the participants strongly disagreed and disagreed on the statements. Thus, most of the respondents perceived that the quality of financial report in the perspective of earning quality and disclosure quality influenced by corporate governance mechanism and structure in Ethiopia.

On October 20, 2019 the Ethiopian Ministry of Revenue on its Facebook page identified that 4,451 business organizations in Addis Ababa were not provided correct financial reports the office. By the same token, on February 20, 2019 Mrs. Adanech Abebe via Fana Broadcasting Corporate S.C depicted that 135 business enterprises were hided 14billion Ethiopian Birrs by means of financial report frauds. The result indicated that financial report quality of business organizations affected by political influence and corporate governance in Ethiopia. Empirical evidence (such as Dechow, Sloan and Sweeney, 1995; Shellfire and Vishny, 2000) explained that the inefficient and ineffectiveness of the corporate governance mechanism was negatively influenced the extent of financial reporting quality of organizations. For instance, Mohad (2009) investigated that political influence linked with weaker corporate governance and corporate governance also affected the quality of financial reports. The manager may provide quality of financial reports in order to increase confidence among the current and potential investors and to reduce agency conflict (Chow and Wong-Boren, 1997).

Agrawal and Knoeber, 2001, Chen, 2004, Fan et al., 2007) were told that politician could influence corporate governance, especially in terms of the board of compositions and management appointments. They were explained that those companies that have business relations with a regime tent to include outside directors with backgrounds in a politician or have regime representatives on their board. If the company's board of directors consists of members who have political influence companies chief executive officer will also be someone with political connection (Fan et al., 2007). Chen (2004) indicated politics influence compositions of management teams and board of directors', in return, financial reporting quality of the organization.

The presence of a dominance shareholder, such as the government, in a company, has been argued to have a negative influence on the quality of corporate communication through the company's financial report system to benefit the dominants shareholder (Melis, 2004).When the owner of a company is part of management, they may have a personal interest in the information disclosed and incentives to manage the disclosures (Ball, 2001). This can create a moral hazard and information asymmetry between the owner and outside investors. When the owner's holding in a company increases and governance mechanisms of the company are weak in response monitoring will be more difficult to perform (Morck, Shleifer and Vishny, 1988).

Shen and Chih (2007) generalized that corporations with well corporate governance restraint are earning management and thus augment earning quality. Lara et.al (2007) established that companies with stronger corporate governance system provided more conservative earnings report. Earning management has been found to be associated with board competency, the board size, audit committee independence, frequency of audit committee meeting and the existence of financial experts on audit committee (Chtourus et.al, 2004). Independent boards of directors and audit committees have been found to control earning aggressiveness (Klien, 2002 and Peasnell et.al, 2005). Effective boards are positively related to earnings accuracy (Karamanou and Vafeas, 2005); earning in formativeness (Vafeas, 2000) and earnings credibility (LaFond et.al, 2005). Furthermore, Chen and Jaggi (2000) were identified a relationship between board characteristics (the proportion of independent board members) and disclosure quality.

Moody's investors services in Duffy (2004) and Mohd (2009) were explained that the weak corporate governance was the product of insider dominated board of directors, attendance of celebrity of executive officers, questionable board composition, members with inadequate business experience or those who appear to be members due to political or other influence, risk payment schemes for top executives that could encourage short-term actions harmful to companies creditors, absence of an independent committee to nominate directors, accounting restatements or indications company is unusually aggressive in its accounting system; lack of proper internal controls, effective directors oversights, company's poor relationship among audit committee and the external auditors, high director absenteeism, lack of attendance at key meetings, particularly those of the audit committee, lack of reasonable director turnover, which may indicate the absence of fresh perspective on the board, excessive member of takeover defense indicating an entrenched management and desire to protect status quo, no respect for shareholder's view by rejecting shareholder proxy requests and incoherent ethics policy and lack of clear implementation plan. As a result, the researcher generalized that lack effective and efficient corporate governance structure and mechanism in Ethiopia decreased the quality of financial report in the context of earning and disclosure qualities in Ethiopia.

### 3.2. Factor Analysis

This study utilized the extraction method; Varimax with Kaiser Normalization and rotation methods. Communality pointed out the whole extent of variances that individual variable described by the factors. Based on the suggestion of Hair et.al (2010), the amount of communality set at larger 0.30 and 0.50. So, the constructs with a correlation coefficient of less than 0.341 removed from the rotated matrix table. For example, the commonality of .589 for PI1 revealed that about 60percent of the variance of financial reporting towards political influence was described by this construct.

**Table -2**

**Communalities**

| | Initial | Extraction |
|---|---|---|
| PI1 | 1.000 | 0.589 |

| | | |
|---|---|---|
| PI2 | 1.000 | 0.545 |
| PI3 | 1.000 | 0.463 |
| PI4 | 1.000 | 0.351 |
| PI5 | 1.000 | 0.322 |
| CG1 | 1.000 | 0.494 |
| CG2 | 1.000 | 0.494 |
| CG3 | 1.000 | 0.478 |
| CG4 | 1.000 | 0.341 |
| *Extraction Method: Principal Component Analysis.* | | |

As indicated in the next table, the Bartlett test checks the entire association among the factors. Therefore, the correlation was statistically considerably at 0.000 critical levels because the p-value was less than 0.05. Thus, the study explained that there was a strong correlation in the data matrix, in return, adequate factor analysis. The Kaiser-Meyer-Olkin Measure of sampling adequacy indicated the overall sample adequacy and the inter-correlation between the variables. The value was found between 0 and 1. If it scored one, the factors perfectly forecasted by the entire the other variables without error. It ought to at least be 0.5. It can be observed from Table 3 that 0.734 was sufficient for a factor analysis to be executed (Hair et al, 2005).

**Table -3**

| KMO and Bartlett's Test | | |
|---|---|---|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | 0.734 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 360.951 |
| | df | 36 |
| | Sig. | 0.000 |

Table 3 depicts the measure of sampling adequacy for each predictor. It was provided MSA for each factor to evaluate the individual factors suitability in the factor assessment. It can be seen from Table 3 that every individual MSA were over 0.5 and attested that all factors were correlated enough with the others to be part of the factor analysis.

**Table -4**

**Anti-image matrix**

| | PI1 | PI2 | PI3 | PI4 | PI5 | CG1 | CG2 | CG3 | CG4 |
|---|---|---|---|---|---|---|---|---|---|
| **PI1** | **.707**[a] | -0.427 | -0.222 | -0.121 | -0.051 | 0.063 | -0.116 | -0.020 | -0.029 |
| **PI2** | -0.427 | **.728**[a] | -0.149 | -0.051 | -0.095 | -0.055 | -0.013 | -0.075 | -0.010 |
| **PI3** | -0.222 | -0.149 | **.807**[a] | -0.163 | -0.058 | -0.012 | -0.023 | -0.035 | 0.020 |
| **PI4** | -0.121 | -0.051 | -0.163 | **.766**[a] | -0.160 | 0.025 | 0.087 | -0.093 | -0.087 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **PI5** | -0.051 | -0.095 | -0.058 | -0.160 | **.800[a]** | 0.027 | -0.020 | -0.068 | 0.050 |
| **CG1** | 0.063 | -0.055 | -0.012 | 0.025 | 0.027 | **.671[a]** | -0.244 | -0.109 | -0.149 |
| **CG2** | -0.116 | -0.013 | -0.023 | 0.087 | -0.020 | -0.244 | **.684[a]** | -0.246 | -0.051 |
| **CG3** | -0.020 | -0.075 | -0.035 | -0.093 | -0.068 | -0.109 | -0.246 | **.747[a]** | -0.189 |
| **CG4** | -0.029 | -0.010 | 0.020 | -0.087 | 0.050 | -0.149 | -0.051 | -0.189 | **.719[a]** |
| a. Measures of Sampling Adequacy(MSA) | | | | | | | | | |

**Table 5**

| **Rotated Component Matrix** | | |
|---|---|---|
| Items | 1 | 2 |
| PI1 | **0.699** | |
| PI2 | **0.697** | |
| PI3 | **0.651** | |
| PI4 | **0.583** | |
| PI5 | **0.699** | |
| CG1 | | **0.699** |
| CG2 | | **0.697** |
| CG3 | | **0.651** |
| CG4 | | **0.583** |
| **Eigen Value** | **1.826** | **1.501** |
| **% of variance** | **30.00** | **16.681** |
| **Cumulative %** | **27.863** | **59.00** |
| Extraction Method: Principal Component Analysis.<br>Rotation Method: Varimax | | |

The study used principal component analysis via Eigen-value method, Varimax with Kaiser Normalization and Rotation Method. If Eigen-values are above one it indicates that the specific component accounts for at least 1 percent of the full variation. Thus, the Eigen-values of 1.826 and 1.501 for political influence and corporate governance were statistically adequate. In the same way, both components were chosen as their Eigen-value was greater threshold value. Based on the rotated components matrix, the study selected both components as their cumulative variance was accounted to 59 for that solution.

### 3.3. Ordered Logistic Regression Output

The research primarily focused on identifying the pressure of political influence and corporate governance on the quality of financial report in Ethiopia. The study investigated financial reporting quality by using various items of political influence, namely government ownership, politicians on board of directors, board member, politician shares of interest and organizations relation with politicians and political parties. On the subject of the corporate governance structure and mechanisms, the study examined the financial reporting quality by manager confidence, board competency, board and size, audit committee independence, frequency of audit committee meeting ,existence of low financial experts on audit committee, lack of proper internal controls, high director absenteeism, director turnover and dominance shareholders in organizations.

Ologit **DFRQ PIF CG**

**List of iteration log-likelihood**
Ologit DFRQ PI CG
Iteration 0: log-likelihood = -450.65574
Iteration 1: log-likelihood = -444.47699
Iteration 2: log-likelihood = -444.46863
Iteration 3: log-likelihood = -444.46863

**Model summary**

Ordered logistic regression Number of obs = 300

LR chi2 (2) = 12.37

Log-likelihood = -444.46863 Prob > chi2 = 0.0021

Pseudo $R^{f2}$ = 0.0137

**Parameter estimates**

| **Determinants of Quality of Financial Reports** | | | | | |
|---|---|---|---|---|---|
| **DFRQ** | **Odds Ratio** | **Ratio Std. Err.** | **Z** | **P>\|Z\|** | **Significant Level** |
| FAF | .818834 | .0855006 | 1.91 | 0.056 | Sig at 0.005 |
| PIF | .7299846 | .0777003 | 2.96 | 0.003 | Sign at 0.001 |
| /cut1 | -.9156786 | .12875 | (Ancillary parameters) | | |
| /cut2 | -1454236 | .1171642 | | | |
| /cut3 | .073694 | .1169595 | | | |
| /cut4 | 1.028008 | .1321178 | | | |
| *Significant at 0.05* | | | | | |

The study used the ologit command to estimate an ordered logistic regression model. Thus, the researcher interested in the ordered logistic regression model to investigate the factors that determined financial reporting quality in the study situation. For this purpose, the participants asked to give their views on whether the political influence and corporate governance structure were affected by the financial reporting quality of the companies in Ethiopia.

In the output above, first, provide the iteration log. Thus, at iteration 0, the Stata fits an empty model, that is the intercept-only model. Following it proceeds on to fit the full model and stops the iteration procedure once the disparity within log-likelihood among consecutive iterations becomes sufficiently little. The final log-likelihood (-444.46863) presented once more. So, it can be utilized in contrasts of nested models. Moreover, at the top of the output one can scrutinize 300 pointed towards all observations in the data set used in the final assessment and examination. The likelihood ratio Chi-square of 12.37 with the p-value of 0.0021 depicted that the model as an intact was a statistically considerable contrast to the empty model devoid of predictors. Thus, the researcher generalized that the model was fitted, in return, rejected the null hypothesis at log-likelihood-Chi2 of 12.37, degree of freedom of 2 and p-value of 0.0021, respectively. The pseudo-R- squared of 0.0137 is also given. The cut-points that are ancillary variables exposed at the base of the result and indicated where the latent variable was cut to create the five groups that the researcher examine in the data model. Similarly, they were continuous data in nature and not utilized in the interpretation and discussion of research outputs.

As it can observe from the above table, both predictors' political influence and corporate governance structure were statistically significant at 0.05 considerable levels. Hence, for Political influence, one would tell that for a one-unit increase in political influence (i.e. going from 0 to 1), he/she expect a .818834 decreased in log odd ratio of being in a higher level of quality of financial reporting, given corporate governance structure remains silent in the model. The political influence significantly decreased the financial reporting of the company in which politicians are on the top of the board of directors, the politicians' ownership and government holding of a golden share. In the same way, this true for those where the government has a share and/or golden share ownership and politicians on the board of directors, none government-owned companies but with an appointed politician and the other private limited companies having a strong connection with politicians.

Regarding corporate governance, for one unit increase in Corporate Governance, we would expect a .7299846 augment in the log odds ratio of being in a higher level of quality of company's financial reporting, given political influence in the model is linger steady. Therefore, this attested that the predictors had significant effects on the degree of organizations quality of financial reporting in the context of Ethiopia.

In general, by connected Z test statistic of predictors, political influence (1.91) and corporate governance (2.96), with their parallel p-values of 0.056 and 0.003 the researcher has rejected null hypothesis "Political influence and corporate governance have no significant influence on the financial reporting of companies in Ethiopia." Hence, the extent of quality of financial reporting, especially, disclosure and earning qualities were critically affected by the degree of political influence and corporate governance structure and policy in Ethiopia.

**Table -6**

| **Kendall's correlation matrix** | | | | |
|---|---|---|---|---|
| | **Coef.** | **DFRQ** | **PI** | **CG** |
| **DFRQ** | Coefficient | **1** | **0.008** | **-0.004** |
| | Sig. (2-tailed) | . | 0.884 | 0.95 |
| **PI** | Coefficient | **-.157**** | -0.04 | -0.109 |
| | Sig. (2-tailed) | **0.007** | 0.514 | 0.058 |
| **CG** | Coefficient | **.116*** | -0.03 | -.114* |
| | Sig. (2-tailed) | **0.045** | 0.604 | 0.048 |
| ** Correlation is significant at the 0.01 level (2-tailed).<br>* Correlation is significant at the 0.05 level (2-tailed). | | | | |

The correlation between financial reporting and political influence and corporate governance was statistically significant negative and positive at a two-tailed critical level in turn. Similarly, as the strength of corporate governance increased their financial reporting, both the disclosure and earning qualities increase in Ethiopia. The correlation between political influence and financial reporting quality was statistically negative and significant at a two-tailed significant level. This meant, as the politician influence on the corporate government, especially in terms of the board of compositions or management appointments and owned by the government and associated with politicians, increase the financial reporting quality decreased. Agrawal and Kroeber (2001) found companies that have business relations with the government tent to include outside directors with backgrounds in a politician or have regime representatives on their board. If the company's board of directors consists of members who have political influence companies chief executive officer will also be someone with political connections (Fan et al., 2007). Chen (2004) found that political influence the compositions of management teams and board of directors. The involvement of politician/s interference, causing severe agency problem, the accounting system of the companies may also be affected because accounting systems are closely linked the agency problems (Tagesson, 2007). Government or politicians may prefer accounting systems which allows them to report a selective subset of information and for annual reports to be presented in their best interest (Zimmerman, 1977). The manager may provide quality of financial reports in order to increase confidence among the current and potential investors and to reduce agency conflicts (Chow and Wong-Boren, 1997). Generally, previous research works pointed out that politician can have an influence on corporate governance, especially in terms of the board of compositions and /or management appointments. Moreover, they found that companies that have business relations with the government tent to include outside directors with backgrounds in a politician or have regime representatives on their board. If the company's board of directors consists of members who have political influence companies chief executive officer will also be someone with political connections (Fan et al., 2007). Chen (2004) found that political influence the compositions of management teams and board of directors. On the other hand, predictors highly uncorrelated at a significant level of 0.05.

## 4. CONCLUSIONS

The study found that the financial reporting was significantly affected by the extent of political influence in Ethiopia. The study further explored that political influence had a statistically negative correlation with the quality of financial report in Ethiopia. The researcher concluded that political influence in the context of politicians on a top of board directors, board member, politician share of interest; government ownership and association of organizations with politician/s and political parties significantly affected quality of financial report in the country. The paper further concluded that political influence had a positive and robust connection with poor financial statement quality in the country. Consequently, by linked Z value of 1.91 with its p-value of 0.056, the researcher has rejected the null hypothesis "Political influence does not have a significant impact on the financial reporting quality of organization in Ethiopia."

Regarding Corporate Governance, the study concluded that the quality of financial reports was significantly affected because of poor corporate governance structure and mechanism in Ethiopia. Besides, the study found that the weak corporate management structure and mechanism had a positive and strong correlation with the poor quality of the financial report, mainly earning quality and disclosure quality in the country. Alternatively, a robust corporate governance structure and mechanism statistically had a significant positive association with financial reporting quality mostly earning and disclosure qualities. Hence, the researcher has rejected null hypothesis "Corporate governance structure does not have significant influence of on the financial reporting quality of organizations in Ethiopia."

Thus, the perception of the participants has acknowledged the presence of weak corporate governance in Ethiopian happened due to insider dominated board of directors, questionable board composition, board members with inadequate business experience, those who appear to be members due to political or other influence, risk pay schemes for top executives that could encourage short-term benefit harmful to creditors, lack of independent committee to nominate directors, accounting restatements, company's usual aggressive accounting systems; lack of proper internal controls; lack of effective directors oversights, lack of cooperation between company's audit committee and external auditors, director absenteeism, lack of reasonable director turnover, desire to protect status quo, no respect for view of the shareholders and incoherent ethics policy and lack of clear plan implementation.

Generally, the study concluded that disclosure quality and earning quality of financial report in Ethiopia were affected by strong and weak corporate governance, political ties or connections among the organization and politicians or individuals with political power in the government and the presence of politicians on the board of directors and politician share of ownership of the company. The study improved the accounting practices in general and financial reporting quality in particular by investigating the relationship between political influence and corporate governance on the financial reporting quality in Ethiopia.

## 5. RECOMMENDATION

The study recommended that the concerned authorities must create an independent board member and directors; reduce or mitigate politicians' interest in a company and attachment of organizations with politician/s and political parties because it weakens the financial reporting quality of the organization. Additionally, it is better if the organizations are making themselves independent from politicians as it influences the financial reporting quality via financial statement miss-presentation and assets misappropriation as well as corruption.

The Ethiopia accounting government institution must work on encouraging the establishment of an independent the accounting system and practice as well as corporate management in organizations including public and private enterprises in Ethiopia to lessen the political influence on the financial reporting and corporate government.

The government officials should stop illegally influencing or supporting the business enterprise, owners as well as investors due to their political ideologies, participations and relationships since it cause financial anomalies.

The government shall assign the board member, and board of directors of government-owned organizations based on their knowledge and experiences than political influence and associations as it probably cause agency problems or conflict of interest, in return, poor corporate financial reporting quality.

The study recommended that the responsible bodies must focus on establishing an effective and efficient corporate management system by avoiding insider dominated board of directors, doubtful board composition, board members with inadequate business experience, those who appear to be members due to political or other influence and risk pay schemes for top executives that could encourage short-term benefit harmful to the creditors.

The responsible bodies must strength corporate government mechanism by building independent committee to nominate directors, reduce accounting restatements, optimize aggressive accounting system; reduce rude internal control system; encourage effective directors oversights, improve cooperation and coordination among organization's audit committee and private auditors, reduce director absenteeism, diminish irrational director turnover, respect for view of the shareholders and establish coherent ethics policy and procedure as well as clear plan implementation.

The study suggested that government and business organizations should boost disclosure and earning qualities of financial reporting by boosting corporate governance and reduce political ties or connections among the organization and politicians or individuals with political power in the government and presence of political or politicians on the board of directors and politician share of ownership of enterprises.

The board of director must emphasize on the integrity and clarity of the origination's financial statements and other disclosures on organization performance. Further the board must build a structure for supervising risk, delegating responsibility to committees and managing the title of senior management responsible for risk management.

The better mechanism for the management, under the oversight of the board and its audit committee is to produces reasonable financial reports of the organizations that depict the financial condition and position results of operations and provides the timely disclosures investors need to evaluate the financial and business dependability and risks of the organization.

Management and chief executive officer must work on increase the accuracy and transparent financial statement and disclosures. Integrate the company's financial reporting system and the accurate and timely preparation of the company's financial statements and related disclosures. Subsequently the organization's executive financial officer have to ascertain, preserve and regularly assess the organization's internal control systems over financial statements and disclosure controls and processes, together with the capability of such controls and processes to detect and deter scam endeavour.

The audit committee of the board must retains and manages association with the external auditor, oversees the organization's yearly audit financial statement and internal controls on financial statements, and supervises organization's risk management and compliance programs and plans. The member of audit committee should convene smallest financial literacy principles and standards, and one or more committee members must an audit committee financial expert.

At the time of making the organization decisions, the board must give due attentions to the needs of entire parties such as owners or stakeholders employees, customers, suppliers and the community in which the organizations does business, when doing so contributes in a direct and meaningful way to building long-term value creation. The board has to consider the triple bottom line that including profit, social and environment or people, planet and profit.

The government and organization should nominate well-qualified and independent on board as he/she nominate the corporate governance committee in line with the goals and strategy of organizations and the composition of board and committee member the plays a great role in providing proper financial statements and shaping the corporate governance of the company.

The audit committee must maintain an ongoing, open dialogue with the outside auditor about independence issues; understand the company's critical accounting policies and why they were chosen, what key judgments and estimates management made in preparing the financial statements and how they affect the reported financial results; discuss significant issues about the company's financial statements with management and the outside auditor and review earnings press releases before they are issue; satisfied with financial statements and other disclosures prepared by management whether it present financial condition and results of operations accurately and oversees internal control system towards financial reporting.

The company should properly apply the basic principles of corporate governance ,namely accountability, fairness, transparency responsibility on establishing and implementing corporate governance structure; structure of the board and its committees; director appointment procedures; directors duties, remuneration and performance; risk governance and internal control; reporting with integrity; audit and relations with shareholders as well as other key stakeholders.

The study improved the accounting practices in general and financial reporting quality in particular by investigated the relationship among political influence as well as corporate governance on the financial reporting quality in Ethiopia.

To keep going smoothly in the society better it is advisable if the organizations mainly banks are fulfill the concepts of environmental impact and corporate social responsibility than simply focus on financial statement profit.

To be fair the government ,mainly, Ethiopian Ministry of Revenue and Regional Revenue Authorities should follows a proper investigation and litigation procedures as such as independent auditing and forensic investigation professionals because an arbitrary claim against organizations on accounting and financial recordings probably causes political, economic and social risks to the country in general and the companies in particular.

The government must recast, retread and reshape the current corporate governance policies as it provides loophole for the organizations to frauds on the book of accounts. Concomitantly, the companies should recast, retread, and reshape their corporate governance structures and mechanisms to avoid corporate governance and financial reporting issues.

It is superior if Ethiopia will be used Germany's two-tire corporate governance model, namely, supervisory board and management board whereby supervisory board includes a minimum of 20 members elected by partially shareholders and partially by employees, and management board usually appointed for five years terms and membership controlled by supervisory board; accountable to supervisor board of policy and strategy, profitability as well as compliance with law and regulation.

The future researcher must use the financial reports of the whole organizations including government and private enterprises to broaden the present findings on the impact of political influence and corporate governance mechanism on the financial reporting in Ethiopia.

**ACKNOWLEDGEMENT**

I am intensely thankful to my Wife, Malasu Regasa who has provided a giant extent support during this journey. Further, my gratitude's go to all professionals who participated in this paper. Their interest to participate in the surveys contributed considerably to the achievement of this research.

**REFERENCES**

1. Agrawal A. and Knoeber C. R. (201). Do Some Outside Directors Play a Political Role? Journal of Law and Economics, X LI V, pp. 179-1 98.

2. Ashbaugh, H., Collins, D and LaFond R. (2006). The Effects of Corporate Governance on Firms' Credit Ratings. Journal of Accounting and Economics, 42( 1 -2), pp. 203-243.

3. Ball. R., Robin, A. and Wu. J. S. (2003). Incentives versus standards: Properties of accounting income in four East Asian countries and implications of acceptance of AS. Journal of Accounting and Economics 36 (1 -3),pp. 235-270.

4. Byard. D., Li Y and Weintrop, J. (2006). Corporate Governance and the Quality of Financial Analysts in Formation. Journal of Accounting and Public Policy 25(5) pp. 609-625

5. Bortolotti B. and Faccio M. (2006). Reluctant Privatization. CEI Working Paper Series, No. 2006-5. Tokyo: Institute of Economic Research, Hitotsubashi University.

6. Bushman, R. M.Chen, Q. Engel, E., and Smith, A. J. (2004). Financial Accounting Information, Organizational Complexity and Corporate Governance Systems. Journal of Accounting and Economics, 37 pp. 67-201.

7. J., Kuhn, J. R. and Sutton, S. G( 2008). Accidentally in The Public Interest: The Perfect Storm That Yielded The Sarbanes-Oxley Act. Critical Perspectives on Accounting.

8. Cadbury. A. (1992). Report of the Committee on the Financial Aspects of Corporate Governance. London: Gee Publishing.

9. Chow, C. W and Wong-Boren A. (1987). Voluntary Financial Disclosure by Mexican Corporations. The Accounting Review, 62(3), pp. 533-541.

10. Chen, C. J. P and Jaggi B. (2000). Association Independent Non-Executive Directors, Family Control and Financial Disclosure in Hong Kong. Journal of Accounting and Public Policy, 19, pp. 285-310.

11. Darman, G. M. (2004). Corporate Governance Worldwide: A Guide to Best Practices for Managers. Paris: ICC Books Worldwide.

12. Duffy M. N (2004). Corporate Governance and Client Investing. Journal of Accountancy, 1 97(1), pp. 43-48.

13. Dechow P. M .Sloan. R. G. and Sweeney A. P. (1995). Detecting Earrings Management. The Accounting Review 11,pp. 193-225.

14. Donaldson L. (1 990). The Ethereal Hand: Organizational Economics and Management Theory. An academy of Management Review, 1 5(3), pp. 369-381.

15. Demb. A and Neubauer F. F (1992). The Corporate Board: Confronting the Paradoxes. Long Range Planning, 25(3), pp 9-20.

16. Ernst, U. F. W. (2004). Methods for Resolving Problems of Responsibility and Transparency in the Activities of Soes in Market Economies: Models and results. Corporate Ownership and Control, I (3). pp. 37-43.

17. Fan, J. P. H., Wong, T. J. and Zhang T. (2007). Politically Connected CEO, Corporate Governance, And Post-IPO Performance of China's Partially Privatized Firms. Journal of Financial Economics, 84(2),pp. 330-357.

18. Fan, J. P. H. and Wong, T. J. (2002). Corporate Ownership Structure and the Informativeness of Accounting Earnings in East Asia. Journal of Accounting and Economics, 33, pp. 401 -425.

19. Faccio, M .Masulis R. W. and McConnell, J. J. (2006). Political Connections and Corporate Bailouts. The Journal of Finance, LXI (6), pp. 2597-2635.

20. Facebook page of Oromia Broadcasting Service Television (OBS), 2020.

21. Facebook page of Oromia Media Network (OMN), 2020.

22. Facebook page of BBC Afan Oromo, 2020.

23. Facebook page of Walta TV, 2020.

24. Fama, E. F. and Jensen M. (1983). Agency Problems and Residual Claims. Journal of Law and Economics, 26, pp. 327-349.https://www.ezega.com/News/NewsDetails/7122/Auditor-General-Details-Waste-Mismanagement-at-Public-Institutions,2019

25. K. Tadesse (2019). Auditor General Tells Parliament another Gross Financial Mismanagement, Reporter, https://www.afro105fm.com/afrofm.com/2019/05/31/auditor-general-tells-parliament-another-gross-financial-mismanagement/.

26. Lanno, K. (1 999). A European Perspective on Corporate Governance. Journal of Common Market Studies, 37(2), pp. 269-295.

27. La Porta R., Lopez-de-Salanes F. Shleifer, A. and Vishny R. W. (2000). Investor protection and corporate governance. Journal of Financial Economics, 58, pp. 3- 27.

28. Lambert, R. Leuz. C. and Verrecchia R. (2007). Accounting Information, Disclosure and the Cost of Capital. Journal of Accounting Research, 45(2), pp. 385-420.

29. Leuz. C. and Oberholzer-Gee F. (2006). Political relationships, global financing, and corporate transparency: Evidence from Indonesia. Journal of Financial Economics. 81. pp 41 1 -439.

30. Leftwich R .Watts, R. and Zimmerman J. (1981). Voluntary Corporate Disclosure: The Case of Interim Reporting. Journal of Accounting Research.1 9(Supplement). pp. 50-71

31. Melis, A. (2004). Financial Reporting, Corporate Communication and Governance Corporate Ownership and Control, pp. 31 -37.

32. Morck R.Shleifer. A. and Vishny. R. W. (1988). Management Ownership and Market Valuation: An Empirical Analysis. Journal of Financial Economics. 20. pp 293-315.

33. Mohd Fairuz Bin Md Salleh (2009). Political Influence, Corporate Governance And Financial Reporting Quality: Evidence From Companies in Malaysia (A PhD thesis, Massey University, New Zealand) PP1-501.

34. Naser, K and Nuseibeh, R. (2003). Quality of Financial Reporting: Evidence from the Listed Saudi Non Financial Companies. The Intentional Journal of Accounting 38, pp.41 -69.

35. Penman, S. H (2003). The Quality of Financial Statement: Perspectives From the Recent Stock Market Bubble. Accounting Horizons, 17, pp.77-96.

36. Peasnell, K.V., Pope, P. F. and Young, S. (2005). Board monitoring and earnings management: Do outside directors' influence abnormal accruals? Journal of Business Finance and Accounting, 32(7and 8), pp.1311- 1346.

37. Principles of Corporate Governance https://corpgov.law.harvard.edu/2016/09/08/principles-of-corporate-governance/,(2016)

38. Singh, M. and Davidson, W. N. (2003). Agency costs, ownership structure and corporate governance mechanisms. Journal of Banking and Finance. 27(5). pp. 793-8 16.

39. Shen, C. H., and Chih, L. H. (2007). Earnings management and corporate governance in Asia's emerging Markets. Corporate Governance, 1 5(5), pp.999-1021.

40. Tagesson, T. (2007). Does Legislation or Form of Association Influence The Harmonization of Accounting? A Study of Accounting in the Swedish Water and Sewage Sector. Utilities Policies, 1 5(4), pp. 248-260.

41. Vafeas, N. (2000). Board Structure and Informativeness of Earnings. Journal of Accounting and Public Policy, 1 9(2), pp. 139-160.

42. Watts, R. and Zimmerman, J. L. (1986). Positive Accounting Theory. Englewood Cliffs: Prentice-Hall.

43. Wan Fauziah Wan Yusoff and Idris Adamu Alhaji (2012). Insight of Corporate Governance Theories, Reseach Gate ,pp1 13. https://www.researchgate.net/publication/303168088.

44. Yohannes Anberbir (2018).Frustrated Auditor General Reveals Another Gross Mismanagement

## APPENDIX

## QUESTIONNAIRES

**PUNJABI UNIVERSITY**

**PATIAL, INDIA**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**Survey instrument**

**Dear Participant,**

This research is entitled as *"**STUDY ON THE IMPACT OF POLITICAL INFLUENCE AND CORPORATE GOVERNANCE ON THE FINANCIAL REPORTING IN ETHIOPIA**"* The researcher is Mr. Keno Telila Mijena who is currently a PhD (in Commerce) Scholar at the Punjabi University, Patiala, India.

The primary objective of this research is to comprehend the views of respondents (Accountants, Managers and auditors) in Ethiopia towards the impact of Political Influence and Corporate Governance on the Financial Reporting in Ethiopia. The researcher seeks to gather pertinent information from purposely selected managers, accountants, auditors, purchasers and other participants by survey questionnaire. Participation in this research is completely based on your willingness. The survey questionnaire results will be recorded anonymously and strict confidentiality will be maintained. Individual responses will not be identified in the investigator's research work. For additional information, please contact **KENO TELILA MIJENA** by the subsequent address: E-mail: labsimuliskenoa@gmail.com

With kind regards!

Keno Telila Mijena

Researcher and lecturer at

Wollega University, Ethiopia

**APART I: GENERAL INFORMATION**

1. Your age?
   - **A.** Less than 20 years old
   - **B.** Between 20-40 years of old
   - **C.** Between 40-60 years of old
   - **D.** Above 60 years of old
2. Gender :
   - **A.** Male
   - **B.** Female
3. Relationship :
   - **A.** Marriage
   - **B.** Un marriage
   - **C.** Divorce
4. Level of Education:
   - **A.** TVET
   - **B.** First degree
   - **C.** MSc
   - **D.** Others
5. Types of your business organization:
   - **A.** Private Enterprise
   - **B.** Public Enterprise
   - **C.** Other
6. Form of your organization:
   - **A.** Sole proprietorship
   - **B.** Partnership
   - **C.** Share Company
   - **D.** Private limited company
7. Your responsibility in the business?
   - **A.** Owner
   - **B.** Manager
   - **C.** Accountant
   - **D.** Auditor
   - **E.** Purchaser
8. **Your experience**
   - **A.** Less than 5 years
   - **B.** Between 5-20 years
   - **C.** Over 20 years

**QUESTIONNAIRE ON BASIC VARIABLES OF THE STUDY**

**Please state your agreement or disagreement to the statements listed in the subsequent table and please tick (√).**

| Items | Code | Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree |
|---|---|---|---|---|---|---|
| **POLOTICAL INFLUENCE** | | | | | | |
| I believe that the presence of politician/s on the top of the board critically influence financial reporting quality of the organization in Ethiopia. | PI1 | 5 | 4 | 3 | 2 | 1 |
| I consider that government ownership critically improves financial reporting quality of the organization in Ethiopia. | PI2 | 5 | 4 | 3 | 2 | 1 |
| I think that giving special rights to public officials critically influence the financial reporting quality of the organization in Ethiopia. | PI3 | 5 | 4 | 3 | 2 | 1 |
| I think that the connection of business the owners with political institutions critically influence the financial reporting quality of the organization in Ethiopia. | PI4 | 5 | 4 | 3 | 2 | 1 |
| I believe that politician/s interference critically influence accounting system in context of agency problem. | PI5 | 5 | 4 | 3 | 2 | 1 |
| I believe that politician can have influence on the corporate government particularly in context of compositions of board and management appointments. | PI6 | 5 | 4 | 3 | 2 | 1 |
| **CORPORATE GOVERNANCE** | | 5 | 4 | 3 | 2 | 1 |
| I think that the corporate governance structure influences the quality of financial reporting in terms of earning and disclosure qualities in Organization in Ethiopia. | CG1 | 5 | 4 | 3 | 2 | 1 |
| I believe that the company's corporate governance mechanism and structure influence the financial reporting in terms of disclosure and earning qualities of the organization in Ethiopia. | CG1 | 5 | 4 | 3 | 2 | 1 |
| I think that in Ethiopia certain manager maybe provide financial reports to boost confidence among the current and potential investors and to reduce agency conflict. | CG3 | 5 | 4 | 3 | 2 | 1 |
| I think that low board competency, board and size, audit committee independence, frequency of audit committee meeting and the existence of low financial experts on audit committee influence the quality of financial report in Ethiopia. | CG4 | 5 | 4 | 3 | 2 | 1 |
| I believe that the lack of proper internal controls or effective directors' oversights influence the quality of financial reports in Ethiopia. | CG5 | 5 | 4 | 3 | 2 | 1 |
| I believe that high director absenteeism or lack of attendance at key meetings influence the quality of financial reports in Ethiopia. | | 5 | 4 | 3 | 2 | 1 |
| I consider that lack of reasonable director turnover influences the quality of financial reports in Ethiopia. | CG6 | 5 | 4 | 3 | 2 | 1 |
| I believe that presence of dominance shareholders in the organization critically influence financial reporting quality in Ethiopia. | CG7 | 5 | 4 | 3 | 2 | 1 |