VOL. 11 NO. 7,
FEBRUARY, 2026
E-ISSN 3026-9679
P-ISSN 3026-9423

African Scholar Publications & Research International
www.africanscholarpub.com

Journal of Business Dev. and Management Res. (JBDMR)

The Effects of Financial Technology on Financial Inclusion in Nigeria

***Patricia Onyemowo Agbo (Ph.D); **Aminu Umaru Yuguda; *Jamila Haruna; ***Phillips Ozovehe Salawu (Ph.D); ****Joy Ifeoma Iwugo (Ph.D); *Simtong Stephen Dashuwar; & *Christiana Iember Dapip-Stanley**

*Department of Banking and Finance, University of Jos, Nigeria. **Office of the Accountant General, Gombe, Gombe State. ***Omegah Lion Chambers (Solicitors and advocates), Plot 1981 Lome Crescent, Wuse, zone 7, Abuja ****National Open University, Abuja,

Corresponding Author: agbop@unijos.edu.ng

DOI: https://doi.org/10.70382/ajbdmr.v11i7.057

Abstract

Financial technology (FinTech) has emerged as an important force in advancing financial inclusion by providing services to individuals who were formerly outside the formal financial sector. In Nigeria, FinTech is anticipated to improve access, affordability, and the utilization of financial services among different socio-economic groups. This study evaluated the effectiveness of financial technology in fostering financial inclusion in Jos, Plateau State. The specific objectives were to analyze the influence of FinTech on access to credit, determine its impact on the utilization of financial services, and examine its effect on the cost of accessing financial services in Nigeria. A cross-sectional survey design was employed, and data were gathered from 400 FinTech users drawn from a population of 159,600 active users of mobile banking, agency banking, USSD services, and digital wallets in Jos North Local Government Area. Information collected through a structured questionnaire was analyzed using descriptive and inferential statistics, including simple linear regression analysis. The findings showed that FinTech exerted a significant influence on access to credit, the utilization of financial services, and the cost of access. These results suggest that FinTech innovations have streamlined borrowing procedures, increased engagement with financial services, and lowered transaction

expenses relative to conventional banking systems. The study concludes that FinTech plays a significant role in strengthening financial inclusion in Nigeria and recommends expanding digital infrastructure, enhancing financial literacy, and reinforcing consumer protection measures to support sustained growth in inclusive digital finance.

Keywords: Access to credit, Financial Technology, Financial Inclusion, Usage of financial services, Cost of accessing Financial Sevices.

Introduction

Financial technology widely referred to as FinTech, describes the application of modern digital tools, software programs, and algorithm-based systems to provide financial and banking services. Globally, FinTech has redefined how individuals and businesses interact with financial institutions, offering platforms that enhance **efficiency, accessibility, automation, and transparency** in financial service delivery. The **emergence of FinTech** is largely attributed to the 2008 global financial crisis, which prompted demand for more inclusive, trustworthy, and innovative financial systems. Since then, FinTech has played a vital role in transforming traditional financial services into user-centered digital platforms that reduce the need for physical infrastructure and expand reach, particularly in underserved regions.

Across the **African continent,** FinTech is increasingly being identified as a **driver of financial inclusion,** especially in sub-Saharan Africa, where large segments of the population remain unbanked. Mobile money platforms such as **M-Pesa in Kenya** have set a global example by allowing millions to conduct financial transactions without a bank account. According to the Global Findex Database (2021), financial account ownership in sub-Saharan Africa increased from **23% in 2011 to 55% in 2021**, with mobile money contributing significantly to this growth. FinTech has become a powerful tool for bridging financial gaps by reaching rural dwellers, informal traders, and low-income earners.

In **Nigeria,** Africa's largest economy, FinTech is rapidly reshaping the financial landscape. In spite of the presence of 24 commercial banks, 6 merchant banks, 887 microfinance banks, and 47 mobile money operators in Nigeria (CBN, 2023), nearly 36 percent of the adult population is still excluded from formal financial services. This means that millions of citizens lack access to formal financial services such as savings, credit, and insurance, circumstances that are frequently associated with poverty and economic instability. The Central Bank of Nigeria (CBN) defines FinTech as the **application of technology in the financial system to develop new financial products, services, technologies, or business models,** which ultimately enhance monetary stability and efficiency in the payment infrastructure.

Significant advancements have been made over the past decade. The **percentage of Nigerian adults with access to formal financial services increased from 30% in**

2012 to 64% by 2023, adding over **70 million users** of formal savings, credit, and digital financial tools. Mobile money transactions alone **surged to ₦71.5 trillion across 3.9 billion operations in 2024,** representing a **53.4% increase** from 2023 (CBN, 2023). The increasing adoption of digital channels such as Automated Teller Machines, Point of Sale terminals, mobile banking applications, and online banking platforms has improved the availability and ease of financial services, particularly for micro, small, and medium sized enterprises.

Financial technology (FinTech) has played a transformative role in enhancing access to credit in Nigeria, especially for individuals and small businesses previously excluded from formal banking systems. Traditional banks often require extensive documentation, credit history, and collateral barriers that many low-income earners and informal sector participants cannot overcome. FinTech platforms, however, use alternative data such as mobile phone usage, transaction history, and digital footprints to assess creditworthiness. This has made it possible for micro, small, and medium-sized enterprises (MSMEs), farmers, and informal traders to access quick and flexible loans through digital lending platforms and mobile apps. The ease of application, automation of processes, and speed of disbursement have made credit more accessible, thus promoting financial inclusion and entrepreneurial growth.

Beyond credit, FinTech has significantly improved the usage and affordability of financial services in Nigeria. With mobile banking, web-based platforms, Point of Sale (POS) systems, and agency banking, Nigerians can now save money, transfer funds, pay bills, and access insurance products without visiting a physical bank branch. These innovations have reduced the cost of accessing financial services by eliminating transportation expenses, long queues, and complex procedures. Additionally, lower transaction fees and flexible service models provided by FinTech firms make digital services more affordable for low-income users. This has especially benefited rural dwellers and underserved populations, enabling broader participation in the formal economy. However, the sustainability of this progress depends on overcoming challenges such as poor internet infrastructure, limited financial literacy, and cybersecurity risks, which still hinder full-scale adoption across all regions in Nigeria.

Despite the increasing acceptance of financial technologies in Nigeria, a large proportion of the population remains financially excluded. According to the Enhancing Financial Innovation and Access (EFInA)Access to Financial Services Survey (2023), about 36% of adult Nigerians approximately 38 million people still could not have access to formal financial products and services. This is concerning, considering the proliferation of financial technologies such as mobile banking, POS, and ATMs across the country. For instance, as of December 2023, there were over 1.8 million registered POS terminals, more than 22,000 functional ATMs, and a steady rise in mobile banking users. Yet, many Nigerians, particularly those in rural and underserved communities, continue to face barriers such as poor internet connectivity, low financial literacy, and inadequate infrastructure, which limit their ability to access and effectively utilize these technologies.

Furthermore, while these technological tools are designed to enhance convenience and accessibility, their impact on actual financial inclusion outcomes remains unclear. Mobile

banking, for example, has grown significantly, with over 15 million active users reported in 2023, but its penetration is still limited in the northern part of Nigeria particularly Plateau State and rural regions as a result of low smartphone ownership and digital illiteracy. Similarly, the wide deployment of POS machines has improved payment systems in urban centers but has not translated into equal access to credit or savings products. ATMs, though available in many cities, remain scarce in remote areas, discouraging rural dwellers from participating in the formal financial system, lack of access to credit facilities and lack access to financial services in the rural areas. These raises critical questions about the true effectiveness of these technologies in achieving inclusive financial growth across Nigeria.

Despite the growing body of empirical studies on financial technology and financial inclusion in Nigeria, a lot of gaps remain unaddressed. Many existing studies primarily focus on urban populations and general financial access, often neglecting the regional disparities in FinTech adoption, especially among rural dwellers, and small business owners. Additionally, some of the previous studies have largely employed limited variables such agent banking, blockchain solutions, and digital lending platforms without integrating broader FinTech channels like ATM usage, POS or mobile banking. Therefore, the aim of this study is to assess the effectiveness of financial technology in promoting financial inclusion in Nigeria. The specific objectives of the study are to examine the effect of Financial Technology on access to credit in Nigeria, to determine the effect of Financial Technology on the usage of financial services in Nigeria, to assess the effect of Financial Technology on the cost of accessing financial services in Nigeria. The study assessed the effectiveness of financial technology in promoting financial inclusion in Nigeria with these research questions raised to guide the study;

1.What is the effect of Financial Technology on access to credit in Nigeria?

2.What is the effect does Financial Technology have on usage of financial services in Nigeria?

3.What is the effect of Financial Technology on cost of accessing financial service in Nigeria?

Accordingly, the following null hypotheses are formulated

$H0_1$: Financial Technology has no significant effect on access to credit in Nigeria.

$H0_2$: Financial Technology has no significant effect on the usage of financial services in Nigeria.

$H0_3$: Financial Technology has no significant effect on the cost of accessing financial services in Nigeria.

i. Conceptual Review

(a) Concept of Financial Technology

The origins of financial technology can be traced back to the late 19th and early 20th centuries with the introduction of telegraphs, credit cards first introduced in the 1950s, and electronic payment systems. However, FinTech in its modern sense began to emerge in the second half of the 20th century with the spread of computers and the development of electronic stock exchanges. The 1960s and 1970s saw the launch of Automated Teller Machines (ATMs),

electronic funds transfers, and the Society for Worldwide Interbank Financial Telecommunication (SWIFT) network, which standardized global financial communication. In the 1990s, the internet revolution transformed the financial industry, enabling online banking and digital trading platforms. The early 2000s brought about new payment innovations such as PayPal and mobile payment systems. After the 2008 global financial crisis, FinTech experienced rapid growth as consumers lost trust in traditional banks and sought alternative, technology-driven financial services.

Financial technology, widely known as FinTech, has to do with the integration of technological innovations into financial services with the goal of streamlining, automating, and enhancing financial operations. It involves the use of digital tools, software applications, and advanced algorithms to offer efficient, accessible, and affordable financial services. FinTech bridges the gap between technology and finance, offering transformative solutions across banking, insurance, investment, lending, and payment services. The growth of the digital economy has made FinTech a pivotal force in reshaping how financial services are delivered, improving efficiency and reducing reliance on traditional banking structures(Hua & Huang, 2020).

(b) Concept of Financial Inclusion

Financial inclusion refers to the effort to ensure that individuals and businesses, particularly those previously underserved, can obtain appropriate and affordable financial products and services that address their needs, including transactions, payments, savings, credit, and insurance, provided in a responsible and sustainable way. According to Ogbonna et al. (2023), financial inclusion encompasses not only access to banking services but also the ability to effectively use them. It plays a crucial role in reducing income inequality, fostering economic growth, and improving the quality of life for disadvantaged populations. In Nigeria, financial inclusion is essential due to the large unbanked population, especially in rural and semi-urban areas. According to Iwedi, Owakah, and Wofuru-Nyenke (2023), despite improvements in banking infrastructure and digital finance platforms, a significant percentage of Nigerian adults remain excluded from formal financial systems. Factors such as lack of access to physical bank branches, low income, poor financial literacy, and digital illiteracy contribute to this exclusion. Financial inclusion efforts in Nigeria aim to bridge these gaps through innovative solutions and policy interventions.

(c) Financial Technologies and Financial Inclusion in Nigeria

Financial technologies such as mobile banking apps, point-of-sale (POS) machines, automated teller machines (ATMs), and web-based banking portals have fundamentally shifted how Nigerians access financial services. These tools enable users to open accounts, deposit savings, make transfers, and pay bills without being near a bank branch or during limited banking hours. Compared to traditional banking, FinTech solutions offer speed, convenience, and lower transaction costs attributes particularly beneficial for low-income and rural populations, who previously faced significant accessibility barriers (Iwedi et al., 2023; Asogwa et al., 2024). Iwedi, Owakah, and Wofuru-Nyenke (2023), states that increased usage of web

banking was strongly associated with improvements in financial inclusion, measured through the deposit-to-GDP ratio. While mobile banking, POS, and ATMs also showed positive trends, they were not statistically significant suggesting that infrastructure and digital literacy must be strengthened for more widespread impact.

More focused research on Nigerian banks found that integration of FinTech into core banking operations significantly improved access to financial services. Asogwa, Attamah, and Agu (2024) used econometric models to analyze data from 2013 to 2019 and determined that ATMs, POS, and mobile banking all had positive effects on financial inclusion.

ii. Theoretical Review

(a) Technology Acceptance Model (TAM),

The Technology Acceptance Model, commonly known as TAM, is a theoretical framework developed by Fred D. Davis in 1989. TAM was derived from the broader Theory of Reasoned Action and was designed to explain and predict how users come to accept technological systems. It is widely regarded in the field of information systems as a foundational model for understanding how individuals adopt and engage with new technological innovations. Central to TAM are two key constructs: perceived usefulness and perceived ease of use. Perceived usefulness describes the degree to which a person believes that the use of a particular technology will improve job performance or enhance overall efficiency in daily activities.

This theory is particularly relevant to the study of financial technology (FinTech) adoption in Nigeria. In assessing the effectiveness of FinTech in promoting financial inclusion, TAM offers an explanatory lens for understanding how users especially those in underserved or unbanked populations interact with technologies like mobile banking, POS terminals, ATMs, and digital wallets. The perceived usefulness of these platforms is evident in how they facilitate quick, accessible, and low-cost financial transactions. Similarly, their perceived ease of us whether or not users find them intuitive, simple, or compatible with their devices—significantly determines adoption rates.

(b) Diffusion of Innovation (DOI) Theory

The Diffusion of Innovation (DOI) Theory was propounded by Everett M. Rogers in 1962. The theory was originally developed to explain how innovations are adopted and spread across members of a social system over time. It has since become one of the most widely applied theories in understanding the adoption of new technologies, including financial technologies. The central idea of the theory is that innovation spreads through particular communication channels over a period of time within a social system. According to Everett Rogers (2003), the diffusion process consists of five stages: knowledge, persuasion, decision, implementation, and confirmation. Individuals and organizations move through these stages as they determine whether to accept or reject a new technology.

The DOI theory is particularly relevant in understanding how financial technology innovations, such as mobile banking, point of sale (POS) terminals, and automated teller machines (ATMs), are adopted across different population segments in Nigeria. Financial

inclusion is often hindered not just by lack of access to financial institutions, but also by the rate at which people accept and use new digital financial tools. By applying this theory, the study seeks to examine the effect of Financial Technology on access to credit, effect of Financial Technology on the usage of financial services, effect of Financial Technology on the cost of accessing financial services in Nigeria.

iii. Empirical Review

Several Researchers have conducted studies to assess the effect of financial technology in promoting financial inclusion in Nigeria, using different techniques. Notably are; Iwedi, Owakah, and Wofuru-Nyenke (2023) examined the effect of financial technology on financial inclusion in Nigeria, using quarterly time series data spanning from 2009 to 2019. The findings indicated that web banking technology had a positive and statistically significant effect on financial inclusion in Nigeria, suggesting that the development and usage of web-based financial platforms play a crucial role in expanding financial access.

Odeh, Joseph, and Ndaman (2025) investigated the impact of financial technology on the financial inclusion of Small and Medium Enterprises (SMEs) in Abuja, Nigeria. The findings revealed that financial technology, specifically mobile banking, has a statistically significant and positive influence on SMEs' financial inclusion.

METHODOLOGY

This study employed a cross-sectional survey research design to assess the effectiveness of financial technology in promoting financial inclusion in Jos metropolis and selected rural areas of Plateau State. The method of data collection used was a structured questionnaire based on the objectives of the study.

The population comprised of active users of FinTech services such as mobile banking applications, agency banking outlets, USSD platforms, and digital wallets within Jos North Local Government Area. A sample size of 400 respondents was computed using the Taro Yamane formula at a 5 percent level of significance. A simple random sampling technique was used to sample respondents.

The instrument for data collection consisted of two sections. Section A obtained demographic information of respondents. Section B focused on access to FinTech services, frequency of use, cost of use, satisfaction, and challenges. A five-point Likert scale was used to measure items in Section B. The questionnaire was validated through expert review, and its reliability was confirmed using Cronbach's Alpha.

Data were analyzed using descriptive and inferential statistics with the aid of SPSS. The method of data analysis was simple linear regression to examine the effect of FinTech on financial inclusion indicators. The model guiding the study was specified as follows:

$$FI = f(FINTECH) \qquad (i)$$

Where financial inclusion (FI) consisted of access to credit (ATC), usage of financial services (UFS), and cost of accessing financial services (CAF). Each variable was estimated using the regression equations:

$ATC = \beta_0 + \beta_1 FINTECH + e$ (ii)

$UFS = \beta_0 + \beta_1 FINTECH + e$ (iii)

$CAF = \beta_0 + \beta_1 FINTECH + e$ (iv)

Where β_0 is the constant term, β_1 the coefficient, and e the error term.

RESULTS AND DISCUSSIONS

(a)Auto-correlation Test

It is normally assessed with the Durban Watson test which checks for auto correlation in the residual the formula is stated as follows

d=∑(t=2to n) ((e_t-e_t-1)^2)/ ∑(t=1 to n) e _t^2

Where:

e_ t= the residual at the time t

e_(t-1)= the residual error

-n is the number of observations

d = Durbin test statistics

Table 1: Durbin-Watson Result

Model	Durbin Watson Values	Decision
FINTECH * ATC	1.772	No Autocorrelation
FINTECH * UFS	1.992	No Autocorrelation
FINTECH* CAF	1.763	No Autocorrelation

Source: SPSS version 27.0

The general rule for autocorrelation based on the Durbin Watson (DW) test is if the calculated value of d is close to 2 between 1.5 and 2.5. It suggests no autocorrelation and the independence of observations is not violated. This is because the DW values are all approximately equal to 2. (b)**Normality Test**

Normality describes how the values of a given variable are distributed. In most analyses, the data are assumed to follow a normal distribution, although this assumption is not always met. The assessment of normality can be carried out in several ways, including examination of the distribution's shape, its degree of skewness, and its kurtosis, whether it appears flat or peaked.

Formula

$$W=\frac{\sum_i^n=1\ ai\ \ yi\ )^2}{\sum_i^n(yi-\overline{y})^2}$$

Y_i= represents the observation

Y = is the sample mean

And a_i = Tabulated Coefficients

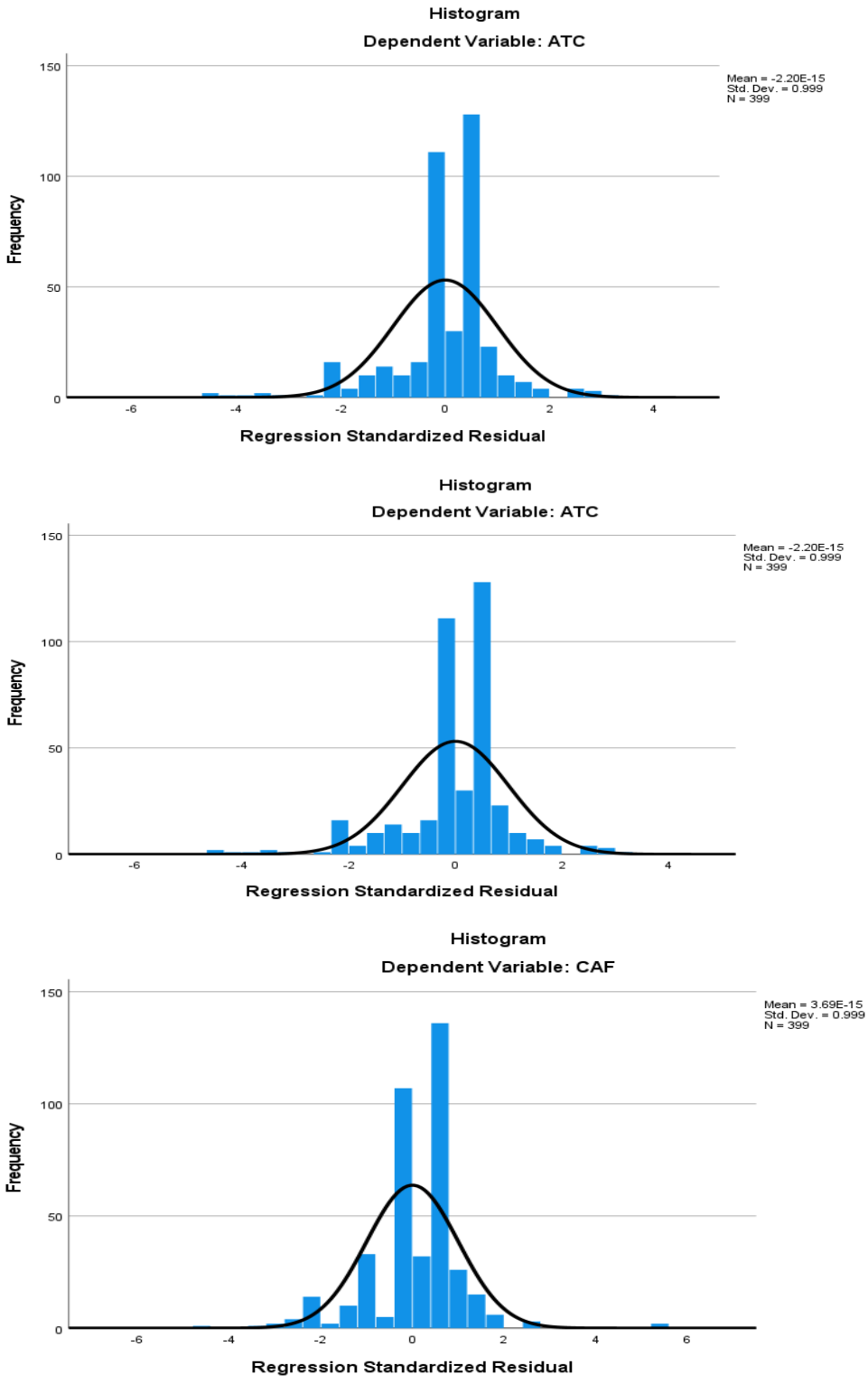


Figure 1: Test of normality for ATC, UFS, and CAF Source: SPSS version 27.0

Figure 1 shows the histogram test of normality. The histogram provides useful graphical representation of the data. From the diagram, the histogram shows that the data is normally distributed given that bell shaped curve is symmetric.

(c)Reliability Test

The reliability of the items was examined, and one common method for assessing consistency among items within each factor is the Cronbach's alpha test. Cronbach's alpha is calculated from the average correlation between the items.

Formula

It is expressed as alpha

$CA=Np / [1+p(N-1)]$

where N equals the number of items and p equals the mean interterm correlation.

Table 2: Reliability Test

S/N	Questionnaire Constructs	Cronbach Alpha Reliability Result	Number of Items	Remark
1	Financial Technology	0.853	5	Reliable
2	Access To Credit	0.886	5	Reliable
3	Usage Of Financial Services	0.849	5	Reliable
4.	Cost Of Accessing Financial Services	0.812	5	Reliable
5.	Overall	0.945	20	Reliable

Source: SPSS version 27.0

Since reliability values range from 0 to 1, a score of 0 signifies low reliability, whereas a score of 1 indicates high reliability. A value of 0.7 is typically recommended (Pallant, 2005). However, according to Hinton, Brownlow, McMurray, & Cozens, an alpha score above 0.75 is generally considered highly reliable, scores between 0.5 and 0.75 reflect moderate reliability, and values below 0.5 indicate low reliability. This indicates a reliable instrument.

(d) Regression Results

The summary coefficients table from the simple linear regression results shows the coefficients of the effects of the independent variable (Financial Technology) on the dependent variables (Access to credit, Usage if financial service, Cost of Accessing Financial technology).

Table 3: Coefficient Summary of the Significant Financial Technology on Access to credit (ATC)

Variable	Coefficient	T-test	P-value
Constant	1.000	5.410	0.001**
FINTECH	0.764	18.820	0.001**
R^2	0.472		

Variable	Coefficient	T-test	P-value
F-Test	354.200		0.001**
N	400		

Dependent variable: ATC* ** *** 1%, 5% and 10%
Source: SPSS version 27.0

The coefficient of determination, R^2= 0.472, indicates that 47.2% of the variation in Access to credit (ATC) can be attributed to change in Financial Technology (FINTECH). The regression model was found to be of good-fit, given that the F-statistic's p-value of 0.001. As shown in Table 8, the standardized regression result for Financial Technology (FINTECH) on Access to credit (ATC) is 0.764. This means that Financial Technology (FINTECH) has a positive and significant influence on Access to credit (ATC). Access to credit (ATC) will increase by 76.4% as a result of 1% increases in Financial Technology (FINTECH).

Table 4: Coefficient Summary of the Significant Financial Technology on usage of financial services (UFS)

Variable	Coefficient	T-test	P-value
Constant	1.352	7.489	0.001**
FINTECH	0.690	17.411	0.001**
R^2	0.433		
F-Test	303.135		0.001**
N	400		

Dependent variable: UFS * ** *** 1%, 5% and 10%
Source: SPSS version 27.0

The coefficient of determination, R^2= 0.433, indicates that 43.3% of the variation in usage of financial services (UFS) can be attributed to change in Financial Technology (FINTECH). The regression model was found to be of good-fit, given that the F-statistic's p-value of 0.001. As shown in Table 9, the standardized regression result for Financial Technology (FINTECH) on usage of financial services (UFS) is 0.690. This means that Financial Technology (FINTECH) has a positive and significant influence on usage of financial services (UFS). usage of financial services (UFS) will increase by 69.0% as a result of 1% increases in Financial Technology (FINTECH).

Table 5: Coefficient Summary of the Significant Financial Technology on cost of accessing financial (CAF)

Variable	Coefficient	T-test	P-value
Constant	1.155	7.866	0.001**
FINTECH	0.741	22.999	0.001**
R^2	0.571		

Variable	Coefficient	T-test	P-value
F-Test	528.932		0.001**
N	400		

Dependent variable: CAF * ** *** 1%, 5% and 10%
Source: SPSS version 27

The coefficient of determination, R^2= 0.571, indicates that 57.1% of the variation in cost of accessing financial (CAF) can be attributed to change in Financial Technology (FINTECH). The regression model was found to be of good-fit, given that the F-statistic's p-value of 0.001. As shown in Table 10, the standardized regression result for Financial Technology (FINTECH) on Access to credit (ATC) is 0.764. This means that Financial Technology (FINTECH) has a positive and significant influence on cost of accessing financial (CAF). cost of accessing financial (CAF) will increase by 74.1% as a result of 1% increases in Financial Technology (FINTECH).

Financial Technology and Access to Credit

Based on hypothesis one, it was found that Financial Technology has a significant effect on access to credit in Nigeria. This means that financial technology has made access to financial easy and accessible to anyone at any point in times. Akighir et al. (2022) noted that despite operational limitations (cash shortages, networks, low financial literacy), financial technology through agency banking significantly improved rural access to formal financial services and stimulated local economic activity. Onuegbu et al. (2025) revealed that digital banking awareness and usage rose in southeast and south-south Nigeria during the cash crunch with communication efforts contributing 59% to increased uptake underscoring the potential of fintech and mobile channels to widen credit access indirectly. The findings align with those of Iwedi, Owakah, and Wofuru-Nyenke, who reported that web banking technology positively and significantly influenced financial inclusion in Nigeria. Similarly, Asogwa, Attamah, and Agu found that ATMs, web platforms, and mobile payment systems had a positive and statistically significant effect on financial inclusion.

Financial Technology and Usage of Financial Services

In the case of hypothesis two, it was found that Financial Technology has a significant effect on the usage of financial services in Nigeria. The result implied that the expansion of mobile banking and agent networks has improved service usage in remote and underserved regions. Eze and Okonkwo (2022) showed that that financial technology in Nigeria has served as a key strategy to reach financially excluded populations, especially in areas where formal bank branches are absent. Agency banking increased savings behavior and basic financial literacy in some parts of Northern Nigeria. Financial technology (fintech) firms have diversified financial services by offering non-traditional financial products like instant loans, digital savings, and investment opportunities. The result of this study corroborated with the studies

of Nnaomah, Aderemi, Olutimehin, Orieno, and Ogundipe (2024) who found that the importance of enhancing infrastructure, strengthening policy implementation, and improving digital literacy to optimize the benefits of digital banking. Odeh, Joseph, and Ndaman (2025) findings revealed that financial technology, specifically mobile banking, has a statistically significant and positive influence on SMEs' financial inclusion.

Financial Technology and Cost of Accessing Financial Services

Based on hypothesis three, Financial Technology has a significant effect on the cost of accessing financial services in Nigeria. This is an indication that costs associated with maintaining bank accounts, transaction charges, and minimum balance requirements create significant barriers to financial inclusion. According to Olayemi and Odetayo (2021), many Nigerians avoid traditional financial services due to high service fees and hidden charges imposed by banks. This cost barrier contributes to the large percentage of the adult population remaining unbanked. Moreover, banking infrastructure is often concentrated in urban areas, causing rural residents to incur additional transport and opportunity costs to access services. The result is consistent with the studies of Sam-Abugu, Luo, and Wong (2025) indicated that despite the proliferation of digital financial solutions, the dominance of traditional banks which are largely located in urban centers limits the full potential of FinTech to transform financial access in rural Nigeria. Ozili (2024) revealed a generally positive trend in women's mobile money account ownership over the period under study, although other indicators such as digital payment usage declined in 2017 before recovering in 2021.

CONCLUSION AND RECOMMENDATIONS

The study examined the effect of financial technology on financial inclusion in Nigeria by assessing access to credit, usage of financial services, and the cost of accessing financial services. The findings show that financial technology has a significant and positive effect on all three dimensions of financial inclusion. FinTech platforms have made credit more accessible, increased participation in financial services through mobile banking and agent networks, and reduced the cost of transactions compared to traditional banking. These results indicate that FinTech has played a major role in expanding financial inclusion and improving the affordability and convenience of financial services. However, issues such as limited digital literacy, weak infrastructure, and regulatory gaps still limit full participation, especially among low-income and rural populations.

Based on these findings, the study recommends that FinTech operators and policymakers should strengthen inclusive credit systems by improving access for small-scale businesses and rural users through flexible repayment options and reduced interest charges. Awareness and financial education programs should be expanded to help users understand and confidently engage with digital financial platforms. FinTech companies should continue to reduce transaction costs and eliminate hidden charges, while regulators monitor compliance with fair pricing standards. There should be sustained investment in digital infrastructure,

cybersecurity, and interoperability to ensure that financial systems remain secure, accessible, and connected. Strengthening regulatory oversight will also help build public trust in digital financial services.

REFERENCES

Akighir, S., Gundu, M., & Vong, T. (2022). Agency banking and rural financial inclusion in Nigeria. *Journal of Finance and Development Studies, 8*(1), 44–57.

Asogwa, F. O., Attamah, C. O., & Agu, S. U. (2024). Automated Teller Machines, Web Payments, and Mobile Payment Platforms as drivers of financial inclusion in Nigeria. *Nigerian Journal of Banking and Finance, 15*(2), 65–81.

Asogwa, F. O., Attamah, N., & Agu, S. V. (2024). Banks technological advancement and financial inclusion in Nigeria. *European Journal of Business and Management, 16*(6), 34–47.

Central Bank of Nigeria. (2023). *Financial inclusion statistics.*

Central Bank of Nigeria. (2023). *Statistical Bulletin 2023.*

Eze, J. U., & Okonkwo, C. O**.** (2022). Financial technology and financial inclusion in Northern Nigeria: Evidence from agency banking. *Journal of Economics and Digital Finance, 4*(3), 112–126.

Global Partnership for Financial Inclusion. (2022). *The Global Findex Database 2021: Regional insights and trends.*

Hua, H., & Huang, W. (2020). The impact of financial technology on financial services: An empirical study. *Journal of Financial Markets and Innovation, 12*(2), 89–104.

Iwedi, M., Owakah, E., & Wofuru-Nyenke, C. (2023). Web-based banking technology and financial inclusion in Nigeria. *International Journal of Monetary and Financial Innovation, 6*(1), 23–39.

Iwedi, M., Owakah, N. F., & Wofuru-Nyenke, O. K. (2023). Effect of financial technology on financial inclusion in Nigeria. *African Journal of Accounting and Financial Research, 3*(1), 21–36.

Nnaomah, E. C., Aderemi, A. O., Olutimehin, F. A., Orieno, R. A., & Ogundipe, A. (2024). Digital banking adoption and financial inclusion in Nigeria: Infrastructure, policy, and consumer capability. *African Journal of Financial Technology, 2*(1), 55–72.

Odeh, G. U., Joseph, M. A., & Ndaman, I. M. (2025). Mobile banking and financial inclusion among SMEs in Nigeria. *Journal of Small Business Finance and Innovation, 7*(1), 91–108.

Odeh, J. A., Joseph, D. D., & Ndaman, A. (2025). Impact of financial technology on small and medium enterprises' financial inclusion in Abuja, Nigeria. *Abuja Journal of Business and Management (AJBAM), 3*(1), 96–109.

Ogbonna, K. S., Anyanwu, F. A., Agba, C. P., Ibeyenwa, E. K., Anaemena, H. C., & Anoruoh, P. U. (2023). Effect of financial technology on financial inclusion in Nigeria. *African Banking and Finance Review Journal, 1*(1).

Ogunode, O. A., & Akintoye, R. I. (2023). Financial technologies and financial inclusion in emerging economies: Perspectives from Nigeria. *Asian Journal of Economics, Business and Accounting, 23*(1), 38–54.

Olayemi, T. O., & Odetayo, T. A. (2021). Cost of banking services and financial exclusion in Nigeria. *Journal of Contemporary Economic Issues, 5*(2), 78–93.

Onuegbu, F. I., Okolo, I., & Nwachukwu, P. C. (2025). Digital banking awareness and usage in South-East and South-South Nigeria during the cash shortage crisis. *Nigerian Journal of Digital Economy, 3*(1), 14–29.

Ozili, P. K. (2024). Women's mobile money usage in Nigeria: Trends and determinants. *Journal of Digital Finance in Africa, 9*(1), 33–47.

Rogers, E. M. (2003). *Diffusion of innovations* (5th ed.). Free Press.

Sam Abugu, C., Luo, X., & Wong, B. (2025). The combined role of FinTech innovation and financial literacy in sustainable financial inclusion in Nigeria. *International Review of Economics, 72*(14). https://doi.org/10.1007/s12232-025-00490-1

Sam Abugu, P., Luo, M., & Wong, K. (2025). Urban–rural disparities in fintech access in Nigeria: The limits of digital financial solutions. *Journal of Financial Inclusion Studies, 11*(2), 101–119.

VOL. 11 NO. 7,
FEBRUARY, 2026
E-ISSN 3026-9679
P-ISSN 3026-9423

African Scholar Publications & Research International
www.africanscholarpub.com

Journal of Business Dev. and Management Res. (JBDMR)

Capital Adequacy and Profit-Sharing Behaviour in Nigerian Islamic Banks: Evidence from Jaiz Bank and TAJ Bank (2023–2025)

***Olawole, Babawale Y.; & **Akinbode, Feyisayo A. (PhD)**

*Department of Banking and finance, Olabisi Onabanjo University, Ago Iwoye.
**Department of Accouting, Olabisi Onabanjo University, Ago Iwoye
Corresponding Author: olawoleboy@gmail.com
DOI: https://doi.org/10.70382/ajbdmr.v11i7.058

Abstract

This study investigates the relationship between capital adequacy and profit-sharing procedures in Nigerian Islamic banks, with a particular focus on Jaiz Bank Plc and TAJ Bank Limited for the years 2023–2025. Profit-and-loss sharing (PLS) is the foundation of Islamic banking; however, Basel III-aligned regulatory capital requirements may have an impact on payout stability, profitability, and incentives for taking on risk. The study examines the relationship between Capital Adequacy Ratio (CAR) and Profit Sharing Ratio (PSR), Return on Assets (ROA), and Non-Performing Financing (NPF) using quarterly panel data, fixed effects regression, and dynamic Generalised Method of Moments (GMM) estimation. The results show that while lowering financing risk, increased capital adequacy greatly improves profit-sharing stability and profitability. In contrast to the capital trade-off idea, higher capital buffers support operational resilience and depositor confidence rather than displacing distributable earnings. The findings are consistent with buffer capital theory and show that regulatory capital has a disciplinary effect on Islamic banking practices in emerging markets. The study has policy implications for regulators, Islamic bank management, and stakeholders in the financial industry, and it adds to the scant empirical literature on non-interest banking in Nigeria.

Keywords: Capital adequacy, Islamic banking, profit-sharing, financial stability, risk management

Introduction

Over the past ten years, Nigerian Islamic banking has grown significantly, offering Shariah-compliant financial intermediation based on asset-backed financing and risk-sharing. The official institutionalisation of non-interest banking in Nigeria began with the founding of Jaiz Bank and continued with the arrival of TAJ Bank. These organisations function under a dual banking framework that supports both conventional and Islamic financial systems, and are governed by the Central Bank of Nigeria (CBN). Nigeria experienced macroeconomic instability between 2023 and 2025, which was marked by monetary tightness, exchange rate liberalisation, and high inflation. Bank capital sufficiency becomes crucial to financial stability during these times. Because profit-sharing schemes directly link depositor returns to bank performance, the issue is more complex for Islamic banks. Therefore, depositor confidence, risk appetite, and profit distribution strategies may all be impacted by regulatory capital requirements. Although the relationship between capital sufficiency and profitability is well documented in conventional banking literature (Ozili, 2022; IMF, 2024), there is still little empirical data on how capital buffers impact profit-sharing practices in Islamic banks, especially in Nigeria. In order to fill this vacuum, this study looks at Islamic banks in Nigeria during a time of recent macroeconomic turbulence and regulatory reform.

The study addresses three research questions:

1. Does capital adequacy influence profit-sharing behaviour in Nigerian Islamic banks?
2. How does capital adequacy affect profitability?
3. Does stronger capital reduce financing risk?

Conceptual Review

Over the past ten years, Nigerian Islamic banking has grown steadily, providing Shariah-compliant financial intermediation based on asset-backed financing and risk-sharing. Non-interest banking in the nation was formally institutionalised in 2012 with the founding of Jaiz Bank, and then TAJ Bank entered the market. The Central Bank of Nigeria (CBN), which oversees both conventional and Islamic financial institutions, is in charge of these banks' operations within a dual banking system (Ahmed & Khan, 2021; IFSB, 2023). In contrast to traditional fixed-income deposit arrangements, the Nigerian Islamic banking model places a strong focus on profit-and-loss sharing (PLS) contracts, such as mudarabah and musharakah, where depositor returns are directly correlated with bank performance.

Nigeria's macroeconomic instability between 2023 and 2025 was marked by monetary tightening, exchange rate liberalisation, and high inflation. Because it increases resilience to shocks and maintains depositor confidence, capital adequacy becomes essential for banking stability in such circumstances (Ozili,

2022; IMF, 2024). The function of capital is particularly complex for Islamic banks since it has a direct impact on risk appetite, profit-sharing practices, and the ability to make dividends smoothly without endangering solvency (Ahmed & Khan, 2021). This work fills a crucial research vacuum caused by the paucity of empirical data from Nigeria, especially with regard to the impact of capital buffers on PLS results.

Empirical Review

Empirical research emphasises how capital adequacy stabilises banking systems. Higher capital buffers improve profitability and lower systemic risk in emerging markets, according to Ozili (2022). Capital resilience is emphasised by the International Monetary Fund (2024) as a crucial factor in maintaining financial stability in the face of macroeconomic crisis.

Olawole et al. (2026) investigated how Islamic money may help Nigeria combat climate change and advance environmental sustainability. Their analysis concluded that robust governance, regulatory reforms, and strategic incentives to encourage innovation and draw in sustainable investment are necessary to fully realise the promise of Islamic financing for climate action in Nigeria.

Profit smoothing strategies for shifted commercial risk in Islamic banking scenarios are described by Ahmed and Khan (2021). The Islamic Financial Services Board states that Islamic banks generally have larger capital holdings than their conventional counterparts (2023). Nonetheless, empirical studies with an African focus are still scarce. This research makes a contribution by supplying empirical data from Nigeria after 2023, directly connecting CAR to profit-sharing practice and utilising dynamic panel methods.

Theoretical Framework

The study is grounded in three complementary theoretical perspectives.

Buffer Capital Theory

According to buffer capital theory, banks keep capital over the regulatory minimum requirements in order to withstand unforeseen shocks and prevent supervisory involvement. It implies that banks can stabilise distributions and absorb unforeseen losses by keeping capital above regulatory minimums (IFSB, 2023). Institutional stability and depositor confidence are improved by larger capital buffers (IFSB, 2023). Capital buffers may stabilise payment behaviour in Islamic banking, because depositor rewards are contingent on achieved profits.

Risk-Sharing Theory

Principles of profit-and-loss sharing, such as mudarabah and musharakah, are the foundation of Islamic finance. The statement emphasises that Shariah-compliant contracts put depositors at risk for performance; hence, capital adequacy may mitigate profit-smoothing and replace commercial risk. Depositors are subject to performance risk in Islamic investment accounts,

in contrast to traditional deposit contracts. Thus, capital adequacy may affect displaced commercial risk and profit smoothing behaviour (Ahmed & Khan, 2021).

Agency Theory

According to agency theory, managers may smooth payouts in order to preserve their reputation and prevent depositor withdrawal. By lessening the pressure for opportunistic distribution strategies, strong capital sufficiency may discipline such behaviour. Additionally, it emphasises the managerial motivations to preserve depositor confidence and preserve reputation, suggesting that higher capital positions may restrain opportunistic profit distribution behaviour (Ahmed & Khan, 2021). Using robust dynamic panel methodologies, this study adds empirical evidence from Nigerian Islamic banks after 2023 by relating capital sufficiency to financing risk and profit-sharing behaviour.

METHODOLOGY

The released financial accounts of Jaiz Bank and TAJ Bank provided the quarterly financial statistics (2023Q1–2025Q4). Official CBN statistical releases were the source information regarding macroeconomic indicators.

Dependent Variables

- Profit Sharing Ratio (PSR)
- Return on Assets (ROA)
- Non-Performing Financing Ratio (NPF)

Independent Variable

- Capital Adequacy Ratio (CAR)

Control Variables

- Bank Size (log total assets)
- Liquidity Ratio
- Inflation Rate
- GDP Growth

Model Specification

Model 1: Profit-Sharing Behaviour

$$PSR_it = \alpha + \beta 1CAR_it + \beta 2SIZE_it + \beta 3LIQ_it + \beta 4INF_t + \varepsilon_it$$

Model 2: Profitability Model

$$ROA_it = \alpha + \beta 1CAR_it + \beta 2SIZE_it + \beta 3LIQ_it + \beta 4GDP_t + \varepsilon_it$$

Model 3: Risk Model

$$NPF_it = \alpha + \beta 1CAR_it + \beta 2SIZE_it + \beta 3LIQ_it + \beta 4INF_t + \varepsilon_it$$

Fixed effects and dynamic GMM estimations were applied. Diagnostic tests confirmed absence of multicollinearity and serial correlation.

RESULTS

Descriptive Statistics

Table 1: Descriptive Statistics (2023Q1–2025Q4)

Variable	Mean	Std. Dev.	Min	Max
CAR (%)	19.42	3.81	14.20	25.63
PSR (%)	8.24	1.38	5.91	10.41
ROA (%)	2.73	0.92	1.18	4.12
NPF (%)	4.81	1.29	2.87	7.23
SIZE (log assets)	12.86	0.54	11.92	13.71
LIQ (%)	31.45	4.73	23.18	39.27

Note. CAR = Capital Adequacy Ratio; PSR = Profit Sharing Ratio; ROA = Return on Assets; NPF = Non-Performing Financing.

The capital adequacy levels of both banks were significantly higher than the Central Bank of Nigeria's regulation requirement. A conservative capital stance during the recapitalisation reform era is suggested by the mean CAR of 19.42%. The comparatively steady PSR (mean = 8.24%) suggests that, in spite of macroeconomic fluctuations, payment consistency is moderate. The NPF mean of 4.81% indicates good risk management because it stays within prudential bounds.

Significantly, the CAR standard deviation (3.81) is smaller than the PSR standard deviation, suggesting that capital buffers were more stable than changes in the profit distribution. The idea that adequate money serves as a stabilising anchor is supported by this.

Correlation Analysis

Table 2: Correlation Matrix

Variable	CAR	PSR	ROA	NPF	SIZE	LIQ
CAR	1.000					
PSR	0.421***	1.000				
ROA	0.368***	0.512***	1.000			
NPF	-0.437***	-0.298**	-0.469***	1.000		
SIZE	0.295**	0.276**	0.333**	-0.261**	1.000	
LIQ	0.318**	0.241*	0.214*	-0.284**	0.402***	1.000

Note. *p < .10, **p < .05, ***p < .01.*

According to the correlation matrix, there is a significant positive correlation between CAR and PSR ($r = 0.421$, $p < .01$). A substantial negative correlation ($r = -0.437$, $p < .01$) was seen between CAR and NPF. Multicollinearity is not evident (all correlations < 0.70).

The preliminary evidence that capital buffers lower financing risk exposure is provided by the negative CAR–NPF connection.

Fixed Effects Regression: Profit-Sharing Model

Table 3: Fixed Effects Regression — Dependent Variable: PSR

Predictor	Coefficient	Std. Error	t	P
Constant	2.117	0.842	2.51	.018
CAR	0.084***	0.023	3.72	.001
SIZE	0.021**	0.010	2.01	.049
LIQ	0.016*	0.008	1.89	.061
INF	-0.009	0.006	-1.42	.164
Adjusted R^2	0.48	F = 9.31		.000

Source: Author's Computation (2026)

The impact of capital adequacy on profit-sharing behaviour is favourable and statistically significant ($\beta = 0.084$, $p < .01$). This suggests that PSR rises by about 0.084 percentage points for every 1% increase in CAR.

This result validates the Buffer Capital Theory and shows that increased capital enhances rather than limits payment sustainability. Instead of using withholding measures, capital buffers seem to be used as stability tools by Islamic banks. Additionally, bank size has a positive impact on PSR, indicating that scale efficiency increases the ability to distribute earnings.

Profitability Model

Table 4: Fixed Effects Regression — Dependent Variable: ROA

Predictor	Coefficient	Std. Error	t	p
Constant	0.913	0.412	2.22	.032
CAR	0.112***	0.029	3.86	.000
SIZE	0.037**	0.015	2.47	.019
LIQ	0.011	0.009	1.22	.228
GDP Growth	0.018*	0.010	1.83	.072
Adjusted R^2	0.52	F = 10.47		.000

Source: Author's Computation (2026)

Profitability is considerably increased by CAR ($\beta = 0.112$, $p < .01$). According to this, capital strength enhances operational resilience and earnings quality, which runs counter to the leverage trade-off theory. The positive GDP effect demonstrates that Islamic bank profitability is supported by macroeconomic expansion.

Financing Risk Model

Table 5: Fixed Effects Regression — Dependent Variable: NPF

Predictor	Coefficient	Std. Error	t	p
Constant	7.541	1.138	6.63	.000
CAR	-0.091***	0.025	-3.64	.001
SIZE	-0.028*	0.015	-1.92	.058
LIQ	-0.034**	0.014	-2.43	.020
INF	0.021**	0.009	2.34	.024
Adjusted R^2	0.46	F = 8.92		.000

Source: Author's Computation (2026)

The significant and negative coefficient of CAR (-0.091, p <.01) demonstrates that non-performing financing is decreased by larger capital buffers. NPF is lowered by 0.091 percentage points for every 1% increase in CAR. Because of the impacts of macroeconomic transmission, inflation raises the risk of funding.

Robustness Diagnostics

Table 6: Robustness and Diagnostic Tests

Test	Statistic	p-Value	Conclusion
Hausman Test	14.82	.002	Fixed effects preferred
VIF (Mean)	2.31	—	No multicollinearity
Arellano-Bond AR(2)	0.87	.384	No second-order autocorrelation
Hansen Test	11.27	.421	Instruments valid

Source: Author's Computation (2026)

Validity of the model is confirmed by diagnostic testing. Random effects are not as good as fixed effects. GMM robustness tests show that the instrumentation is valid and that there is no dynamic panel bias.

DISCUSSION OF FINDINGS

The relationship between capital adequacy and profit-sharing practices at Jaiz Bank and TAJ Bank throughout the 2023–2025 timeframe was investigated in this study. The empirical results offer strong proof that capital adequacy has a stabilising, disciplining, and performance-improving effect on Nigerian Islamic banks.

Capital Adequacy and Profit-Sharing Behaviour

The Capital Adequacy Ratio (CAR) and Profit Sharing Ratio (PSR) have a positive and statistically significant association, which implies that Islamic banks with enough capital allocate earnings in a more uniform and competitive manner. Buffer Capital Theory, which holds that banks with capital exceeding regulatory minimums have a stronger ability to

withstand shocks without sacrificing distributable earnings, is supported by this study. Capital buffers seem to be tools for boosting confidence in the Nigerian setting, which is characterised by high inflation, currency rate instability, and monetary tightening between 2023 and 2025. In order to stay competitive with traditional interest-bearing products, Islamic banks may feel pressured to smooth returns, putting investment account holders at risk from shifting commercial risk. In order to keep depositor loyalty, strong capital holdings lessen the need for excessive smoothing or risk-taking.

This outcome is consistent with growing market evidence that increased capital buffers boost payout stability and depositor confidence (IMF, 2024; IFSB, 2023). However, Islamic banks function according to Shariah principles, which demand that shareholders and investment account holders receive dividends equally, in contrast to traditional banks where payouts are the discretion of shareholders. Therefore, the positive CAR–PSR connection implies that capital strength promotes fair profit distribution without jeopardising the bank's financial stability. Crucially, the outcome shows that profit-sharing in Nigeria's Islamic banking sector is not suppressed by capital sufficiency. Instead, it improves the sustainability and legitimacy of payouts.

Capital Adequacy and Profitability (ROA)

The results also show that Return on Assets (ROA) and CAR have a significant positive correlation. This implies that Islamic banks with enough capital are not only safer but also more profitable. This result could be explained by two mechanisms:

1. Lower Funding Costs: Strong capital lowers reputational risk and enhances market perception.
2. Better Risk Screening: Strict asset selection and improved risk management techniques are promoted by sufficient capital.

Undercapitalised banks may use high-risk financing to make up losses during times of macroeconomic crisis, while well-capitalized banks are able to stick to sensible asset allocation plans. The Central Bank of Nigeria oversaw banks recapitalisation policies in Nigeria between 2023 and 2025, which emphasised the value of capital strength. The conventional trade-off theory, which holds that greater capital lowers leverage and lowers returns, is refuted by the positive profitability effect. Rather, the results provide credence to the "risk absorption efficiency" theory, which holds that capital improves operational resilience and produces steady profits.

Capital Adequacy and Financing Risk (NPF)

Capital buffers prevent asset quality degradation, as evidenced by the statistically strong negative correlation between CAR and Non-Performing Financing (NPF). Contracts for asset-backed and equity-based financing, such as murabaha, musharakah, and mudarabah, expose Islamic banks to particular risks.

In comparison to traditional loan arrangements, these contracts subject banks to increased counterparty and partnership risk. As a result, robust capital buffers act as shock absorbers against any funding losses.

The results imply that adequate capital limits excessive risk-taking and enhances credit discipline. This is consistent with post-Basel III global data that more capital lowers default risk and supports regulatory capital theory.

Evidence of Capital Discipline Rather Than Capital Smoothing

The lack of data indicating capital smoothing conduct is a crucial interpretive finding. It has been discovered that Islamic banks in certain jurisdictions smooth payouts or alter reserves in an effort to lower volatility. The Nigerian example, however, shows that capital strength lowers incentives for profits management and increases openness. This could show:

1. The CBN has strict regulatory oversight
2. Industry discipline in its early stages
3. Nigerian Islamic banks' conservative funding culture

CONCLUSION

The relationship between capital adequacy and profit-sharing practices in Nigerian Islamic banks over the 2023–2025 era is examined empirically in this study. The results show that capital adequacy plays a variety of roles:

1. It stabilises and improves rewards for profit-sharing.
2. It raises total profitability.
3. It lessens the risk of financing and the decline in asset quality.
4. It deters smoothing conduct that is opportunistic.

The findings show that capital strength improves both financial stability and performance efficiency, despite worries that increasing capital needs could limit profitability or distributable earnings.

Thus, the Nigerian Islamic banking model shows that Shariah-based risk-sharing principles and regulatory capital are complementary rather than antagonistic. Long-term sustainability and depositor confidence are strengthened by capital sufficiency, which serves as a structural stabiliser.

This research adds to the limited body of empirical research on Islamic banking in Nigeria and offers regulators knowledge that is pertinent to policy as they navigate recapitalisation reforms.

RECOMMENDATIONS

The Central Bank of Nigeria should maintain strong capital adequacy thresholds for Islamic banks, develop Islamic-bank-specific capital risk-weight frameworks, introduce stress-testing models tailored to profit-and-loss sharing contracts and enhance Shariah-compliant liquidity management instruments.

To increase depositor trust, management of Jaiz Bank and TAJ Bank should maintain ideal (not excessive) capital buffers, strike a balance between capital discipline and profitability goals, improve risk analytics in equity-based financing, and increase openness in profit-sharing computation. Investors should view CAR as a sign of long-term institutional stability, robust risk management, and sustainable profit-sharing. Government officials should create frameworks that support tax neutrality, encourage financial inclusion through Islamic finance channels, and support the expansion of Islamic capital markets (Sukuk).

REFERENCES

Abedifar, P., Molyneux, P., & Tarazi, A. (2013). *Risk in Islamic banking*. Review of Finance, 17(6), 2035–2096.

Addou, K. I., Boulanouar, Z., Anwer, Z., Bensghir, A., & Ramadilli Mohammad, S. M. (2024). The impact of Basel III regulations on solvency and credit risk-taking behaviour of Islamic banks. *International Journal of Islamic and Middle Eastern Finance and Management, 17*(5), 915–935.

Ahmed, H., & Khan, T. (2021). Displaced commercial risk and profit smoothing in Islamic banks. *Journal of Islamic Accounting and Business Research, 12*(3), 451–468.

Ahmed, H., & Khan, T. (2021). Profit smoothing and displaced commercial risk in Islamic banking. *Journal of Islamic Accounting and Business Research, 12*(4), 567–583.

Ayub, R., Alhabshi, S. M., & Abdullah Othman, A. H. (2023). Managing liquidity and profitability: The impact of Basel III on Islamic banks in Pakistan. *International Journal of Islamic Economics and Finance Research, 6*(2), 69–83.

Baita, A. J., et al. (2024). Islamic banking and financial development: Cross-country evidence. *International Journal of Islamic Economics and Finance, 7*(2), 19579.

Banna, H., Hassan, M. K., Ahmad, R., & Alam, M. R. (2022). Islamic banking stability amidst the COVID-19 pandemic: The role of digital financial inclusion. *International Journal of Islamic and Middle Eastern Finance and Management, 15*(2), 310–330.

Central Bank of Nigeria. (2024). *Banking sector recapitalisation framework*. CBN.

Ding, X., Haron, R., & Hasan, A. (2023). The influence of Basel III on Islamic bank risk. *Journal of Islamic Monetary Economics and Finance, 9*(1), 167–198.

Fahamsyah, M. H., Laila, N., Rakhmat, A. S., & Shabbir, M. S. (2023). Profit-loss sharing in Islamic banking: Global insights from a systematic review. *Economica: Jurnal Ekonomi Islam, 14*(2), 175–203.

Gazi, M. A. I., Karim, R., Senathirajah, A. R. B. S., Ullah, A. K. M., & Afrin, K. H. (2024). Bank-specific and macroeconomic determinants of profitability of Islamic Shariah-based banks. *Economies, 12*(3), 66.

Harkati, R., Alhabshi, S. M., & Kassim, S. (2020). Does the capital adequacy ratio influence the risk-taking behaviour of conventional and Islamic banks differently? *Borsa Istanbul Review, 24*(6), 1088–1100.

Ichrak Addou, K., et al. (2024). The impact of Basel III regulations on solvency and credit risk-taking behavior of Islamic banks. *International Journal of Islamic and Middle Eastern Finance and Management, 17*(5), 915–935.

International Monetary Fund. (2024). *Financial stability review: Emerging market risks and bank resilience*. IMF Publications.

International Monetary Fund. (2024). *Global financial stability report: Capital resilience in emerging markets*. IMF.

Islamic Financial Services Board. (2023). *Annual report 2023: Stability and capital adequacy in Islamic finance*. Kuala Lumpur, Malaysia: IFSB.

Islamic Financial Services Board. (2023). *Islamic financial services industry stability report 2023*. IFSB.

Islamic Financial Services Board. (2025). *IFSI Stability Report May 2025*. IFSB.

Minarni, S., Nisa, S., & others. (2023). Capital adequacy ratio and profitability in Islamic banking: Cross-national evidence. *International Journal of Islamic Finance, 3*(2), 1–18.

Nuzulia, N., & Kasanah, R. (2024). Islamic banking risk management: Trends and insights. *Journal of Islamic Finance and Accounting, 7*(2), 115–128.

Olawole, B. Y., Olaniyi, L, R., & Akinbode, F. A. (2026). Islamic finance and environmental sustainability in Nigeria: A systematic analytical approach. *International Journal Of Financial Research and Business Development,* 11(7), 39-49.

Ozili, P. K. (2022). Banking stability, capital regulation, and financial performance in emerging markets. *Journal of Financial Regulation and Compliance, 30*(3), 345–360.

Ozili, P. K. (2022). Capital adequacy and financial stability in emerging markets. *Emerging Markets Finance & Trade, 58*(12), 3515–3532.

Suman, A., Supriani, I., Rajasa, M. A. I., & Anisa, V. N. (2026). An empirical analysis of profit-and-loss sharing financing in Indonesian Islamic banks. *Jurnal Ekonomi & Keuangan Islam, 12*(1), 91–111.

Taudlikhul Afkar, A. P. W., Wisudanto, L. R. N., & Hariawan, F. (2025). Profit sharing system in Islamic banking before, during, and after the COVID-19 pandemic. *Journal of Accounting and Strategic Finance, 8*(1), 50–73.

Uçkun, N., Ölçen, O., & Saktiawan, B. (2025). Research on capital adequacy ratio, governance and leverage in Islamic banking. *Journal of Finance and Islamic Banking, 8*(1), 1–20.

VOL. 11 NO. 7,
FEBRUARY, 2026
E-ISSN 3026-9679
P-ISSN 3026-9423



African Scholar Publications & Research International
www.africanscholarpub.com

Journal of Business Dev. and Management Res. (JBDMR)

Audit Independence and Corporate Governance: Addressing the Challenges in Public Sector

Abdulazeez Malik Afolabi, PhD; Professor Godwin Emmanuel Oyedokun; & Aderonmu Olusegun Adebayo
Dept. of Management & Accounting, Lead City University, Ibadan
Corresponding Author: malikafolabi76@gmail.com
DOI: https://doi.org/10.70382/ajbdmr.v11i7.059

Abstract

The effectiveness of public sector institutions depends largely on the strength of their audit and governance mechanisms. This study examines the role of audit independence in enhancing auditor impartiality and autonomy, as well as its influence on the effectiveness of corporate governance in public sector organizations. Adopting a quantitative research design, the study draws on Agency Theory and Institutional Theory to explain the relationship between audit independence mechanisms and governance outcomes. Data were collected through structured questionnaires administered to 286 staff members of public sector institutions within Ido Local Government, Oyo State, Nigeria, selected using stratified random sampling. Descriptive statistics and regression analysis were employed to analyze the data using SPSS. The findings reveal that audit independence mechanisms have a significant positive effect on auditor impartiality and autonomy, explaining 41.4% of the variation in auditors' objectivity. The results also indicate that audit independence significantly influences the effectiveness of corporate governance, accounting for 45.2% of the variation in governance outcomes such as accountability, fraud reduction, and public trust. Descriptive analysis further shows that corporate governance frameworks in the public sector align moderately to highly with established governance principles, although weaknesses persist in oversight enforcement and consistency of implementation. The study concludes that strengthening audit independence is critical to improving governance effectiveness and accountability in public sector institutions. The findings provide empirical evidence to support governance reforms aimed at enhancing auditor autonomy, strengthening oversight mechanisms, and promoting transparency in public resource management. The study contributes to public

sector governance literature and offers policy-relevant insights for auditors, public administrators, and policymakers seeking to reinforce institutional accountability and public trust.

Keywords: Audit Independence, Corporate Governance, Public Sector, Accountability, Auditor Impartiality, Nigeria.

Introduction

The effectiveness of public sector institutions largely depends on the strength of their governance and accountability mechanisms (Katarzyna, 2019; World Bank, 2007). As custodians of public resources, government entities are expected to operate transparently, efficiently, and in a manner that promotes public trust (Ferry et al., 2023). Central to achieving these expectations are audit independence and corporate governance, which serve as key instruments for oversight, accountability, and the prevention of financial mismanagement and corruption (Umor et al., 2016; Mallin, 2019). Weaknesses in these mechanisms often undermine institutional credibility, distort decision-making processes, and erode citizens' confidence in government operations (Aguilera & Terjesen, 2024).

Audit independence is widely regarded as a cornerstone of effective public sector accountability (DeAngelo, 1981; İnce, 2023). It refers to the ability of auditors to perform their duties objectively and without undue influence from political authorities, management, or other vested interests (Zeff et al., 2025). Independent audits enhance the credibility of financial reports, facilitate the detection of irregularities, and strengthen internal control systems (Hayes et al., 1999). In the public sector, however, achieving audit independence is particularly challenging due to political interference, budgetary constraints, and institutional dependence on executive authorities (Dye & Stapenhurst, 1998; World Bank, 2000). These challenges raise concerns about the extent to which existing audit arrangements genuinely support impartial oversight.

Alongside audit independence, corporate governance plays a critical role in shaping how public sector organizations are directed and controlled (Katarzyna, 2019). Unlike the private sector, public sector corporate governance emphasizes accountability to citizens, stewardship of public funds, and adherence to ethical and legal standards (IFAC, 2014). It encompasses governance structures, reporting frameworks, and control mechanisms that define roles, responsibilities, and decision-making processes within public institutions (Tricker, 2015). Effective corporate governance frameworks are expected to enhance transparency, reduce agency problems, and promote responsible management of public resources (La 2019; Shleifer & Vishny, 1997). Nonetheless, variations in governance practices, weak enforcement of standards, and unclear accountability structures continue to limit their effectiveness across many public sector organizations (Lau &

Manning, 2023). Despite the growing body of literature on audit independence and corporate governance, empirical evidence on how existing mechanisms function within public sector institutions remains fragmented, particularly in developing and transitional governance contexts (Msley & Miller, 2019). Many studies focus on conceptual discussions or private sector settings, leaving limited quantitative assessment of the effectiveness of audit independence mechanisms and their interaction with public sector corporate governance frameworks (Albrecht et al., 2006). This gap constrains evidence-based policy reforms aimed at strengthening accountability systems in government institutions.

Against this backdrop, this study examines audit independence and corporate governance in the public sector, with a focus on identifying existing mechanisms, assessing their effectiveness, and exploring pathways for improvement. By adopting a quantitative approach, the study provides empirical evidence on the relationship between audit independence mechanisms and governance effectiveness, as well as the extent to which public sector governance frameworks align with established principles and standards. The findings are expected to contribute to the governance literature and inform policymakers, auditors, and public sector managers on strategies for strengthening institutional accountability and public trust.

The objectives of the study are to:

i. examine the effectiveness of existing audit independence mechanisms in ensuring auditor impartiality and autonomy in public sector organizations;
ii. assess the extent to which corporate governance frameworks in the public sector align with established governance principles and standards; and
iii. evaluate the influence of audit independence mechanisms on the effectiveness of corporate governance in public sector organizations.

In line with the objectives and the quantitative nature of the study, the following null hypotheses are formulated:

$H_0$1: Audit independence mechanisms have no significant effect on auditor impartiality and autonomy in public sector organizations.

$H_0$2: Audit independence mechanisms have no significant effect on the effectiveness of corporate governance in public sector organizations.

Theoretical Underpinning

The theoretical underpinning of this study draws on Agency Theory and Institutional Theory, providing a comprehensive lens to examine audit independence and corporate governance in the public sector. These theories collectively explain both the rationale for independent audits and the institutional context that shapes governance practices.

Agency Theory and Audit Independence

Agency Theory, rooted in the principal-agent paradigm, focuses on the relationship between principals (citizens and stakeholders) and agents (public officials and bureaucrats) (Jensen & Meckling, 2019). In the public sector, officials are entrusted with managing public resources on behalf of citizens. However, agents may act in ways that deviate from the interests of principals due to information asymmetry, divergent objectives, or opportunistic behavior (Eisenhardt, 1989; Ambituuni, 2025).

Audit independence is conceptualized within this theoretical framework as a mechanism to mitigate agency problems (Ajaegbu & Mmayie, 2025). Independent auditors act as objective evaluators of agents' decisions, ensuring transparency and accountability in resource management (Njagi, 2023). By providing impartial assessments of financial statements, compliance, and internal controls, audit independence reduces information asymmetry and discourages mismanagement or corruption (Bari et al., 2024). This study leverages agency theory to examine how audit independence mechanisms enhance the accountability of public officials and safeguard the interests of citizens, aligning directly with Objective 1: to examine the effectiveness of existing audit independence mechanisms in ensuring auditor impartiality and autonomy in public sector organizations.

Institutional Theory and Corporate Governance

Institutional Theory emphasizes the influence of external pressures, norms, and regulatory frameworks on organizational behavior (Kauppi, 2022; Risi et al., 2023). In the public sector, governance practices are shaped not only by internal organizational policies but also by legal mandates, political expectations, and societal norms (Rosenbloom, 2022). This theory posits that organizations adopt structures and practices that conform to institutional expectations to gain legitimacy, access resources, and sustain public trust (Sun et al., 2025).

In the context of this study, corporate governance in public sector organizations is understood as a set of systems, policies, and ethical standards influenced by institutional pressures (Schiavi et al., 2024). Institutional theory guides the assessment of how these frameworks are implemented and aligned with established governance principles, corresponding to Objective 2: to assess the extent to which corporate governance frameworks in the public sector align with established governance principles and standards.

By integrating agency and institutional theories, this study provides a holistic framework for understanding the interplay between audit independence and corporate governance in public sector organizations. Agency theory explains why audit independence is necessary to mitigate principal-agent problems (Jensen & Meckling, 2019), while institutional theory explains how corporate governance practices are shaped by external norms and regulatory pressures (Kauppi, 2022; Risi et al., 2023). Together, these theories support the examination of the influence of audit independence mechanisms on the effectiveness of corporate governance, addressing Objective 3: to evaluate the influence of audit independence mechanisms on the effectiveness of corporate governance in public sector organizations.

This theoretical integration directly informs the study's hypotheses, which propose that audit independence mechanisms significantly affect auditor impartiality and autonomy, corporate governance alignment with standards, and the overall effectiveness of governance in public sector organizations.

Empirical Review

Empirical research on audit independence and corporate governance has grown significantly, reflecting the importance of these governance mechanisms in enhancing accountability and performance across both private and public sectors. Although much of the empirical evidence originates from corporate and financial sectors, several studies extend insights into the public sector context, underscoring the relevance of governance structures and independent audit functions.

Several studies highlight that corporate governance practices influence audit independence and audit outcomes. Chohan & Haq (2025) empirical investigation among Iranian bankers found that strong corporate governance mechanisms were associated with improvements in auditor independence, suggesting that well-structured governance can mitigate pressures that threaten auditor objectivity.

Similarly, research from Tanzania documented that robust corporate governance practices significantly enhance the effectiveness of audit committees, which is a critical element of governance that supports independent auditing and accountability within regulatory authorities. In the public sector and state-owned enterprises, Oruke et al. (2022) examined the impact of corporate governance on modified audit opinions in Kenyan state-owned enterprises and found that governance characteristics, including board independence, significantly influenced audit outcomes. This highlights how governance structures in public entities affect the credibility of audit reports and oversight processes. In a broader African context, Azinogo and Erasmus (2025) explored corporate governance challenges across multiple public sector audits and reported that weak governance frameworks; such as ineffective audit committees, political interference, and limited legislative oversight, impair audit effectiveness and accountability. Empirical studies also link audit committee characteristics and governance quality to audit performance and financial reporting quality. Although many of these studies focus on corporate firms, their findings have significant implications for public sector accountability systems. For example, research in Nigeria and Ghana found that independent audit committees are positively associated with enhanced corporate governance outcomes, including better financial disclosures and accountability.

Moreover, studies of audit committees and boards of directors in Greek firms demonstrate that governance structures play an important role in shaping audit quality and organizational performance, reinforcing theoretical expectations from agency and institutional theories (Gbadago, 2022; Fasoulas et al., 2024). Even within contexts that do not directly assess public sector entities, empirical evidence illustrates the interaction between audit quality, governance, and auditor independence (Indah, 2022; Yahaya & Onyabe, 2022). Research in

Korea found that audit firms' quality control efforts enhance auditor independence, particularly when supported by strong corporate governance systems, illustrating the moderating role of governance on audit outcomes (Khuong et al., 2022; Senan, 2024). Similarly, studies on internal audit quality in Nigeria show that audit competence, objectivity, and performance are significantly linked to financial controls and management effectiveness, underscoring how audit functions contribute to governance and accountability in public organizations (Damagum & Bajuri, 2024).

Collectively, these empirical studies suggest that effective corporate governance mechanisms; such as independent audit committees, transparent oversight structures, and robust internal controls, are significantly associated with stronger audit independence, enhanced audit quality, and improved accountability outcomes. However, evidence also indicates that challenges such as political interference, weak enforcement of governance norms, and institutional constraints continue to weaken these relationships in many public sector environments, particularly in emerging economies.

Methodology

This study adopts a quantitative research design to investigate the relationship between audit independence and corporate governance in public sector institutions within Ido Local Government, Oyo State, Nigeria. A quantitative approach is appropriate because the study aims to measure and statistically analyze relationships between variables, enabling empirical testing of the formulated hypotheses. This method provides objective and generalizable evidence on the effectiveness of audit independence mechanisms and the alignment of corporate governance frameworks within public sector organizations.

The population of the study comprises approximately 1,000 staff members employed across various departments, units, and agencies within Ido Local Government. This population includes employees with diverse professional roles and hierarchical levels, reflecting the complexity of the local government workforce and the variety of perspectives relevant to audit and governance practices.

The sample size was determined using Yamane's (1967) formula for finite populations, which provides a statistically valid sample size at a specified level of precision:

$$n = \frac{N}{1 + N(e)^2}$$

Where

n= sample size,

N= population size,

e= level of precision (sampling error).

Using a population size of 1,000 and a 5% margin of error (e = 0.05), the sample size was calculated as follows:

$$n = \frac{1000}{1 + 1000(0.05)^2} = \frac{1000}{1 + 2.5} = \frac{1000}{3.5} \approx 286$$

Accordingly, a sample size of 286 respondents was deemed adequate for the study.

To ensure proportional representation of staff across different organizational units and hierarchical levels, stratified random sampling was employed. The population was first divided into relevant strata based on department and level of responsibility, after which respondents were randomly selected from each stratum in proportion to its size. This approach enhances representativeness, reduces sampling bias, and improves the generalizability of the findings across the public sector institutions within the study area.

Data was collected using structured questionnaires, which are designed to capture quantitative information on audit independence and corporate governance practices. The questionnaire items are adapted from validated instruments in the literature and tailored to the context of Ido Local Government. The instrument measures key constructs, including auditor impartiality, autonomy, governance structures, compliance with established principles, and perceived effectiveness of oversight mechanisms.

To ensure the reliability and validity of the questionnaire, internal consistency was assessed using Cronbach's alpha coefficient, with any items showing low reliability revised or removed. Content validity was established through expert review, involving academics and professionals with expertise in public sector audit and governance, ensuring that the questionnaire accurately measures the intended constructs.

The data collection process involves distributing the questionnaires to selected participants after obtaining informed consent. Participants were provided with clear instructions and information about the purpose of the study, their rights, and the voluntary nature of participation. The structured format allows participants to provide consistent, comparable responses that are suitable for statistical analysis.

Data analysis was conducted using SPSS (Statistical Package for the Social Sciences). Descriptive statistics, including means, standard deviations, and frequency distributions, were used to summarize participant responses. Inferential statistics, such as correlation and multiple regression analyses, was used to test the study hypotheses and examine the relationships between audit independence and corporate governance. The quantitative approach ensures that the study produces empirical evidence that is objective, reliable, and generalizable, providing insights into the effectiveness of governance mechanisms in the public sector.

Results

This section presents the empirical results of the study and discusses the findings in relation to the stated research objectives and hypotheses. A total of 286 questionnaires were administered to staff of public sector institutions within Ido Local Government, Oyo State, Nigeria. All 286 questionnaires were successfully retrieved and found to be usable for analysis, resulting in a 100 percent response rate. The complete retrieval of questionnaires was achieved through on-site administration, repeated follow-ups, and the cooperation of departmental heads who facilitated access to respondents during official working hours. Additionally, respondents completed the questionnaires under the guidance of the researcher,

which minimized item non-response and ensured completeness of responses. Consequently, no questionnaires were excluded from the analysis, and the full sample size of 286 respondents was retained for both descriptive and inferential statistical analyses. This response rate is considered adequate and enhances the reliability and representativeness of the study's findings.

Table 1: Demographic Characteristics of Respondents

Variables	Category	Frequency	Percentage
Gender	Male	158	55.2%
	Female	128	44.8%
Age	Below 30 years	46	16.1%
	31–40 years	112	39.2%
	41–50 years	78	27.3%
	51 years and above	50	17.5%
Educational Qualification	SSCE	24	8.4%
	ND/NCE	68	23.8%
	HND/BSc	136	47.6%
	MSc/PhD	58	20.3%
Department/Unit	Finance & Accounts	74	25.9%
	Administration	88	30.8%
	Audit/Internal Control	52	18.2%
	Other Units	72	25.2%
Position/Rank	Junior Staff	94	32.9%
	Senior Staff	128	44.8%
	Management	64	22.4%
Years of Experience	Below 5 years	62	21.7%
	5–10 years	96	33.6%
	11–15 years	68	23.8%
	Above 15 years	60	21.0%

Source: Field Result, 2025

Table 1 presents the demographic characteristics of the respondents who participated in the study. The gender distribution shows that male respondents constituted 55.2 percent (n = 158) of the sample, while female respondents accounted for 44.8 percent (n = 128). This distribution suggests a relatively balanced gender representation, reflecting the workforce composition of public sector institutions in the study area.

In terms of age, the majority of respondents fell within the 31–40 years age bracket (39.2 percent, n = 112), followed by those aged 41–50 years (27.3 percent, n = 78). Respondents aged below 30 years accounted for 16.1 percent (n = 46), while those 51 years and above constituted 17.5 percent (n = 50). This age distribution indicates that most respondents were

within the economically active and professionally mature age groups, suggesting adequate experience and familiarity with organizational processes relevant to audit independence and corporate governance.

Regarding educational qualifications, 47.6 percent (n = 136) of the respondents possessed HND or Bachelor's degrees, while 20.3 percent (n = 58) held postgraduate qualifications (MSc/PhD). Respondents with ND/NCE qualifications represented 23.8 percent (n = 68), and those with SSCE accounted for 8.4 percent (n = 24). The high proportion of respondents with tertiary and postgraduate qualifications indicates a relatively educated workforce, which enhances the credibility of responses relating to governance structures and audit practices.

Analysis of departmental affiliation reveals that 30.8 percent (n = 88) of respondents were drawn from administrative units, followed by 25.9 percent (n = 74) from finance and accounts departments. Respondents from audit and internal control units accounted for 18.2 percent (n = 52), while 25.2 percent (n = 72) were drawn from other operational units. This distribution ensures representation from departments directly and indirectly involved in audit and governance functions, thereby providing a comprehensive perspective on the study variables.

With respect to position or rank, 44.8 percent (n = 128) of respondents were senior staff, 32.9 percent (n = 94) were junior staff, and 22.4 percent (n = 64) occupied management positions. The presence of respondents across different hierarchical levels suggests that the data capture diverse viewpoints on audit independence and governance practices from both decision-making and operational perspectives.

Finally, analysis of years of experience shows that 33.6 percent (n = 96) of respondents had 5–10 years of work experience, while 23.8 percent (n = 68) had 11–15 years, and 21.0 percent (n = 60) had over 15 years of experience. Respondents with less than five years of experience constituted 21.7 percent (n = 62). This distribution suggests that a substantial proportion of respondents possess considerable institutional knowledge, which is essential for providing informed assessments of audit independence mechanisms and corporate governance practices within public sector organizations.

Objective 1: To examine the effect of audit independence mechanisms on auditor impartiality and autonomy in public sector organizations.

$H_0$1: Audit independence mechanisms have no significant effect on auditor impartiality and autonomy in public sector organizations.

Table 2: Regression Analysis of Audit Independence Mechanisms and Auditor Impartiality and Autonomy

Model	**R**	**R Square**	**Adjusted R Square**	**F (df)**	**Sig.**
1	0.643	0.414	0.412	252.227 (1, 284)	0.000
Variables			**Unstandardized Coefficient (B)**	**t-value**	**Sig.**
Constant			3.833	5.226	0.000
Audit Independence Mechanisms			0.359	15.882	0.000

Source: Field Result, 2025

The regression results in Table 2 reveal a strong positive relationship between audit independence mechanisms and auditor impartiality and autonomy in public sector organizations. The correlation coefficient (R = 0.643) indicates a substantial association between the independent and dependent variables. The coefficient of determination (R^2 = 0.414) shows that approximately 41.4 percent of the variation in auditor impartiality and autonomy is explained by audit independence mechanisms.

The model is statistically significant, as indicated by the F-statistic of 252.227 with a corresponding p-value of 0.000, which is below the 0.05 significance threshold. This confirms the overall fitness of the regression model.

Furthermore, the regression coefficient for audit independence mechanisms ($\beta = 0.359$, $t = 15.882$, $p < 0.05$) indicates that audit independence has a positive and statistically significant effect on auditor impartiality and autonomy. This implies that improvements in auditor autonomy, freedom from interference, legal protection, funding adequacy, and transparent appointment procedures significantly enhance auditors' ability to act impartially and exercise professional judgment without bias.

Given that the regression coefficient is statistically significant at the 5 percent level, the null hypothesis ($H_0 1$) is rejected. The alternative hypothesis is therefore accepted, indicating that audit independence mechanisms significantly influence auditor impartiality and autonomy in public sector organizations. This finding is consistent with Agency Theory, which posits that independent auditing mechanisms reduce information asymmetry between principals (citizens) and agents (public officials) by strengthening auditor objectivity and accountability.

Objective 2: To assess the extent to which corporate governance frameworks in the public sector align with established governance principles and standards.

Corporate governance frameworks were measured using covering governance structures, accountability mechanisms, transparency, ethical standards, and compliance with recognized governance principles. Responses were rated on a 5-point Likert scale, where higher mean values indicate stronger alignment with established governance standards.

Table 3: Descriptive Statistics of Corporate Governance Frameworks

S/N	Items	Mean	Std. Deviation
1	Clear lines of authority and responsibility exist within the organization	3.87	0.89
2	Management decisions are guided by established governance policies	3.74	0.93
3	Effective mechanisms exist for monitoring regulatory compliance	3.69	0.97

S/N	Items	Mean	Std. Deviation
4	The organization has an active oversight or audit committee	3.58	1.02
5	Financial information is disclosed transparently and timely	3.81	0.91
6	Ethical standards guide the conduct of public officials	3.76	0.94
7	Cases of misconduct are investigated and sanctioned appropriately	3.62	1.01
8	Governance policies align with recognized public sector governance standards	3.85	0.88
Grand Mean		**3.74**	

Source: Field Result, 2025

The results presented in Table 3 show that the mean scores for all corporate governance items exceed the neutral benchmark value of 3.00, indicating a generally positive perception of corporate governance practices within public sector organizations in the study area. The grand mean score of 3.74 suggests that corporate governance frameworks are perceived to align to a moderate-to-high extent with established governance principles and standards.

Specifically, the highest mean score (M = 3.87) was recorded for the item relating to the existence of clear lines of authority and responsibility, indicating that respondents largely agree that organizational roles and responsibilities are well defined. Similarly, high mean values were observed for transparency in financial disclosure (M = 3.81) and alignment of governance policies with recognized standards (M = 3.85), suggesting reasonable adherence to governance best practices.

However, relatively lower mean scores were recorded for the existence of active oversight or audit committees (M = 3.58) and the effectiveness of sanctions for misconduct (M = 3.62). Although these scores remain above the neutral point, they indicate areas where governance mechanisms may be less robust or inconsistently applied across public sector institutions.

The standard deviation values, which range between 0.88 and 1.02, suggest moderate variability in respondents' perceptions, reflecting differences in governance implementation across departments and units within the public sector.

Based on the descriptive analysis, the study concludes that corporate governance frameworks in the public sector align moderately with established governance principles and standards. While key governance elements such as accountability structures, transparency, and ethical

guidelines are largely present, the effectiveness of oversight mechanisms and enforcement practices requires further strengthening.

Objective 3: To evaluate the effect of audit independence mechanisms on the effectiveness of corporate governance in public sector organizations.

$H_0$2: Audit independence mechanisms have no significant effect on the effectiveness of corporate governance in public sector organizations.

Table 4: Regression Analysis of Audit Independence Mechanisms and Effectiveness of Corporate Governance

Model	R	R Square	Adjusted R Square	F (df)	Sig.
1	0.67	0.452	0.450	234.816 (1, 284)	0.00
Variables			**Unstandardized Coefficient (B)**	**t-value**	**Sig.**
Constant			3.421	6.014	0.00
Audit Independence Mechanisms			0.387	15.327	0.00

Source: Field Result, 2025

The regression results presented in Table 4 indicate a strong positive relationship between audit independence mechanisms and the effectiveness of corporate governance in public sector organizations. The correlation coefficient (R = 0.672) suggests a substantial association between the variables. The coefficient of determination (R^2 = 0.452) reveals that approximately 45.2 percent of the variation in the effectiveness of corporate governance is explained by audit independence mechanisms.

The overall regression model is statistically significant, as evidenced by an F-statistic of 234.816 with a p-value of 0.000, which is below the 0.05 significance level. This confirms that the model provides a good fit for explaining the relationship between the variables.

Furthermore, the regression coefficient for audit independence mechanisms (β = 0.387, t = 15.327, $p < 0.05$) indicates a positive and statistically significant effect on the effectiveness of corporate governance. This implies that greater auditor autonomy, freedom from interference, adequate legal protection, sufficient funding, and transparent appointment procedures significantly enhance governance effectiveness by improving accountability, reducing fraud and mismanagement, strengthening the use of audit findings, and increasing public trust in government institutions.

Based on the regression results, the null hypothesis ($H_0$2) is rejected at the 5 percent level of significance. The study therefore concludes that audit independence mechanisms have a significant effect on the effectiveness of corporate governance in public sector organizations.

This finding aligns with both Agency Theory and Institutional Theory, suggesting that independent audit mechanisms not only reduce principal–agent problems but also strengthen governance structures and legitimacy within public sector institutions.

Discussion of Findings, Conclusion and Recommendations

The first objective examined the influence of audit independence mechanisms on auditor impartiality and autonomy. The regression results indicated a significant positive effect ($\beta = 0.359$, $p < 0.05$), with audit independence explaining 41.4% of the variation in auditor impartiality. This finding aligns with prior research that emphasizes on the importance of independence in enhancing audit objectivity in public sector contexts. For instance, Salehi (2011) found that robust corporate governance structures, including audit independence, significantly improve auditor objectivity and reporting accuracy in banking organizations. Though Salehi's study focused on the private sector, the core insight; that weaker auditor independence undermines objective reporting, is consistent with the current findings. Similarly, empirical work by Oruke et al. (2022) on Kenyan state-owned enterprises demonstrated that improved governance mechanisms, including audit independence, reduce incidences of modified audit opinions and enhance audit credibility.

The current study's findings also echo results from internal audit performance studies in Nigeria and Ghana, which report that independent audit functions positively influence financial reporting quality and accountability outcomes. These studies collectively reinforce Agency Theory, which posits that independent audit mechanisms mitigate the principal–agent problem by reducing information asymmetry between citizens (principals) and public officials (agents).

Objective two assessed how well corporate governance frameworks in the public sector aligned with established governance norms. Descriptive results indicated a moderate to high alignment (grand mean = 3.74), with particularly strong perceptions regarding clear lines of authority and transparency in financial disclosure. These results are consistent with findings by Azinogo and Erasmus (2025), who reported that governance structures in public sector entities exhibit moderate conformity with recognized governance standards, though enforcement and oversight mechanisms often lag behind. Similarly, research conducted in African public sector settings indicates that while governance policies may formally exist, variations in implementation quality reduce their overall effectiveness.

The findings also correlate with work by Tanzania-based researchers who observed that effective audit committees and governance policies improve compliance with regulations, yet uneven implementation across units remains a challenge. This outcome reinforces Institutional Theory, which suggests that governance norms are adopted due to regulatory, normative, and mimetic pressures but may vary in strength depending on institutional capacity and enforcement environments.

The third objective tested the extent to which audit independence mechanisms influence the effectiveness of corporate governance. Results showed a significant positive effect ($\beta = 0.387$,

$p < 0.05$), with audit independence explaining 45.2% of governance effectiveness variance. This finding confirms that independent auditing significantly enhances governance outcomes such as accountability, risk reduction, and public trust.

This result is strongly supported by prior studies. For example, research conducted in Nigeria's public sector reported that enhanced audit independence significantly reduces fraud risk and strengthens governance outcomes. Likewise, studies in Korea revealed that audit quality, supported by independent practices and governance structures, is positively associated with organizational performance and public accountability. Furthermore, Oruke et al.'s (2022) findings on state-owned enterprises reinforce this relationship, demonstrating that governance effectiveness improves where audit roles are well defined and free from undue influence. This is consistent with the argument by several studies that the interaction between audit independence and governance is mutually reinforcing rather than unidirectional.

The present study's findings extend this body of literature by empirically demonstrating that audit independence mechanisms not only enhance auditors' objectivity but also significantly contribute to overall governance effectiveness, an insight that supports both Agency Theory (reducing agency costs) and Institutional Theory (embedding governance norms through structured practices).

These consistent patterns affirm the theoretical propositions of Agency Theory; that independent oversight reduces information asymmetry and mitigates opportunistic behavior, while also demonstrating how governance mechanisms, as explained by Institutional Theory, are shaped by normative and regulatory forces within the public sector.

The empirical support for both Agency and Institutional theories in this context highlights the need for policy frameworks that: Strengthen legal protections for auditors; ensure the autonomy of audit units; enhance training and resources for governance implementation.

Practically, this means investing in audit capacity, clarifying governance roles, and reinforcing oversight bodies to ensure sustainable improvement in public sector accountability.

Conclusion

This study examined the role of audit independence and corporate governance in public sector organizations within Ido Local Government, Oyo State, Nigeria. The findings indicate that audit independence mechanisms have a significant positive effect on both auditor impartiality and autonomy and the effectiveness of corporate governance. Specifically, audit independence explained 41.4% of the variation in auditor impartiality and 45.2% of the variation in governance effectiveness. Descriptive analysis further revealed that corporate governance frameworks in the public sector are moderately to highly aligned with established principles, although oversight enforcement and operational consistency require improvement.

The study's findings are consistent with Agency Theory, which posits that independent oversight mitigates principal–agent problems by reducing information asymmetry and promoting accountability. They are also aligned with Institutional Theory, which emphasizes that governance practices are influenced by regulatory norms, institutional pressures, and

organizational structures. Overall, the study concludes that strengthening audit independence is essential for enhancing accountability, transparency, and effectiveness of governance in the public sector.

Recommendations

Based on the findings of this study, several recommendations are proposed to enhance audit independence and corporate governance in public sector organizations. First, it is essential to strengthen the legal and institutional frameworks that support audit independence. Public sector institutions should ensure that auditors operate without undue interference from management or political actors and that their appointments, removals, and evaluations follow transparent procedures. Adequate legal protections will enable auditors to exercise autonomy, provide unbiased assessments, and uphold professional ethics, thereby enhancing accountability.

Second, the study highlights the need to reinforce governance oversight mechanisms. Active audit committees and oversight bodies should be empowered to monitor compliance with governance policies effectively. In addition, enforcement procedures should be standardized to ensure that violations of governance standards are identified, investigated, and sanctioned appropriately. Strengthening these mechanisms will reduce opportunities for fraud and mismanagement while improving the overall effectiveness of corporate governance.

Third, promoting transparency and accountability is critical. Public sector organizations should ensure that financial and operational information is disclosed in a timely and transparent manner, allowing stakeholders to evaluate organizational performance and decisions. Transparency in reporting, combined with clear lines of responsibility and ethical standards, will help build public trust in government institutions.

Furthermore, investing in capacity building and resources for auditors and governance officers is essential. Training programs on professional ethics, audit standards, and governance best practices can enhance auditors' ability to operate independently and contribute meaningfully to governance processes. Similarly, providing sufficient funding and operational resources for audit units will strengthen their capacity to conduct thorough and effective audits.

Finally, continuous review and alignment of governance practices with national and international standards should be prioritized. Public sector organizations should regularly evaluate their governance frameworks to ensure relevance, effectiveness, and compliance with evolving best practices. By adopting innovative strategies and reforms, public institutions can enhance accountability, improve governance outcomes, and reinforce public confidence in the management of resources.

References

Aguilera, R. V., & Terjesen, S. (2024). Corporate governance deviance. In *Elgar Encyclopedia of Corporate Governance* (pp. 190-190). Edward Elgar Publishing.

Ajaegbu, E. E., & Mmayie, S. (2025). Resolving Principal Agent Conflicts: Revisiting agency theory through the Lens of internal audit. *International Journal of Innovative Science and Research Technology*, *10*, 1050-1059.

Albrecht, W. S., Albrecht, C. O., Albrecht, C. C., & Zimbelman, M. F. (2006). *Fraud examination* (p. 696). New York, NY: Thomson South-Western.

Ambituuni, A. (2025). Infrastructure transparency initiative and anticorruption in public infrastructure projects: a principal–agent perspective to the antecedents that enable (or hinder) the effectiveness of transparency. *Engineering, Construction and Architectural Management*.

Azinogo, B. K., & Erasmus, L. J. (2025). Corporate governance challenges and their impact on public sector auditing in Africa: an exploration of effectiveness, accountability, and transparency.

Bari, A. H. A., Abed, R. A., Kahdim, R. M., Hasan, H. F., Sharaf, H. K., & Alwan, A. S. (2024). The role of internal auditing in corruption control and enhancing corporate governance: A board of directors' outlook. *Corporate Board: Role, Duties and Composition*, *20*(2), 120-127.

Chohan, A. H., & Haq, A. U. (2025). Corporate governance and audit quality in Islamic Banks in emerging Asian economies: A Literature review. *Journal of Development and Social Sciences*, *6*(2), 450-465.

Damagum, I. M., & Bajuri, N. H. (2024). The moderating powers of internal audit function on the relationship between corporate governance and financial reporting quality of publicly listed companies in developing countries: A Propose framework. *International Journal of Academic Research in Business and Social Sciences*, *14*(9).

DeAngelo, L. E. (1981). Auditor size and audit quality. *Journal of Accounting and Economics*, *3*(3), 183-199.

Dye, K. M., & Stapenhurst, R. (1998). *Pillars of integrity: The importance of supreme audit institutions in curbing corruption*. Washington, DC: Economic development institute of the World Bank.

Eisenhardt, K. M. (1989). Agency theory: An assessment and review. *Academy of management review*, *14*(1), 57-74.

Fasoulas, M., Chytis, E., Lekarakou, E., & Tasios, S. (2024). Auditor choice, board of directors 'characteristics and ownership structure: evidence from Greece. *Journal of Governance and Regulation/Volume*, *13*(1).

Ferry, L., Hamid, K., & Hebling Dutra, P. (2023). An international comparative study of the audit and accountability arrangements of supreme audit institutions. *Journal of Public Budgeting, Accounting & Financial Management*, *35*(4), 431-450.

Gbadago, F. Y. (2022). *Council structural composition and functions, audit quality, agency problems and monitoring costs and corporate performance of Ghanaian public universities* (Doctoral dissertation, University of Education, Winneba).

Hayes, R., Schilder, A., Dassen, R., & Wallage, P. (1999). Principles of auditing: An international perspective.

İnce, M. (2023). Challenges encountered in implementing INTOSAI auditing standards and solution proposals. *ResearchGate*, *47*(1), 14-29.

Indah, S. N. M. (2022). The effect of auditor competence and independence on audit quality. *Indonesia Auditing Research Journal*, *11*(4), 162-173.

International Federation of Accountants, & Chartered Institute of Public Finance and Accountancy. (2014). *International Framework: Good governance in the public sector*. International Federation of Accountants.

Jensen, M. C., & Meckling, W. H. (2019). Theory of the firm: Managerial behavior, agency costs and ownership structure. In *Corporate governance* (pp. 77-132). Gower.

Katarzyna, Ż. A. K. (2019). Implementation of corporate governance principles compliant with OECD standards in public companies in Poland and Hungary. *Zeszyty Naukowe. Organizacja i Zarządzanie/Politechnika Śląska*, (136), 693-705.

Kauppi, K. (2022). Institutional theory. In *Handbook of Theories for Purchasing, Supply Chain and Management Research* (pp. 320-334). Edward Elgar Publishing.

Khuong, N. V., Liem, N. T., Dung, B. T. N., & Anh, L. H. T. (2022). Corporate Governance and Audit Quality: The Moderating Role of Ownership Concentration Roles. *Management & Accounting Review*, *21*(3).

Lapsley, I., & Miller, P. (2019). Transforming the public sector: 1998–2018. *Accounting, Auditing & Accountability Journal*, *32*(8), 2211-2252.

Lau, E., & Manning, N. (2023). Public sector reforms across OECD countries. In *Public Management and Governance* (39-52). Routledge.

Mallin, C. A. (2019). *Corporate governance*. Oxford university press.

Njagi, M. (2023). Independence of internal auditors: significance, guidelines, and influencing factors. *East African Finance Journal*, *2*(1), 56-63.

Oruke, M., Iraya, C., Omoro, N. O., & Odhiambo, L. O. (2022). Corporate governance and modification of audit opinion: Evidence from state owned enterprises in Kenya. *African Development Finance Journal*, *1*(1), 97-100.

Risi, D., Vigneau, L., Bohn, S., & Wickert, C. (2023). Institutional theory-based research on corporate social responsibility: Bringing values back in. *International Journal of Management Reviews*, *25*(1), 3-23.

Rosenbloom, D. H., Kravchuk, R. S., & Clerkin, R. M. (2022). *Public administration: Understanding management, politics, and law in the public sector*. Routledge.

Schiavi, G. S., Behr, A., & Marcolin, C. B. (2024). Institutional theory in accounting information systems research: Shedding light on digital transformation and institutional change. *International Journal of Accounting Information Systems*, *52*, 100662.

Senan, N. A. M. (2024). The moderating role of corporate governance on the associations of internal audit and its quality with the financial reporting quality: The case of Yemeni Banks. *Journal of Risk and Financial Management*, *17*(3), 124.

Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. *The journal of finance*, *52*(2), 737-783.

Sun, G., Sulemana, I., & Agyemang, A. O. (2025). Examining the impact of stakeholders' pressures on sustainability practices. *Management Decision*.

Tricker, R. I. (2015). *Corporate governance: Principles, policies, and practices*. Oxford University Press, USA.

Umor, S., Zakaria, Z. A., & Sulaiman, N. A. (2016). Follow-up audit as an accountability mechanism of public sector performance auditing.

World Bank. (2007). Strengthening World Bank group engagement on governance and anticorruption.

World Bank. Public Sector Board. (2000). *Reforming public institutions and strengthening governance: A World Bank Strategy* (Vol. 91). World Bank Publications.

Yahaya, O. A., & Onyabe, J. M. (2022). Do audit fee and auditor independence influence audit quality. *Asian Journal of Finance and Accounting*, *14*(1), 66-80.

Zeff, S. A., Wedemeyer, P. D., & Persson, M. E. (2025). Robert K. Mautz (1915–2002): A Thought Leader in Accounting and Auditing. *Accounting Historians Journal*, *52*(2), 147-163.

VOL. 11 NO. 7,
FEBRUARY, 2026
E-ISSN 3026-9679
P-ISSN 3026-9423

African Scholar Publications & Research International
www.africanscholarpub.com

Journal of Business Dev. and Management Res. (JBDMR)

Public Accountability and Public Fund Management (A Case Study of Selected Local Government in Lagos State)

Dr. Samuel Oyekan Ashogbon
Department of Accounting Education, School of Business Education, Federal College of Education (Technical), Akoka, Lagos
Corresponding Author: samesty2018@gmail.com
DOI: https://doi.org/10.70382/ajbdmr.v11i7.060

Abstract
The paper examines the public accountability and public fund management within selected local governments in Lagos State, Nigeria. The study explores how transparency, disclosure of beneficiaries, and responsible reporting contribute to efficient fund utilization and improved governance outcomes. The study adopts a descriptive and analytical approach, employing both primary and secondary data to assess accountability mechanisms and their implications for public sector performance. Findings reveal that inadequate transparency, weak internal control systems, and corruption significantly hinder effective management of public funds. However, where accountability frameworks are actively implemented, there is noticeable improvement in resource utilization, service delivery, and public trust. The study concludes that enhancing accountability through transparent reporting, strict adherence to financial regulations, and effective oversight institutions is critical for sustainable fiscal management in local governments. Recommendations include continuous capacity building, institutional reforms, adoption of international public sector accounting standards, and strengthening of audit and monitoring systems to ensure probity and efficiency in the management of public resources.

Keywords: Accountability, Efficiency, Transparency. Fund Management.

Introduction
Public fund is concerned with the management of money in government institutions. In Nigeria, there are three levels of government that deals with the

public fund. These levels are federal, state and local governments. According to Ogwola (2021), public fund refers to all revenue receipts and expenditures of government. Furthermore, the study stated that a strong public fund management system is an essential aspect of the institutional framework for an effective state and that effective delivery of public services is closely associated with poverty reduction and economic growth, and countries with strong transparent and accountable public fund management tend to deliver services more effectively and equitably and regulate markets more efficiently and fairly. Also, a good public fund management is necessary, if not sufficient, condition for most development initiatives. A key element of statehood is the ability to tax fairly and efficiently and to spend responsibly and in order to gain the trust of the citizens, it is, therefore, necessary to promote accountability in the manner in which public resources are utilized for the well-being of the citizens.

Public sector financial management is an important issue in good organizational governance. Public financial management does not solely involve planning, budgeting, and budget execution activities, but also includes comprehensive reporting, monitoring, and evaluation activities. Public finance strongly illustrates how organizations manage and allocate resources obtained from the public for the public interest. Good public sector financial management is not only an administrative obligation, but also a measure of the organization's success in carrying out its main tasks, namely serving the community, creating welfare, and maintaining the social and economic stabilization of the country. In this case, the application of values such as transparency, accountability and the concept of value for money is crucial in realizing public sector financial governance that can be managed effectively, efficiently and accountably (Saskia et al., 2020).

The public sector itself includes various institutions that are instrumental in providing services to the wider community, such as health, education, infrastructure and security. Given the important role of the sector, public financial management must be carried out very carefully and measured (Tikupasang et al., 2023). If there are errors in public financial management, it will have an adverse impact on the quality of services provided to the community and will also cause public distrust of public sector organizations. Therefore, a system is needed in financial management that is not only concerned with technical aspects, but can prioritize moral and ethical aspects based on the principles of transparency, accountability, and the application of the concept of value for money (Aulia & Fuadi, 2022). Transparency and accountability are one of the important aspects in realizing good governance, with good financial management that will greatly affect the continuity and development of organizations that are closely related to the survival of society. The demand for transparency and accountability is increasingly important as the public becomes more aware of their right to know how public funds are used. Unfortunately, in some countries, including Indonesia, there are still many cases of budget abuse, waste, inefficiency and opacity in public sector financial reports. This lack of clarity

will affect public trust in public sector organizations, especially in budgets that do not benefit the community (Sayuti et al., 2018). In addition to transparency and accountability, public sector financial management must also consider the application of the value for money concept. The concept focuses on the management of public resources based on three main indicators, namely, efficiency, effectiveness, and economy, so that any funds spent can actually provide maximum benefits to the wider community. The application of the value for money concept is very important in order to maintain fiscal sustainability and anticipate inefficiency or waste in budget use (Rigian & Purnama Sari, 2019).

The fundamental requirements for effective governance encompass transparency and accountability in government financial transactions. However, the push for accountability mechanisms arises from the prevailing practice in many developing nations where public budgeting remains shrouded in secrecy and is predominantly controlled by the executive branch. There is a growing emphasis on the role of parliaments in budget governance and oversight of public finances, driven partly by demands for increased transparency and accountability in government financial administration.

Mismanagement of public funds is another pervasive issue, often resulting from weak institutional frameworks and insufficient enforcement of financial regulations (Ojo, 2018). Furthermore, the implementation of policies such as the Treasury Single Account (TSA) and the Public Procurement Act has faced obstacles, including resistance from entrenched interests compliance and mechanisms inadequate (Eme & Chukwurah, 2015; Agaba & Shipman, 2007). These challenges contribute to inefficient use of public resources, diminishing public trust and hindering economic development. Existing literature frequently examines issues such as budget transparency, audit reports, public sector financial reporting, internal control systems, and responsiveness to fiscal mismanagement as separate topics, each with varying levels of influence on fiscal accountability. Despite these studies, there is a noticeable gap in comprehensively understanding how these interconnected factors collectively affect fiscal accountability and resource management within Nigeria's public sector. Exploring these relationships in an integrative manner could provide deeper insights and enhance the efficiency and effectiveness of fiscal accountability mechanisms.

According to Matenge (2023), accountability is a social interaction and exchange that involves the process of engaging someone to give an account of their actions, when we say that someone is accountable for something, we mean that they have an extra responsibility, that is, a responsibility to be able to show that they have fulfilled their original responsibility. Unfortunately, not only do elected and civil service officials not meet the requirements mentioned above, but they also lack the skills to build good working relationships, build consensus, negotiate effectively and be willing to work together for a better development in all local governments. Over the past decades, accountability and performance have been central in public sector management. Accountability is important for effective performance in the public sector because both elected and non-elected officials need to show the public that they are performing their responsibilities in the best possible way and using the resources

provided them effectively and efficiently. Accountability is important for effective performance in the public sector because both elected and non-elected officials need to show the public that they are performing their responsibilities in the best possible way and using the resources provided them effectively and efficiently. In the public sector, accountability means that all government officials must answer to the citizens and justify the source and utilization of public resources in their disposal. It is imperative that citizens have access to information either facts or figures that allow them to make decisions, thereby encouraging citizen participation in government. This shows that accountability is one of the fundamental prerequisites for preventing the abuse of power and for ensuring that power is directed towards the achievement of efficiency, effectiveness and accountability in public fund management.

Statement of Problem

The public sector has an enormous responsibility in the management, utilization, and allocation of public funds. It plays a pivotal role in raising revenue, managing resources, and ensuring that such funds are judiciously expended for the collective welfare of the citizens. However, in Nigeria, the public sector has come under intense scrutiny due to its poor performance in the area of public fund management and accountability. There are serious concerns regarding the extent to which public funds are properly managed, transparently utilized, and accounted for. The inability of the Nigerian public sector to effectively carry out its duties has raised fundamental questions about the integrity, transparency, and accountability of public office holders.

Over the years, Nigeria has experienced increasing inefficiencies in the administration of public funds. Administrative measures that could have served as effective mechanisms for ensuring accountability have been weakened by systemic corruption. Instead of promoting transparency, these mechanisms are often manipulated to conceal financial misconducts. Consequently, public funds are diverted, misused, and misappropriated with little or no repercussions for the culprits. The absence of a strong accountability culture and the weakness of institutions meant to enforce rules and regulations have created a fertile ground for corruption to thrive. This lack of effective oversight has significantly affected the performance of the public sector and reduced the trust and confidence of citizens in government institutions. The degeneration of Nigeria's accountability system has led to a situation where public officers act with impunity, knowing that the enforcement agencies and judicial systems are often compromised. Political patronage and favoritism have become key determinants of who gets punished and who escapes justice. In many cases, individuals with strong political backing can commit financial crimes such as embezzlement, money laundering, or diversion of public resources and still walk freely. This has eroded public trust and created a perception that corruption is not only tolerated but also rewarded in the country. The case of the former Inspector General of Police, who was convicted on eight counts of theft involving over $100 million of public funds yet served only six months in prison (Okekeocha, 2020), is a vivid example of how accountability has been compromised in Nigeria. When the very institutions

responsible for enforcing accountability are themselves deeply corrupt, it becomes difficult to expect justice or transparency in public fund management.

The consequences of this lack of accountability are far-reaching. It has created an environment of distrust where citizens doubt the sincerity and capacity of the government to manage public resources prudently. This has led to apathy among the populace and a general decline in civic participation, as many people no longer believe that public institutions serve their best interests. Moreover, donor agencies and international development partners are often reluctant to support government initiatives due to perceived corruption risks and lack of transparency. As a result, Nigeria continues to struggle with developmental stagnation, poor governance, and low global competitiveness.

Given these challenges, there is an urgent need to investigate the extent to which accountability influences public fund management in the Nigerian public sector. Understanding this relationship is essential because effective accountability mechanisms are fundamental to achieving transparency, good governance, and efficient resource utilization. The absence of accountability not only encourages corruption but also distorts the allocation of resources, weakens institutions, and diminishes public trust. Therefore, this study seeks to examine the influence of accountability on public fund management in the Nigerian public sector, with the aim of identifying the factors responsible for poor accountability and suggesting measures for improvement.

Objective of the Study:

The main objective of this study is to examine the influence of accountability on public fund management in Local Government of Nigeria. The specific objectives of the study are as follows:

1. To access the effect of transparent reporting on fund management in the local government of Nigeria
2. To investigate the impact of disclosure of fund beneficiaries on fund management in the local government.

Research Hypotheses: The following null research hypotheses will be tested in this study:

1. H_o: Transparent reporting has no significant effect on fund management in the local governmentof Nigeria
2. H_o: Disclosure of fund beneficiaries has no significant effect on fund management in the localgovernment

Significance of the Study

This study seeks to draw the attention of stakeholders, local governments and accountants, to understand how local governments are funded and the effective methods by which this fundingis generated and managed. For students, studying the influence of accountability and fund management in the Local Government of Nigeria provides students with practical,

ethical, and academic insights that can prepare them for responsible citizenship, professional careers, and societal contributions.

Scope of the Study

This study focuses on public accountability. Specifically, this study examines the influence of public accountability on public fund management. It also looked at the revenue generated internally and externally, and how it was used. Also, it looked at the government's budgeting and control measures, as well as the internal control systems they use, like the system and process of bookkeeping and accounting, and how much authority they have to approve expenditure within the local government's financial rules. The local government is the focus of this study. The United Nation describes local government as a political division of a country or state that was set up by law and controls local affairs, like taxes or extracting labour for certain purposes. Laleye (2018) defines local government as a government at the level set up by law to carry out specific functions within defined areas. Local governments have bigger problems than other levels of government because they are responsible for making sure social and economic progress are achieved at the local level**.**

Public Accountability

Over the past decades, accountability and performance have remained at the heart of public sector management discourse across the globe. Accountability serves as the cornerstone of good governance, ensuring that public officers are held responsible for their actions, decisions, and the management of public resources entrusted to them. It embodies the obligation of government officials, both elected and appointed, to justify their decisions and actions to the public and other oversight institutions. In a democratic society, accountability not only promotes transparency and efficiency in governance but also strengthens citizens' confidence in the political system. When government officials know that their actions are being monitored and assessed, they are more likely to act in accordance with established laws, ethical standards, and the public interest (Ademola, 2019).

Accountability in the public sector entails a complex network of relationships involving multiple actors, politicians, civil servants, auditors, citizens, and institutions each with defined roles in ensuring that power is exercised responsibly. According to Bovens (2007), accountability refers to a social relationship in which an actor feels an obligation to explain and justify his or her conduct to a forum, which can pose questions and pass judgment, potentially leading to consequences. This underscores that accountability is not just about reporting actions but also about facing the consequences of those actions. In the Nigerian context, where misuse of public funds and administrative inefficiencies are rampant, strengthening accountability mechanisms has become a critical tool for enhancing governance and rebuilding public trust.

Public accountability ensures that those entrusted with public resources use them efficiently and for the intended purposes. It creates a feedback loop between the government and the

governed, whereby the public can demand explanations, assess performance, and, if necessary, enforce corrective measures. In this sense, accountability serves both preventive and corrective purposes it discourages wrongdoing and ensures rectification where malpractices occur. This is why most countries have institutionalized systems of checks and balances, such as audit institutions, anti-corruption agencies, and legislative oversight committees, to monitor the activities of public officials. The desirability of public accountability has prompted the establishment of institutions like the Public Accounts Committee, Office of the Auditor General, and Code of Conduct Bureau to ensure probity, transparency, and adherence to due process (Oladipupo & Izedonmi, 2011).

According to Osirim (2023), a highly accountable government is characterized by openness, transparency, and compliance with established procedures. Such a government willingly discloses information, communicates decisions clearly, and allows citizens to scrutinize its actions. Public officials in such systems recognize that their legitimacy stems from the trust of the citizens they serve. Therefore, accountability goes beyond mere compliance with administrative rules; it encompasses ethical responsibility and moral obligation toward public welfare. A government that is transparent in its dealings inspires confidence and enhances voluntary compliance with taxation and other civic duties among its citizens, thereby improving revenue generation and governance effectiveness.

Public sector accountability is not led by any one agency but a range of entities, agencies, and institutions. For example, accountability for overseeing how public resources were used involves members of Parliament, public entities, courts and tribunals, inquiry agencies, and, often, monitoring by civil society groups and the media.

Components of accountability

The four core components of accountability are explained as follows:

1) Transparency: This involves collecting information and making it available and accessible for public scrutiny
2) Answerability or Justification: this entails providing clear reasoning for actions and decisions, including those not adopted, so that they may be questioned reasonably
3) Compliance: compliance could be through the monitoring and evaluation of procedures and outcomes, combined with transparency in reporting those findings
4) Enforcement or Sanctions for shortfalls in compliance, justification, or transparency. As a result, accountability is not just about compliance with laws or industry standards but is more deeply connected to organizational purpose and public trust.

Principles of accountability

The principles that are important to public sector accountability are explained below:

a. Transparency: Transparency refers to a public entity's openness about its activities, the extent to which it provides information about what it is doing, where and how this takes place, and how it is performing

b. Integrity: Integrity is about exercising power in a way that is true to the values, purposes, and duties for which that power is entrusted to or held by public entities and individual officer-holders.

c. Fairness: The concept of fairness is about dealing with a matter in an equitable and unbiased manner. In practice, it means that inquiry agencies act independently and with an open mind, and that they consider all relevant information carefully and without undue delay. In most instances, acting fairly will also include giving the party that is subject to the grievance a chance to comment on any adverse findings against them before a final decision is made.

d. Trust: The essence of trust is consistency between what is said and what is done. When parties act fairly, transparently, and with integrity consistently over time, each party comes to know what to expect from each other. From this, the parties learn that they can rely on one another and can develop trusting relationships. Public reporting by public entities on their performance can influence the degree of trust in the public services that are being delivered and the public entities that deliver them.

Public Fund Management

Audu (2020) posits that public finance involves how government raises funds and uses such funds in promoting national development. Public finance, therefore, represents the financial activities of the government in terms of revenue generation, expenditure, and management of public debt. It serves as a critical instrument for determining the pace and sustainability of socio-economic growth and development within a state. According to Audu (2020), public finance encompasses three major components public revenue, public expenditure, and public debt. Public revenue refers to the various sources from which government obtains funds to meet its obligations, including taxation, grants, and other levies. Public expenditure, on the other hand, refers to the spending of these funds on various sectors of the economy such as education, health, infrastructure, and defense. Public debt arises when the revenue generated by the government falls short of its expenditure requirements, compelling it to borrow either internally or externally to bridge the financial gap.

The primary goal of fund management whether in public or private sectors—is to generate a return on investment (ROI) while minimizing risks within the constraints of established policies and objectives. In the case of public fund management, however, the returns are not always financial; they are often in the form of improved public welfare, social equity, and sustainable development. Fund managers, therefore, aim to achieve objectives such as capital formation, infrastructure development, and poverty alleviation. They must balance short-term budgetary pressures with long-term developmental needs. This requires sound fiscal planning, prudent resource allocation, and strict adherence to accountability principles to prevent leakages, corruption, and mismanagement of public funds.

Effective management of these funds requires not only technical expertise but also institutional integrity. The government must ensure that clear financial rules, auditing procedures, and performance monitoring systems are in place to track the flow and utilization of public resources. According to Olubunmi and Adesopo (2017), the lack of proper financial control mechanisms in Nigeria's public sector has led to inefficiencies and widespread corruption, resulting in uncompleted projects and poor service delivery. This underscores the need for continuous capacity building, modernization of public financial systems, and enforcement of accountability standards across all tiers of government.

Public fund management also plays a crucial role in promoting fiscal sustainability. Without effective control and monitoring, public resources may be diverted for personal gain or wasted on unproductive ventures. As such, accountability serves as a moderating variable that ensures transparency and responsibility in fund utilization. When accountability structures such as internal audits, external audits, and legislative oversight are properly implemented, they help prevent mismanagement, detect irregularities, and ensure that every public expenditure contributes meaningfully to societal development.

In summary, public fund management is the lifeline of national development. It determines how well a government can deliver essential services, maintain economic stability, and fulfill its obligations to citizens. The integration of accountability into the management of public funds ensures that resources are used judiciously, public debts are minimized, and the overall financial health of the state is sustained. Hence, public accountability and fund management are inseparable elements of good governance, and their effective coordination is critical for ensuring sustainable economic development and citizens' trust in government institutions.

(a) Government fund: Government fund represents fund used for accounting for government resources that were derived from taxation and revenue generation. In Nigeria, government fund consists of Federation Account, Consolidated Revenue Fund (CRF), Development Fund and Contingency Fund.

(i) Federation Account: This account is established by section 162(1) of the 1999 Constitution of Federal Republic of Nigeria. It is the account into which all federally collected revenues are paid with the exception of revenue arising from the personal income tax of the residents of the Federal Capital Territory (FCT), personnel of the Armed Forces, Police and Ministry of External Affairs. Examples of such revenues include revenue from Crude oil sales, Petroleum Profit tax, custom duties, and companies' income tax; value added tax, royalties and other independent revenue of the government. On the other hand, charges to the account comprise Joint Venture Cash calls, NNPC priority project fund, External debt service allocation and Transfer to reserve fund among others. Moreover, the balance of Federation Account is usually distributed among different tiers of governments in the Federation.

(ii) Consolidated Revenue Fund: Consolidated Revenue Fund (CRF) is established by Section 80 of the 1999 Constitution of the Federal Republic of

Nigeria. Omolehinwa and Naiyeju (2018) reported that it is the fund into which share of the Federal Government revenue from the Federation Account is paid. Other revenues or other moneys raised or received by the Federal Government apart from the ones payable under the 1999 constitution or any Act of the National Assembly into any other public fund of the federation established for a specific purpose are also paid into it.

(iii) Development Fund: This is the fund created for financing capital projects in the country. Adelaja (2016) explained that all receipts and transfers for capital projects are credited to this fund while capital expenditure is debited. Apart from transfer from the Federation account, he cited internal loans, external loans and external grants as other sources of revenue to the fund. Adams (2019) documented that development fund was established by the constitution of the Federal Republic of Nigeria 1999, the Finance (Control and Management) Act of 1958 and the Audit Ordinance of 1956, which stipulates that there shall be established the Development Fund for the purpose of capital development projects.

(iv) Contingency fund: This category of public fund is meant for unforeseen expenditure or for anticipated expenditure of uncertain amount such as natural disaster and insurgencies in any part of the country. Adams (2019) reported that contingency fund is set aside to provide for unforeseen contingency such as disaster flood, erosion and bomb blast.

(b) Proprietary fund: Proprietary fund is used to account for commercial activities of government that are expected to generate sufficient returns so as to cover capital outlay as well as record surplus. An example of the proprietary fund is fund given to MDAs such as Nigerian Television Authority.

(c) Fiduciary fund: This class of fund is held and managed by the government as a trustee. According to Adams (2014), it is a Trust Fund established to hold resources in which the government is seen as a trustee and the proceeds will be utilized in accordance with the trust deed. He cited Petroleum Trust Fund, Family Support Trust Fund, Nigerian Social Insurance Trust Fund and Pension Fund. Moreover, the funds are built up from donations from public spirited individuals and organizations.

Public Sector Corruption

Public sector corruption refers to the misuse of public office for private gain, involving unethical behavior by government officials that leads to the misappropriation of public resources. In Nigeria, public sector corruption is a pervasive problem that significantly impedes the nation's development by diverting funds away from public services and into the pockets of corrupt individuals (Adewale, 2022; Ojo, 2021). This corruption manifests in various forms, including bribery, embezzlement, nepotism, and the manipulation of procurement processes, creating systemic inefficiencies and eroding public trust in

government institutions. The prevalence of public sector corruption in Nigeria is often attributed to weak governance structures, lack of accountability, and insufficient enforcement of anti-corruption laws, all of which contribute to the continued mismanagement of public funds.

Treasury Single Account

The Treasury Single Account (TSA) is a financial policy implemented by the Nigerian government aimed at consolidating all government revenue into a single account managed by the Central Bank of Nigeria (CBN), thereby enhancing fiscal transparency and efficiency (Adebayo & Yusuf, 2023). Prior to the implementation of TSA, various government ministries, departments, and agencies (MDAs) operated multiple accounts across different commercial banks, leading to fragmented cash management and increased opportunities for financial mismanagement and corruption (Agwu & Nwankwo, 2022). The TSA system eliminates the need for these numerous accounts, enabling better monitoring and control of government cash flows, reducing leakages, and ensuring that all government funds are accounted for (Eze & Okonkwo, 2021). Despite facing initial resistance and operational challenges, the TSA has been recognized as a critical tool for improving public financial management and curbing the mismanagement of public funds in Nigeria. Mismanagement of Public Funds Mismanagement of public funds refers to the inefficient, improper, or fraudulent use of government resources, which leads to financial losses and undermines the effective delivery of public services. In Nigeria, the mismanagement of public funds is often a result of inadequate oversight, poor governance practices, and systemic corruption within the public sector (Uche & Agwu, 2021). This mismanagement manifests in various forms, such as inflated contract prices, diversion of funds, and unauthorized expenditures, all of which contribute to budget deficits and reduced fiscal capacity to meet developmental needs (Ojo, 2021; Ayo & Adekunle, 2023). Addressing the mismanagement of public funds is essential for enhancing the effectiveness of public financial management, ensuring that resources are utilized efficiently, and improving the overall governance of the public sector (Ibrahim & Bello, 2024).

The Impact of Public Sector Corruption on the Mismanagement of Public Funds in Nigeria

Public sector corruption is a pervasive issue that significantly affects the efficiency and integrity of financial management in Nigeria. Corruption in the public sector often manifests through embezzlement, bribery, nepotism, and other forms of malfeasance, leading to the misappropriation and mismanagement of public funds. This mismanagement not only depletes the resources available for public services but also undermines public trust in government institutions (Transparency International, 2023). The relationship between public sector corruption and the mismanagement of public funds can be understood through various theoretical and empirical lenses. The agency theory posits that there is an inherent conflict of

interest between the principals (citizens) and agents (government officials). When the agents prioritize their self-interest over public interest, without adequate monitoring and accountability mechanisms, corruption flourishes, resulting in the inefficient use of public resources (Jensen & Meckling, 1976). Empirical studies support this theoretical framework by demonstrating a strong correlation between corruption levels and the inefficiency of public sector financial management. For instance, Ojo (2018) highlights that in Nigeria, weak enforcement of anti-corruption laws and the lack of transparent governance structures contribute significantly to the mismanagement of public funds. Similarly, Adebisi and Gbegi (2015) found that corruption facilitates the diversion of public funds into private accounts, reducing the funds available for public projects and services. Moreover, the systemic nature of corruption exacerbates the problem. Corruption often involves a network of officials who protect each other's interests, making it challenging to implement reforms and enforce laws effectively (Ofoegbu, 2014). This network creates an environment where mismanagement is not only tolerated but also perpetuated, further entrenching corruption in the public sector. Given the theoretical and empirical evidence linking public sector corruption to the mismanagement of public funds, it is crucial to explore this relationship comprehensively. This exploration can provide insights into how corruption undermines financial management and identify potential areas for intervention and reform.

Fund Management in Local Government

There is an increasing need to match expenditure with revenue in every tier of government, and this constitutes one of the fundamental principles of sound financial management. No government, organization, or institution can operate effectively without maintaining a balance between its inflows and outflows of funds. The discipline of financial management provides the framework for making decisions that ensure resources are generated, allocated, and utilized efficiently to achieve organizational and developmental goals. Finance money in its broader sense is widely regarded as the lifeblood of any organization (Hassan, 2020). Without adequate financial resources, even the most carefully planned development programs will fail to achieve the desired outcomes.

In the context of local government administration, financial management involves the planning, organizing, directing, and controlling of financial activities such as the procurement and utilization of funds. It ensures that financial resources are used judiciously to achieve the goals of providing essential services to the grassroots. Local governments, being the closest tier of government to the people, play a vital role in promoting rural development, providing social amenities, and fostering economic empowerment. For these responsibilities to be effectively carried out, sound financial management is indispensable.

According to Hassan (2020), financial management decisions in the public sector particularly at the local government level can be grouped into three major areas: investment decisions, financing decisions, and efficiency/value-for-money decisions. These three interrelated areas form what is commonly referred to as the "Triangle of Financial Decision" in the public sector.

The effectiveness of public financial management depends largely on how well these three decision areas are coordinated, monitored, and evaluated.

Investment Decision

The investment decision involves the judicious utilization of financial resources on viable and sustainable opportunities with the aim of generating social and economic benefits. In the private sector, investment decisions are aimed at maximizing shareholders' wealth, but in the public sector, the objective extends beyond profitability to include the promotion of social welfare, equitable resource distribution, and long-term sustainability. Investment decisions in the local government sector are typically focused on community-based projects such as road construction, water supply, healthcare centers, markets, and educational facilities.

Financing Decision

The financing decision relates to how public sector entities source funds to finance their expenditures and investments. Financing decisions determine the appropriate mix of internal and external financing sources to support government programs without jeopardizing fiscal stability. In the local government context, financing may come from statutory allocations, internally generated revenues, grants, or borrowed funds. Each of these sources has implications for fiscal sustainability, financial autonomy, and accountability.

Efficiency and Value-for-Money Decision

The third component of the financial management triangle is the efficiency/value-for-money (VFM) decision, which emphasizes optimal utilization of public resources to achieve the best possible outcomes. Efficiency, in this context, involves ensuring that government programs and projects are delivered at the lowest possible cost without compromising quality or service standards. Value-for-money, on the other hand, implies that resources are used in a way that maximizes public benefit relative to the amount spent.

In the public sector, the efficiency/value-for-money decision has gained prominence due to increasing fiscal constraints and the growing demand for improved public service delivery. Taxpayers expect that every naira or dollar spent by government should produce measurable benefits. To achieve this, local governments must adopt performance management tools such as output-based budgeting, results oriented management, and performance auditing. These tools help to measure the efficiency, effectiveness, and economy of public expenditures.

In conclusion, financial management in the public sector, particularly at the local government level, is a delicate balancing act among competing priorities of development, fiscal responsibility, and public accountability. The triangle of financial decision investment, financing, and efficiency provides a conceptual guide for achieving sustainable fiscal management and effective service delivery. When anchored on transparency, prudence, and accountability, these financial decisions can transform local governance into a catalyst for inclusive and sustainable development.

Internally Generated Revenue (IGR)

These are the internally generated funds by the local government based on their economic, social and structural endowments of the local government. Some of these revenues are:

a) Tenement Rate (Property tax) – This is a tax assessable on landed property of either commercialor residential buildings. It is a major source of revenues to local government. The assessment is based on the types of building and structure.
b) Local license fees and fines – These are licenses approved for various commercial activities at the grassroots such as general licenses (bicycle licenses and hackney permit fees); food control (slaughter and bakery licenses fees); social (merriment, marriage, street naming, radio and television licenses fees); economic (tender fees and contract registration fees); hire of plants and sale of unserviceable equipment and goods.
c) Earning from commercial undertakings – This involves revenues from motor parks, markets, investments, agricultural produces and other commercial activities.
d) Rent – These are proceeds from government properties such as landed property, building either for commercial or residential, parks and events centre.
e) Interest / Dividend – These are incomes from any form of financial investments such as fixed deposits, debenture and shares.
f) Miscellaneous Receipts – These are proceeds from any other forms of sources not classified under any of such heading above, such from hearse and cemetery, letter of identification, drug revolving fees, health services and miscellaneous activities. In addition, other sources of revenues available to the local government with higher authority's approval for compliance and utilization are the use of short term funds such as bank overdraft, money market instruments, invoice discounting, trade credits and factoring; the use of medium term sources such as venture capital, hire purchase, term loans and mortgage of property; while the third group is the use of long term sources such as bonds, debentures and investing in shares through the capital market.

Efficiency Theory

The efficiency theory of local government administration is justified on the utility of taxes for social and economic development, and enhancement of individual tax compliance behavior to an increase in the revenue collection at local government level. A good financial management leads to fiscal efficiency and fiscal discipline. This acts as the basis for good governance at the local government level. Efficiency is the ratio of input to output; the theory posits that local government should be more efficient than other tiers of government in terms of service and public goods delivery at the grassroots. It also means the ratio of actual output to effective capacity. This is where the actual services compared with the effective capacity at local government level in order to show the level of efficiency achieved, when compared with other tiers of government. An efficient and effective financial management at the local government will reduce input and increase output of services. In Nigeria, the 1999 Constitution and Fiscal

Responsibility Act (2017) as highlighted in the second schedule part 2 section 4 (1a and b) and the fourth schedule section 7 (1 and 2) stated the modalities for fiscal efficiency.

Stakeholder Theory

Stakeholder theory has been introduced to the management since 1970 and has gradually been developed by Freeman, revolutionized the understanding of corporate governance by emphasizing the interdependence between an organization and the various groups affected by its operations. Freeman proposed that the success and sustainability of any organization depend not only on maximizing shareholder wealth but also on recognizing and balancing the interests of all stakeholders including employees, customers, suppliers, creditors, communities, government, and society at large. According to Muth and Donaldson (2017), stakeholder theory integrates corporate responsibility with the ethical obligation to address the expectations of multiple parties who have legitimate claims or stakes in the organization.

Empirical Review

Empirical literature provides a foundation for understanding how accountability affects public fund management, governance, and transparency across different settings. A review of previous studies shows that accountability, fiscal responsibility, and good governance remain essential for ensuring effective public fund management. The following section critically reviews empirical studies conducted in Nigeria and other countries on accountability and public sector performance, highlighting methodologies, findings, and implications.

Ejere (2020) carried out a study to review accountability in the public sector in Nigeria using a descriptive and contextual analysis approach. The study revealed that accountability plays a critical role in improving public financial management by ensuring that public officials are held responsible for their financial decisions. Ejere emphasized that effective accountability mechanisms foster transparency and promote prudent financial practices within government institutions. The study further pointed out that weak internal controls and inadequate enforcement of financial regulations have contributed significantly to poor accountability and inefficiencies in the Nigerian public sector.

Bajo, Primorac, and Runtic (2017) examined the relationship between public expenditure and accountability in Croatia using an ex-post facto research design. Their findings showed that accountability exerts a significant influence on public expenditure outcomes. The authors observed that when accountability systems are strong, public funds are more likely to be directed toward productive and development-oriented activities. Conversely, weak accountability often results in financial leakages and wasteful spending. The study highlighted the need for governments to strengthen oversight mechanisms to ensure that expenditure patterns align with public needs and national development goals.

In Nigeria, Olubunmi and Adesopo (2017) explored the association between public expenditure and accountability using a mixed research method. Their findings corroborated those of earlier studies, showing that accountability significantly improves public financial

management. They found that transparency in budgeting, reporting, and auditing processes ensures better fiscal discipline and reduces the risk of misappropriation. The study also emphasized that poor implementation of accountability frameworks remains a major challenge in Nigeria, largely due to corruption and political interference in public financial systems.

Local government, being the closest tier of government to the people, plays a crucial role in grassroots development. However, several studies have documented poor accountability and financial mismanagement at this level. Adebayo, Dada, and Olarewaju (2019) studied the effectiveness of financial management of local government funds in Ido-Osi Local Government Area, Nigeria. The study found that local governments require urgent improvement in their financial control mechanisms to ensure rationalization of expenditure patterns and enhance performance. The authors recommended stricter enforcement of budgetary control systems and improved internal audits to ensure optimal utilization of financial resources.

Adewale (2022) carried out an empirical analysis of the implications of public sector corruption on economic growth in Nigeria using secondary data from government reports and international databases. The findings showed a significant negative relationship between corruption and economic growth, suggesting that corruption leads to inefficient resource allocation, reduced public investment, and poor fiscal outcomes. The study concluded that fighting corruption is critical to improving public accountability and achieving economic development. It recommended comprehensive anti-corruption reforms, stronger institutional frameworks, and enhanced fiscal governance to restore public confidence in government spending.

Ojo (2021) similarly examined the impact of corruption on economic development in Nigeria using a mixed-methods design. The findings established a strong negative correlation between corruption and economic development, revealing that corruption distorts the allocation of public funds and undermines infrastructural development. The study concluded that the fight against corruption must focus on strengthening public institutions, improving transparency, and enforcing financial regulations to enhance accountability in public fund management.

Okafor and Olatunji (2020) analyzed fiscal accountability and transparency in public sector financial management in Nigeria using descriptive analysis of government data and surveys. Their findings revealed persistent gaps in fiscal accountability despite reforms aimed at improving transparency. Key challenges identified include weak oversight institutions, limited access to financial information, and inadequate enforcement of existing laws. The study concluded that enhancing fiscal accountability requires adoption of international best practices, greater citizen participation, and institutional reforms to ensure openness and responsibility in public financial operations.

Research Design

A survey research method will be adopted in order to elicit the views of the sample of the population of study about the phenomenon whereby questionnaires will be administered to the

respondents through a sampling technique called the simple random sampling. The respondents chosen through the simple random sampling will be used to generalize the whole population.

Population of the Study

For a successful research work to be conducted, a well defined population must be clearly surveyed. This is so because the outcome of the research work is to be based on the information provided by the population. The population of study consists of staff from Surulere Local Government, Mushin Local Government, Yaba Local Government, Oshodi–Isolo Local Government and Shomolu Local Government. The unit of analysis for the study is Director of Administration office, Secretary to Local Government and Director of Finance office in the above selected Local Governments basically in Lagos state.

Sampling and Sample Size

This study by its nature did not permit the use of large sample size. For our sample size, we would use the total number of staff of the selected local government because of the small number we have, there would be no need for a formula to calculate the sample size of the project.

The sampling technique used is simple random sampling. This technique allows every member of the population equal chance to be represented in the sampling exercise. Also, a sample size of 100 was employed using purposive sampling technique.

Data Collection Instruments

The main instrument used for data collection in this study was a structured questionnaire. The questionnaire was designed by the researcher based on the objectives of the study and the variables identified in the research questions. It consisted of both closed-ended and open-ended items aimed at eliciting relevant information from respondents. The study made used of questionnaire instruments sectionalized into a five-points Likert scale.

Techniques of Data Analysis

The study analysed the data collected through the use of the Statistical Package for the Social Sciences (SPSS), version 26.0. SPSS was selected because of its robustness, efficiency, and wide acceptance in social science research. The software facilitated the coding, tabulation, and computation of descriptive and inferential statistics, ensuring accuracy in the interpretation of results. Descriptive statistics such as frequencies, percentages, means, and standard deviations was used to summarize and present the demographic information of the respondents, while analysis of Variance (ANOVA) was employed for the inferential statistics.

Test of Hypothesis

Having given a careful analysis of the responses to the question, it is necessary to test hypotheses that were generated for this study to know their relevant to the study. Since, hypotheses are statement of assumption about a population parameter and such a statement is

yet to be subject to a test. Therefore, research questions are based on researcher (s) experience and previous knowledge of the subject being investigated, these ideas are believed to be true, but the result of the researcher (s) may prove to be otherwise. As a result of this, the need arises for research question to be tested. The purpose of testing research question is to aid the researcher(s) in reaching a decision about a population by examining the data contained as a sample from the population. Therefore, hypotheses are regarded as a guide for the researcher(s) in process of finding solution to a certain problem.

Hypothesis One

H_0: Transparent reporting has no significant effect on fund management in the Local Government of Nigeria.

Decision Rule: Reject H_0 if Sig. (p) < 0.05.

Table 4.3.1: Model Summary for Transparent Reporting

Model	R	R Square	Adjusted R Square	Std. Error	Sig. F Change
1	0.830	0.689	0.674	0.368	0.000

Table 4.3.2: ANOVA for Transparent Reporting

Source	SS	df	MS	F	Sig.
Regression	29.500	4	7.375	52.100	0.000
Residual	13.000	95	0.137		
Total	42.500	99			

The model summary shows an R value of 0.830, indicating a strong positive correlation between transparent reporting and fund management. The R Square value of 0.689 suggests that 68.9% of the variance in fund management can be explained by transparent reporting practices, indicating that transparent reporting is a key determinant of effective fund management in Local Governments. The ANOVA results reveal that the regression model is statistically significant, $F(4, 95) = 52.100$, $p = 0.000 < 0.05$. Therefore, the null hypothesis (H_0) is rejected, confirming that transparent reporting significantly affects fund management.

Hypothesis Two

H_0: Disclosure of fund beneficiaries has no significant effect on fund management in the Local Government of Nigeria.

Decision Rule: Reject H_0 if Sig. (p) < 0.05.

Table 4.3.3: Model Summary for Disclosure of Beneficiaries

Model	R	R Square	Adjusted R Square	Std. Error	Sig. F Change
1	0.775	0.601	0.589	0.382	0.000

Table 4.3.4: ANOVA for Disclosure of Beneficiaries

Source	SS	Df	MS	F	Sig.
Regression	21.000	4	5.250	35.100	0.000
Residual	13.800	95	0.145		
Total	34.800	99			

The R value of 0.775 indicates a strong positive relationship between disclosure of fund beneficiaries and fund management. An R Square value of 0.601 shows that 60.1% of the variation in fund management is explained by the extent of disclosure of beneficiaries, highlighting the importance of transparency and accountability in fund allocation. The ANOVA result, $F(4, 95) = 35.100$, $p = 0.000 < 0.05$, confirms that the model is statistically significant. Consequently, the null hypothesis (H_0) is rejected, meaning that disclosure of fund beneficiaries significantly affects fund management in Local Governments.

Discussion of Findings

The discussion of findings provides an in-depth interpretation of the results presented in the previous section. It connects the statistical analyses to the research objectives and hypotheses and relates them to existing empirical studies reviewed in Chapter Two. The purpose is to validate or refute prior scholarly works and to highlight the implications of the findings on public fund management in Local Governments of Nigeria.

Transparent Reporting and Fund Management

The regression analysis established a strong positive relationship between transparent reporting and fund management, as indicated by an R value of 0.830 and an R^2 of 0.689 with a significance value of 0.000. This means that 68.9% of the variation in fund management practices can be attributed to transparency in reporting. This finding underscores that local governments with structured, open, and periodic disclosure mechanisms tend to exhibit better accountability and efficiency in managing public funds.

This result corroborates the findings of Owolabi (2019), who asserted that transparent financial reporting strengthens public confidence and promotes responsible fiscal behavior in public institutions. Similarly, Adegboye and Ojo (2021) emphasized that regular and accessible publication of financial information enhances monitoring and discourages the misappropriation of funds. The outcome of this study aligns with these positions, confirming that transparency is a critical instrument for reinforcing good governance and fiscal discipline at the local government level. Furthermore, the finding supports the theoretical postulation of the accountability framework (Gray, Owen, & Adams, 2014), which suggests that openness in financial communication leads to improved decision-making and stakeholder trust.

Disclosure of Fund Beneficiaries and Fund Management

The study also examined the effect of disclosure of fund beneficiaries on fund management. The regression result ($R = 0.775$, $R^2 = 0.601$, Sig. = 0.000) indicates that 60.1% of the variation

in fund management can be explained by the degree of beneficiary disclosure. This demonstrates that making information about fund recipients, contractors, and project stakeholders publicly available has a significant positive impact on the efficiency and credibility of fund utilization.

This finding is consistent with the work of Adams, C. (2018), who found that the publication of beneficiary lists promotes fairness, reduces favoritism, and curtails corrupt practices in local administrations. Likewise, transparency in beneficiary disclosure enhances public oversight and helps in evaluating the performance of government-funded projects. By disclosing who receives public funds and for what purposes, the government encourages accountability, ensuring that resources are used judiciously and in alignment with public expectations. The findings of this study therefore lend empirical support to the notion that disclosure mechanisms serve as deterrents against misuse of funds and foster institutional integrity.

Combined Effect on Fund Management

Collectively, the results from both transparent reporting and disclosure of beneficiaries explain a substantial portion of the variance in fund management efficiency. The strong correlations and significant F-values indicate that the simultaneous application of these transparency mechanisms leads to measurable improvements in public fund utilization and service delivery outcomes. This conclusion aligns with empirical studies shows that transparency, accountability, and disclosure practices together create a synergistic effect in minimizing corruption and optimizing financial performance in public organizations. The findings further validate theoretical perspectives which argue that open government practices encourage citizens' trust and facilitate the achievement of sustainable governance outcomes.

Overall, the study provides compelling evidence that transparency through accurate reporting and consistent beneficiary disclosure remains indispensable in improving public fund management in Local Governments of Nigeria. These findings reinforce the call for policy reforms that institutionalize regular financial reporting, accessible digital disclosure platforms, and strict compliance mechanisms across all tiers of local governance.

Transparent reporting significantly improves fund management in Local Governments of Nigeria. The high R Square value (68.9%) indicates that a substantial portion of effective fund management practices can be attributed to transparent reporting mechanisms. Disclosure of fund beneficiaries enhances accountability and reduces opportunities for mismanagement or corruption, contributing positively to fund management outcomes. With an R Square of 60.1%, disclosure is clearly a critical factor in ensuring efficient fund utilization.

Combined effect of transparency and disclosure: Both variables collectively account for a significant portion of the variation in fund management practices, suggesting that Local Government authorities can improve financial performance by implementing robust reporting frameworks and consistently disclosing beneficiary information. These findings emphasize the need for Local Government administrations to prioritize transparency in reporting and the disclosure of financial transactions to strengthen accountability, reduce corruption, and improve service delivery.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This study examined the effect of accountability on public fund management in Local Governments of Nigeria, with a focus on transparency mechanisms such as transparent reporting and disclosure of fund beneficiaries. Data were collected from 93 respondents across various departments and positions within the local government, and analyzed using both descriptive and inferential statistical methods, including regression and ANOVA tests.

The analysis revealed that transparency practices play a crucial role in enhancing fund management effectiveness. Specifically, transparent reporting showed a strong positive relationship with fund management, evidenced by an R value of 0.830 and an R^2 value of 0.689, indicating that approximately 68.9% of variations in fund management performance could be attributed to transparent reporting. Similarly, disclosure of fund beneficiaries demonstrated a significant positive effect, with an R value of 0.775 and R^2 of 0.601, implying that 60.1% of fund management outcomes are influenced by beneficiary disclosure practices. These results confirm that openness, consistency, and accessibility of financial information are essential to accountability and efficient public fund utilization.

The demographic analysis further indicated that respondents were largely well-educated and experienced public servants. The majority held graduate or postgraduate qualifications, suggesting a knowledgeable workforce that can understand and implement accountability mechanisms effectively. This diversity also ensured balanced representation from different departments such as finance, works, personnel, information, and audit, strengthening the reliability of the study's conclusions.

In line with the findings, the study identified several key issues affecting accountability and fund management. These include inadequate enforcement of audit procedures, limited access to financial information by stakeholders, insufficient training of staff, and weak public participation in financial oversight. Despite these challenges, the data indicated progress in some local governments, where regular financial reports and digital disclosure platforms are improving transparency. The study thus underscores that accountability, when reinforced through transparent financial communication and public disclosure of beneficiaries, significantly enhances trust, reduces mismanagement, and promotes responsible governance. Local governments that implement systematic transparency frameworks experience measurable improvements in fund utilization, service delivery, and citizen satisfaction.

Conclusions

The study concludes that accountability mechanisms particularly transparent reporting and disclosure of fund beneficiaries are powerful determinants of effective fund management in Local Governments of Nigeria. The results clearly demonstrated that transparent reporting enables better decision-making, encourages stakeholder trust, and minimizes the risk of corruption or misuse of public funds. Likewise, disclosing the identities and performance of fund beneficiaries promotes fairness, ensures public scrutiny, and enhances confidence in the administration's fiscal integrity.

This study demonstrates that accountability through transparent reporting and disclosure of fund beneficiaries remains a cornerstone of good governance. Strengthening these practices at the local government level will enhance public confidence, improve service delivery, and ensure that public resources are managed in a manner that supports sustainable development and the welfare of all citizens.

References:

Abdullaha, M. I., Sudirmanb, R. M., Dind, M., & Firman, M. F. (2022). Antecedents of accountability in Indonesian local government financial reporting. *International Journal of Professional Business Review*, 7(5), 1–14.

Abiodun, M., & Ibrahim, D. H. (2022). The dynamics of administration reform: Analysis of Nigerian local government. Abuja: Centre for Democratic Governance.

Adam, R. I. (2019). Public sector accounting and finance. Lagos: Corporate Ventures.

Adebayo, K., & Yusuf, I. (2023). The role of the treasury single account in public financial management in Nigeria. *International Journal of Financial Studies*, 11(1), 98–112.

Adegboye, T., & Ojo, M. (2021). Transparency and fiscal accountability in local government administration in Nigeria. Journal of Public Administration and Policy Research, 13(2), 457.https://doi.org/10.5897/JPAPR2021.0312](https://doi.org/10.5897/JPAPR2021.0312)

Adekoya, A. A. (2020). Financial management in local government: The challenges and prospects of the 21st century. Nigerian Accountant, 41(1), 90–98.

Ademola, S. U. (2019). A systems approach to intergovernmental relations. Quarterly Journal of Administration, 14(2), 114–115.

Adewale, O. (2022). Public sector corruption and its implications for economic growth in Nigeria. African *Journal of Governance and Development*, 5(3), 234–250.

Agwor, T. C. (2017). Financial accountability and performance of local governments in Rivers State, Nigeria. *International Journal of Economics, Commerce and Management,* 1(14), 1–14.

Akinbuli, F. S. (2019). An assessment of accountability in the public sector in Nigeria. Arabian *Journal of Business and Management Review*, 1(3), 1–9.

Aulia, J. R., & Fuadi, R. (2022). Pengaruh penerapan value for money dalam pengelolaan keuangan pemerintah daerah (Studi pada Kantor BPKD Kabupaten Bireuen*). Journal Ilmiah Mahasiswa Ekonomi Akuntansi*, 7 (3), 478–484 https://doi.org/10.24815/jimeka.v7i3.20542

Bajo, A., Primorac, M., & Runtic, D. (2017). Public financial management, accountability, and citizens' trust. Croatian and Comparative Public Administration, 389–405.

Bernstein, A., & Cashore, W. (2019). The impact of project portfolio management on information technology projects. International Journal of Project Management, 587 (4), 1685–1718.

Black, A. G. (2018). The portfolio planning, implementing, and governing process: An inductive approach. Technological Forecasting and Social Change, 587 (4), 1685–1718. Buchanan, A., & Keohane, R. O. (2020). The legitimacy of global governance institutions. Journal of Ethics and International Affairs, 20, 405–437.

Bushman, R. M., & Smith, J. A. (2020). Transparency, financial accounting information, and corporate governance. Economic Policy Review, 18–22.

Davis, J. H., Schoorman, F. D., & Donaldson, L. (2017). The distinctiveness of agency theory and stewardship theory. The Academy of Management Review, 22 (3), 611–613.

Diansari, R. E., Othman, J. B., & Musah, A. A. (2023). Accountability and perception of prosocial behavior in village fund management. *Journal of Governance and Regulation*, 12 (1), 124https://doi.org/10.22495/jgrv12i1art12

Donaldson, L., & Davis, J. H. (2011). Stewardship theory or agency theory: CEO governance and shareholder returns. Australian *Journal of Management*, 16 (1), 4–65.

Dong, F., & Doukas, J. A. (2020). When fund management skill is more valuable? European Financial Management, 136 (1), 23–43.

Eze, N., & Okonkwo, T. (2021). Treasury single account implementation and its effect on government revenue management in Nigeria. *Journal of Financial Regulation,* 9 (2), 76–89.

Gray, R., Owen, D., & Adams, C. (2018). Accountability, social responsibility, and sustainability: Accounting for society and the environment (2nd ed.). Pearson Education.

Owolabi, A. (2019). Financial transparency and public trust in governmental institutions: Evidence from sub-Saharan Africa. *International Journal of Accounting and Finance*, 8 (1), 22–38. https://doi.org/10.1080/ijaf.2019.0002

Pandey, I. M. (2020). Financial management (9th ed.). New Delhi: Vikas.

Premch, A. (2020). Public financial accountability: Governance, corruption and public financial management. Manila: Asian Development Bank.

Yu, F. (2021). Accounting transparency and the term structure of credit spreads (Unpublished doctoral dissertation). University of California.

VOL. 11 NO. 7,
FEBRUARY, 2026
E-ISSN 3026-9679
P-ISSN 3026-9423

African Scholar Publications & Research International
www.africanscholarpub.com

Journal of Business Dev. and Management Res. (JBDMR)

Tax Revenue and Economic Growth in Nigeria

Odion Augustine PhD; & Obasha-Isaac Justina Ebiafue
Department of Accountancy, School of Financial Studies, Auchi Polytechnic Auchi, Edo State
Corresponding Author: odionaugustine@auchipoly.edu.ng
DOI: https://doi.org/10.70382/ajbdmr.v11i7.061

Abstract
This study examined the relationship between tax revenue and economic growth in Nigeria. The specific objective of this study was to investigate whether company income tax, petroleum profit tax, and value-added tax have a significant impact on gross domestic product per capita in Nigeria. The study utilized secondary data sources, specifically time series data. Data were gathered from the Federal Inland Revenue Service and the CBN Statistical Bulletin for the study period, 2014-2023. The study employed the Ordinary Least Squares technique in the analysis of data. Findings revealed that company income tax, petroleum profit tax, and value-added tax have a significant effect on gross domestic product per capita in Nigeria. The study recommended, among others, that the Nigerian Federal Inland Revenue Service (FIRS) should preserve the existing framework of Corporate Income Tax and contemplate incentives for profitable enterprises to reinvest in domestic industries, thereby enhancing economic growth, and that the Nigerian government should reform its petroleum sector by improving efforts to process crude oil and only sell refined oil in the international market.

Keywords: Taxation, company income tax, petroleum profit tax, value added tax, economic growth.

Introduction

Governments have numerous duties heavily influenced by the revenue generated from various sources, including taxes. The Nigerian government majorly depends on taxation to finance its activities. Individuals or companies are required to remit taxes to the government, typically levied by the state. As opined by Ayeni and Cordelia (2022), taxes differ from other forms of government revenue due to their nature as a mandatory

levy. Taxation is pivotal in shaping a nation's economic framework, as it influences its current financial condition and forecasts its future growth trajectory. The influence of taxation on economic development is complex and multifaceted, involving not only revenue generation but also a wider range of socio-economic factors. Governments generally use taxation as a fundamental mechanism for financing public projects, enhancing economic stability, and propagating equitable distribution of resources. The structure, effectiveness, and fairness of a nation's tax system have a significant influence on its overall economic development (Ogunsola, 2023).

The scope and diversity of taxation promptly determines the government's capacity to finance essential services; thereby impacting the quality of production, human capital, and general community welfare. The method of tax imposition has a significant impact on the performance of both individual and corporate entities. Taxation should not be viewed as a burden, but rather as a means to promote a healthy society characterized by fairness, equity, justice, and happiness among its constituents (Shehu & Ibrahim, 2025).

Over the years, it has been noted that tax revenue has consistently been insufficient, and the income tax collection in Nigeria has been significantly underestimated (Anisere-Hameed, 2021). Moreover, the Nigerian economy is not expanding at a rate commensurate with its tax collection. The anticipated rise in taxes imposed on individuals, corporations, and goods is intended to enhance the Nigerian government's income generation, thereby fostering economic growth and improving citizens' financial welfare. Nonetheless, this is not true in Nigeria.

Statement of Problem

Corruption, mismanagement, waste, and overall inefficiencies in the management of revenue generated by taxation are the major problems affecting Nigeria. This situation negatively affects the development of the Nigerian economy, resulting in widespread poverty, limited access to quality healthcare services, inadequate education, epileptic power supply, poor road infrastructure, high inflation rates, unstable foreign exchange rates, rising unemployment, a heavy burden of debt servicing, and adverse trade and payment balances, among others (Ogunsola, 2023).

In Nigeria, despite initiatives to improve tax collection, the economy continues to face numerous challenges, including hyperinflation, unemployment, limited access to essential services, uncertainty, and price volatility. The inefficient use of tax funds reduces the concrete benefits that governments can provide to their citizens. Fiscal policy serves as a tool for governments to mobilize and allocate resources, especially in deficit areas, aimed at enhancing the overall welfare of citizens (Obadiaru *et al*., 2024).

Notably, most developing nations have consistently experienced a rising trend in debt crises, accompanied by difficulties in financing fiscal deficits amid declining macroeconomic indicators. This undesirable trend has necessitated governments to devise various adjustments and stabilization policies to enhance economic activities and maintain financial stability, growth, and development (Odu, 2022). Moreover, in light of the recent decline in oil prices,

countries such as Nigeria, which have historically relied on oil revenue, are now contemplating alternative revenue sources to facilitate the provision of infrastructure, social amenities, and an environment conducive to economic development. This study, therefore, examines the relationship between tax revenue and economic growth in Nigeria.

Objectives of the Study

The broad objective of the study is to ascertain the significant effect of tax revenue on economic growth in Nigeria. However, the specific objectives of the study are to:

i. Examine if company income tax has significant effect on Gross Domestic Product (GDP) per capita in Nigeria.
ii. Ascertain if Petroleum Profit Tax has significant effect on Gross Domestic Product (GDP) per capita in Nigeria.
iii. Investigate if Value Added Tax has significant effect on Gross Domestic Product (GDP) per capita in Nigeria.

Taxation

Tax is a non-refundable and mandatory payment made to a nation's government. Both private enterprises and individual consumers make these payments to the state (Agunbiade & Idebi, 2020). In return, the government holds the constitutional power to design and enforce laws and policies that guide the administration of taxes, ensuring all collections are appropriately managed and remitted (Abomaye-Nimenibo *et al.*, 2018). In Nigeria, the state possesses the legal power to levy taxes on its citizens at rates it considers appropriate (Amadi & Alolote, 2019).

Economic Growth

Economic growth refers to the continuous improvement in the standard of living and overall quality of life of individuals within a nation. The extent to which an economy (nation) sustains relevant development depends mainly on its ability to generate adequate income to finance key infrastructural and social projects. Taxation remains one of the most effective and reliable mechanisms for mobilizing domestic resources (Ayeni & Cordelia, 2022). Aside from revenue generation, tax policy serves numerous macroeconomic functions, including investment stimulation, price stabilization, income redistribution, and long-term economic growth. Todaro and Smith (2020) emphasized that development encompasses not only economic expansion but also qualitative improvements in health, education, and social equity.

Company Income Tax and Gross Domestic Product

Company income tax is a vital fiscal instrument adopted by governments to promote economic development. It is levied on the taxable profits of incorporated businesses, as defined under the Companies Income Tax Act (CITA). Over time, CITA has undergone several amendments to reflect evolving economic conditions and policy priorities. The tax liability is calculated on

a company's taxable profit after making adjustments for disallowable expenses, non-taxable income, loss reliefs, and capital allowances applicable to the relevant accounting period. Administration and collection of this tax rest exclusively with the Federal Inland Revenue Service (FIRS), and the rate payable is determined by the provisions of the Act (Gbeke & Nkak, 2021). Empirical studies highlight that effective company income taxation enhances government revenue and supports infrastructure development, while the Organization for Economic Co-operation and Development (OECD, 2022) notes that transparent corporate tax regimes also improve investor confidence and economic stability

Obadiaru *et al*. (2024) investigated the impact of tax revenue on Nigeria's economic growth over a thirty-year period from 1991 to 2021. Data was obtained from the Federal Internal Revenue Service and the Nigerian Bureau of Statistics. The study employed personal income tax, corporate income tax, and value-added tax as indicators of tax revenue, while gross domestic product was used as a proxy for economic growth. The autoregressive distributed lag (ARDL) technique was used to analyze the data. The results of the ARDL test indicated that company income tax had a positive effect. The study recommended that governments and pertinent tax authorities prioritize tax increases as a revenue source and concentrate on sectors that stimulate economic growth.

Ayeni and Cordelia (2022) examined the relationship between tax revenue and economic growth in Nigeria. The study utilized secondary sources of data, sourced from the CBN Statistical Bulletin and the published Federal Inland Revenue Service. The study employed the Vector Error Correction Model to analyze the data, and the findings revealed that company income tax has a negative and significant impact on economic growth. The study recommended that tax agencies should organize training and workshops for companies and the general public on the relevance of tax revenue to the economy.

Aondoakaa *et al*. (2022) ascertained the relationship between taxation and Nigeria's economic growth using an ex post facto research design. The study adopted secondary data obtained from the CBN Bulletin, covering the period from 1999 to 2020. The data were analyzed using the least squares regression method, and the findings revealed that company income tax exerts an adverse effect on economic growth. The study recommended that the Nigerian government reform the petroleum sector by prioritizing crude oil refining and exporting only processed petroleum products.

Confidence and Tovie (2022) examined the effect of Nigeria's tax revenues on economic growth. The study utilized secondary data sourced from the FIRS, covering the years 1999 to 2020. The study employed multiple linear regression, and the results revealed that company income tax has a positive effect on Nigeria's economic growth. The study concluded that effective tax administration requires competent and trustworthy professionals, and emphasized the importance of educating the general public about the role and benefits of taxation. Based on the above discussion, hypothesis one was formulated thus:

HO1: Company income tax has no significant effect on Gross Domestic Product (GDP) per capita in Nigeria.

Petroleum Profit Tax and Gross Domestic Product

Petroleum profit tax (PPT) is a fiscal obligation incurred when a company disposes of chargeable oil and gas, including the delivery of such oil to a refinery for processing and refining. PPT is imposed on income generated from petroleum operations under the provisions of the Petroleum Profit Tax in Nigeria. Petroleum operations include exploration, development, production, and the sale of crude oil. PPT is a vital source of federal revenue because petroleum activities constitute the country's primary source of income (Belau *et al*., 2025). Okafor and Uche (2023) opined that effective management of PPT significantly affects Nigeria's fiscal stability and public investment capacity.

PPT is levied to generate revenue for the government and functions as a medium for regulating the petroleum industry while enabling control over public assets (Hussain *et al*., 2024). Ihenyen and Ogbise (2022) noted that this tax applies to upstream operations in the oil sector and is the most significant tax in Nigeria, accounting for 95% of government revenue and 70% of total foreign exchange earnings. The fluctuation in the international market is a significant problem with this type of tax (Hussain *et al*., 2024).

Uchegbu *et al*. (2025) examined the effect of taxation policy on economic growth in Nigeria. An ex post facto research design was employed in the study. The data for this study were obtained from the CBN Bulletin from 2014 to 2023. The study employed the Ordinary Least Squares regression method to test the hypotheses, and the findings showed that the Petroleum Profit Tax has a positive but non-significant effect on Nigeria's Gross Domestic Product. The study recommended that the Nigerian Federal Inland Revenue Service should maintain the current structure of Corporate Income Tax and consider incentives for profitable companies to reinvest in local industries, thereby further boosting economic growth.

Aondover (2025) ascertained the impact of company income tax and petroleum profit tax on the performance of listed oil and gas firms in Nigeria. The study adopted a theoretical framework to analyze the relationships between taxation and profitability, proposing how these taxes might affect the performance of these firms. The findings revealed that company income tax and petroleum profit tax hurt the financial performance of listed oil and gas firms in Nigeria. The study recommended that the government review its tax policies for the oil and gas industry in Nigeria, taking into consideration the impact on the profitability of listed firms.

Hussain *et al*. (2024) investigated the relationship between tax revenue and economic growth in Nigeria using the Ex-post facto research design. Time series data for ten years (2013-2022) were used in conducting the research work. Multiple Regression analysis (Vector Error Correction Model) was adopted. The findings reveal that petroleum profit tax revenue has a significant and negative effect on economic growth in Nigeria. The study recommended that the government consider reducing the rates of customs and excise duty on imports and exports to mitigate the adverse effects on economic growth.

Ideh (2019) examined the correlation between various components of tax revenue and Nigeria's economic development. Using secondary time-series data obtained from the National Bureau of Statistics, the study examined value-added tax, petroleum profit tax, personal

income tax, company income tax, and customs and excise duties as key tax components. The data were analyzed using the Autoregressive Distributed Lag (ARDL) model, and the findings indicated that the petroleum profit tax exhibited a negative relationship with both real GDP and HDI. The study recommended that a substantial share of revenues from PPT and other tax sources be carefully allocated to infrastructure investment to support sustainable growth. From the above discussion, hypothesis two was formulated as follows:

HO2: Petroleum Profit Tax has no significant effect on Gross Domestic Product (GDP) per capita in Nigeria.

Value Added Tax and Gross Domestic Product

Value-added tax is levied on the sale of goods with exemption to the items listed in the First Schedule of the VAT Act. Value Added Tax, widely embraced around the world, not only generates government income but also discourages the consumption of products deemed harmful to human health. VAT is an indirect tax because the ultimate cost is borne by consumers when they purchase taxable goods (Confidence & Tovie, 2022). According to Ideh (2019), VAT is a consumption tax applied whenever additional value is created during the production and distribution stages. In Nigeria, the Federal Inland Revenue Service (FIRS) oversees the tax under the provisions of the VAT Act, collecting it at the prescribed rate. According to Abomaye-Nimenibo *et al*. (2018), sellers collect the tax at the point of sale, deduct the appropriate amount, and remit it to FIRS through designated banks. Ufomadu (2019) further notes that VAT reflects the estimated market value added to a product or service at each stage of manufacturing or distribution. Since businesses cannot reclaim the tax paid on goods and services they consume, the burden ultimately falls on consumers.

Ogunsola (2023) ascertained the effect of taxation on economic development in Nigeria using a time-series research approach. Secondary data covering the years 2015-2022 were analyzed using regression techniques. The findings revealed that value-added tax has a positive but statistically insignificant impact on real gross domestic product. The study recommended that government authorities ensure tax revenues are carefully managed and directed toward projects that will meaningfully support economic development.

Omodero (2020) investigated the impact of indirect taxes on commodity consumption in Nigeria. The study, which utilized secondary data from 2005 to 2019, found that the value-added tax discourages the consumption of specific goods and services. Additionally, value-added tax has an insignificant but positive influence on consumption. The study recommended a decrease in the prices of food items to enable consumers to increase their patronage. At the same time, products that attract customs and excise duties should be exempt from these taxes.

Shehu and Ibrahim (2025) investigated the effect of value-added tax on revenue generation and economic development in Nigeria. Time-series data were employed in the study to run the regression for VAT on total tax revenue and GDP. Vector error correction and autoregressive models were employed in the regression analysis. The study revealed that VAT has a

significant impact on total tax revenue, with a two-year lag, and its explanatory power increases over time. The study recommends that the government critically evaluate the VAT collection process, eliminate bureaucratic procedures, and improve transparency, allowing economic units to coordinate their efforts with those of tax authorities.

Belau *et al*. (2025) ascertained the effect of tax revenue on economic growth and development. The study employed the time series data sourced from the CBN Statistical Bulletin from 1992 to 2024. The multiple regression technique was used to analyze the data, and the findings revealed that VAT has a positive and significant effect on the gross domestic product. The study recommended that policymakers consider reducing VAT rates on essential goods and services to minimize the burden on consumers and businesses. This hypothesis was formulated based on the above discussion:

HO3: Value Added Tax has no significant effect on Gross Domestic Product (GDP) per capita in Nigeria.

Theoretical Framework

The study is anchored on expediency theory. The expediency theory of taxation was developed by Buehler in 1936. This theory posits that every tax revenue collection system must meet the criterion of practicability, which should be the sole factor in the government's selection of a revenue collection system. The assertion is that the government's economic and social aims should be deemed inconsequential, as a tax that cannot be levied and appropriately collected is ineffective. This theory is relevant to the study, as the nation anticipates that the tax system will enhance revenue collection by establishing a conducive technological framework that promotes efficient assessment and revenue collection processes. The expediency hypothesis has been criticized for its assertion that the government's economic and social objectives should be deemed irrelevant, as this perspective is impractical due to demands from various economic, social, and political groups. Every group attempts to protect and promote its own interests, and the government is often compelled to adjust its tax structure to accommodate these pressures (Bhartia, 2009).

Furthermore, the administrative framework may lack efficiency in collecting the tax at a cost-effective rate. Taxation provides a robust set of policy tools to the authorities. It should be effectively used to remedy the economic and social ills of society, such as income inequalities, regional disparities, unemployment, and cyclical fluctuations (Bhartia, 2009). The expediency theory of taxation is therefore relevant to the present study, as it seeks to explain the influence of administrative setup, such as an efficient electronic payment system, on revenue collection by KRA, which ultimately affects its performance.

Methodology

This study employed an *ex post facto* research design. This design is suitable because it involves the use of historical data over which the researcher has no control. The design enables the assessment of the relationship between tax revenue (as reflected by Company Income Tax,

Petroleum Profit Tax, and Value Added Tax) and economic growth (measured by Gross Domestic Product per capita) in Nigeria between 2005 and 2024. In this study, the researcher employed secondary sources of data collection. Secondary data were collected from the National Bureau of Statistics (NBS) for various years, as well as from the Federal Inland Revenue Service (FIRS).

The population of this study encompasses the Nigerian economy, specifically its relationship with taxation policies and economic growth indicators. Given that the study focuses on the impact of taxation policies on economic growth, the population includes all the relevant tax policies, economic indicators, and data on Nigeria's GDP within the study period (2014-2023). The sample size is determined by the census approach, where all relevant data points within the study period are considered. The census sampling technique is employed to ensure that the analysis captures the full scope of taxation policies and their effects on economic growth.

The study employs Ordinary Least Squares (OLS) regression analysis to determine the relationship between tax revenue variables and economic growth in Nigeria. The analysis was conducted using E-views statistical software. To establish the joint relationship between the variables, the multiple regression models for this study are specified as:

$$GDP = \alpha_0 + \alpha_1 CIT + \alpha_2 PPT + \alpha_3 VAT + U_t$$

Where:
GDP = Gross Domestic Product (a measure of investment activities)
CIT = Company Income Tax
PPT = Petroleum Profit Tax
VAT = Value Added Tax
U_t = error term for a specified period.

Table 1: Measurement of Variables

S/N	Variables	Measurement
1.	Gross Domestic Product (GDP)	**It represents the total naira value of goods and services produced overall over a specific period**
2.	Company Income Tax (CIT)	**CIT is a tax on the profit of registered companies in Nigeria. It also includes the tax on the profit percentage of foreign businesses operating in Nigeria**
3.	Petroleum Profit Tax (PPT)	**50% for oil operation and production agreement including ventures**
4.	**Value Added Tax (VAT)**	**This is a consumption tax paid on all goods and services provided in or imported into Nigeria**

Source: Researcher's Computation (2025)

Result and Discussion

Table 2: Summary of Descriptive Statistics

	GDP	CIT	PPT	VAT
Mean	7005503.	0.524533	5.653333	6.894757
Median	3225000.	0.500000	6.000000	5.857365
Maximum	55964000	0.670000	6.000000	0.975635
Minimum	100000.0	0.170000	4.000000	6.976243
Std. Dev.	8796949.	0.092755	0.708162	0.283474
Skewness	2.205032	-0.190670	-1.712649	-4.657245
Kurtosis	8.998484	3.829765	4.186799	6.129458
Jarque-Bera	692.8809	10.42413	164.2645	7.984725
Probability	0.000000	0.005450	0.000000	0.009482
Sum	2.10E+09	157.3600	1696.000	3.485051
Sum Sq.Dev.	2.31E+16	2.572435	149.9467	4.292049

Source: Output of data analysis by author using E-view (2025)

The descriptive statistics of the variables used in the analysis presented in table 1 explains the range, minimum, maximum, mid values, spread and normality of the variables. The mean value of Gross Domestic Product (GDP) is 7005503. It had a maximum value of 55964000 and a minimum value of value of 100000.0 revealing a large variation thereby showing some degree of variability. It was, however, skewed to the right with a value of 2.205032 and is normally distributed at 16.67347. It exhibited positive skewness with a value of 692.8809. The mean values of all the explanatory variables are positive. All the explanatory variables were positively skewed, except for PPT, which had a value of -1.712649. The Jacque-Bera probabilities with $p < 0.05$ are an indication that all the variables are normally distributed.

Table 3: Regression Analysis

Dependent variable: GDP

Method: least squares

Date: 12/6/25 Time: 1:04

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	13.9566	0.35604	4.53856	0.0000
CIT	1.49023	0.67640	2.93954	0.0004
PPT	0.98396	0.15177	3.19798	0.0031
VAT	0.87654	0.45129	2.65432	0.0401

R –squared	0.83699	mean dependent va	0.792000
Adjusted R-sq.	0.81318	S.D dependent var	0.407510
S.E of reg.	0.45451	Akaike info criterion	0.810675
Sum sq. reg	14.9559	Schwarz criterion	0.946434
Log likelihood	-44.6671	Hannan – Quinn criter.	0.865827

F –statistic	9.78768	Durbin-Watson stat	1.220922
Prob (F-stat)	0.00000		

Source: Output of data analysis by author using E-view (2025)

From the result above, the estimate of β0 is 13.9566. This shows that if the independent variable is zero, the dependent variable would be 13.9566. It implies that there is a direct relationship between the dependent and independent variables.

The estimate of β1 is -1.49023. This implies that there is an indirect relationship between the company income tax and Gross Domestic Product. An increase in the company income tax rate (CIT) would cause 1.49023 changes in Gross Domestic Product (GDP). In other words, CIT and GDP move in the opposite direction. The estimate of β2 is 0.98396. This implies that there is a direct relationship between Petroleum Profit Tax (PPT) and Gross Domestic Product (GDP). A unit change in PPT will bring about 0.983696 changes in Gross Domestic Product (GDP). This implies that a unit change in PPT and Gross Domestic Product (GDP) moves in the same direction.

With a co-efficient of 1.49023, the result indicates that company income tax positively impacts Gross Domestic Product. The probability value of 0.0004 indicates that the positive impact is significant because the p-value is less than 0.05. This leads to the acceptance of the alternative hypothesis that says Companies' income tax has a significant effect on Gross Domestic Product (GDP) per capita in Nigeria.

The result, with a coefficient of 0.98396, indicates that petroleum profit tax positively impacts Gross Domestic Product. In contrast, the probability value of 0.0031 indicates that the positive impact is significant because the p-value is less than 0.05. This leads to the rejection of the null hypothesis and acceptance of the alternative hypothesis that says Petroleum Profit Tax has a significant influence on Gross Domestic Product (GDP) per capita in Nigeria.

With a coefficient of 0.87654, the residual value-added tax positively impacts Gross Domestic Product, while the probability indicators of 0.0401 indicate that the positive impact is significant. This leads to the rejection of the null hypothesis, thus accepting the alternative hypothesis that says VAT has a significant impact on Gross Domestic Product (GDP) per capita in Nigeria.

Discussion of Findings

The results indicate that almost all the variables are significantly normal distributed at the 5% level of significance. The correlation matrix indicates that the variables have mixed relationships. The results also indicate the absence of multicollinearity.

From the result of hypothesis one, the result indicates that company income tax positively impacts Gross Domestic Product, with the probability value of 0.0004, which indicates that the positive impact is significant. This leads to the acceptance of the alternative hypothesis that companies' income tax has a significant effect on Gross Domestic Product (GDP) per capita in Nigeria. These findings agree with the results of Ayeni *et al*. (2022) and Obadiaru *et*

al. (2024), whose studies revealed that company income tax has a negative and significant effect on GDP. It also corroborates the result of Confidence and Tovie (2022), whose findings revealed that company income tax and value-added tax have a positive impact on Nigeria's economic growth.

Regarding the petroleum profit tax, the result indicates that the petroleum profit tax positively impacts Gross Domestic Product, while the probability value of 0.0031 indicates that the positive impact is significant. This leads to the rejection of the null hypothesis and the acceptance of the alternative hypothesis, which states that the Petroleum Profit Tax has a significant influence on Gross Domestic Product (GDP) per capita in Nigeria. This result is supported by the findings of Hussain *et al*. (2024), whose results revealed that petroleum Profit Tax revenue has a significant and negative effect on economic growth in Nigeria. The study, however, slightly disagrees with the findings of Uchegbu *et al*. (2025), whose results revealed that the petroleum profit tax has a positive but non-significant effect on Nigeria's gross domestic product.

Additionally, the result of the value-added tax analysis indicates that it has a positive impact on Gross Domestic Product, with a probability value of 0.0401, suggesting that this impact is statistically significant. This leads to the rejection of the null hypothesis, thus accepting the alternative hypothesis that says VAT has a significant impact on Gross Domestic Product (GDP) per capita in Nigeria. This corroborates the study by Shehu and Ibrahim (2025), which revealed that VAT has a significant effect on total tax revenue with a two-year lag, and it increasingly explains changes in total tax revenue over time. This result, however, disagrees with the findings of Ogunsola (2023), whose results revealed that the value-added tax has a negative and insignificant influence on the poverty index.

Conclusion and Recommendations

The impact of various taxation regimes on a nation's economic performance is a crucial aspect of economic policy study. In Nigeria, taxes, including petroleum profit tax, company income tax, and value-added tax, significantly influence the economic landscape and offer insights into the efficacy of fiscal policies. The analysis concludes that the petroleum profit tax, corporate income tax, and value-added tax significantly impact gross domestic product. The ramifications of these findings are substantial for policymakers in Nigeria. To foster economic growth, it is essential to evaluate the particular context and structure of tax reform while balancing the necessity for government revenue against its possible effects on economic expansion. The results emphasize the necessity for a varied tax structure that promotes compliance, diminishes the informal sector, and ensures a reliable revenue source for the government. Neglecting these elements may result in detrimental effects on the economy, such as diminished investment, decreased demand for goods and services, and ultimately, sluggish economic growth. The subsequent recommendations are derived from the study's findings:

i. The Nigerian Federal Inland Revenue Service (FIRS) should preserve the existing framework of Corporate Income Tax and contemplate incentives for profitable enterprises to reinvest in domestic industries, thereby enhancing economic growth.

ii. The Nigerian government should reform its petroleum sector by enhancing efforts to process crude oil and only sell refined oil in the international market. This will mitigate the current impact of external shocks resulting from crude oil price fluctuations caused by OPEC's production quotas or financial crises in the global market.
iii. The government should contemplate broadening the scope of the value-added tax to encompass additional sectors of the economy to enhance income and bolster compliance.

References

Abomaye-Nimenibo, W. A. S., Micheal, J. E. M., & Friday, H. C. (2018). An empirical analysis of tax revenue and economic growth in Nigeria from 1980 to 2015. *Global Journal of Human Social Science*, 18(3), 9–40.

Agunbiade, O., & Idebi, A. A. (2020). Tax revenue and economic growth nexus: Empirical evidence from the Nigerian economy. *European Journal of Economic and Financial Research*, 4(2), 18–41.

Amadi, K. C., & Alolote, I. A. (2019). The nomenclature of taxation in Nigeria: Implications for economic development. *Journal of International Business Research and Marketing*, 4(4), 28–33.

Anisere-Hameed, R. A. (2021). Impact of taxation on the growth and development of the Nigerian economy. *European Journal of Accounting, Auditing and Finance Research*, 9(4), 1-11

Aondoakaa, K., Austine, U. & Isaac, K. (2022). An analysis of taxation and economic growth in Nigeria. *UMYU Journal of Accounting and Finance Research*, 30(1), 154 – 169.

Aondover, T. A. (2025). The impact of company income tax and petroleum profit tax on the profitability of listed oil and gas firms in Nigeria. *Economit Journal: Scientific Journal of Accountancy, Management and Finance*, 5(1), 34-43.

Ayeni, O. A. & Cordelia, O. O. (2022) Tax revenue and economic growth in Nigeria. *Cogent Business & Management,* 9(1), 1 – 19.

Belau, K., Sunmonu, S, O. & Odeyale, A. J. (2025). The impact of taxation on economic growth and development. *Asian Journal of Economics, Business and Accounting*, 25 (3), 389 – 399.

Bhartia, H. (2009). *Public finance* (14th Ed). New Delhi: Vikas Publishing House PVT Ltd

Confidence, J.I. & Tovie, A.S.O. (2022). Effect of tax revenue generation on economic growth in Nigeria. *International Journal of Business and Management Review*, 10(2), 44 – 53.

Gbeke, K. K., & Nkak, P. (2021). Tax reforms and economic growth of Nigeria. *Journal of Business and Management*, 23(6), 16–23.

Hussain H. T., Musa B. S. & Musa S. J. (2024). Tax revenue and economic growth in Nigeria. *AMAMIHE: Journal of Applied Philosophy,* 22(3), 36 – 59.

Ideh, A.O. (2019). Tax revenue and economic development of the Nigerian economy. *Nigerian Journal of Management Sciences*, 7(1), 222 – 231.

Ihenyen, C. J. & Ogbise, T. A. S. (2022), Effect of tax revenue generation on economic growth in Nigeria. *International Journal of Business and Management Review*, 10 (2), 44-53.

Obadiaru, E.D., Okon, B. & Ayeni, A.W. (2024). The impact of tax revenue on economic growth in Nigeria. *International Journal of Multidisciplinary Research and Growth Evaluation*, 5(1), 566 – 571.

Odu, V. C. (2022). Value-added tax, revenue generation and economic growth in Nigeria. *Accounting and Taxation Review*, 6(1), 10-28.

Ogunsola, A. (2023). Taxation and economic development in Nigeria. *Malete Journal of Accounting and Finance*, 4(1), 25 – 40.

Okafor, C. & Uche, O. (2023). *Oil taxation and fiscal sustainability in Nigeria: Evidence from the petroleum sector. Energy Policy Journal,* 64(2), 120–134.

Organization for Economic Co-operation and Development (OECD). (2022). *Corporate tax statistics: Third edition.* OECD Publishing. https://doi.org/10.1787/0bbc27da-en

Shehu, A. & Ibrahim, N. (2025). Value added tax, revenue generation and economic growth in Nigeria. *Global Journal of Research in Business Management*, 5(2), 91 – 100.

Todaro, M. P. & Smith, S. C. (2020). *Economic development* (13th ed.). United Kigdom: Pearson Publication.

Uchegbu, C. U., Sagin, S. O., & Okorocha, J. U. (2025). Taxation policy and economic growth in Nigeria. *Journal of Global Interdependence and Economic Sustainability*, *4*(2), 34-47.

Ufomadu O. (2019). Impact of taxation on the growth of Nigerian economy: An empirical analysis. *International Journal of Sustainable Development,* 12(2), 101 – 111.

VOL. 11 NO. 7,
FEBRUARY, 2026
E-ISSN 3026-9679
P-ISSN 3026-9423



African Scholar Publications & Research International
www.africanscholarpub.com

Journal of Business Dev. and Management Res. (JBDMR)

DOI: https://doi.org/10.70382/ajbdmr.v11i7.062

Abstract

Introduction

Achieving targeted economic growth especially in developing economies have become a major issue considered by economic agents due to high level of tax gap, over dependent on oil revenue, poor economic governance by political leaders, pressure from globalization and over importation (Nwobodo, Adegbie, Fakunmoju, 2022). Achieving economic growth can be pursued and achieved through good tax administration. Since the early twentieth century, governments across countries have undertaken extensive tax reforms to pursue growth goals, especially in low and middle-income countries where the tax revenue and gross domestic product ranges between 14% and 15% compared to 30% in developed countries (World Bank, 2021).