

## *The Impact of corporate governance on the quality of accounting information*

*- Case study of some Banks in Biskra -*

اثر حوكمة الشركات على جودة المعلومة المحاسبية

-دراسة حالة المصارف في ولاية بسكرة -

Wiem Hamdaoui, University of Biskra - Algeria, [wimahamdaoui22@gmail.com](mailto:wimahamdaoui22@gmail.com)

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**Abstract:** The main aim of this study is to highlight on the effect of corporate governance on the quality of accounting information in banks in Biskra, with based on the descriptive method, and using of the SPSS program for analyzing the results, we found that there is a positive effect of corporate governance on the quality of accounting information, and the sample members have knowledge about subject of quality, and they agree with the governance tools are working to achieve this quality.

**.keyword:** corporate governance; tools of governance; quality of accounting information.

**JEL classification code :** G31, G21

**ملخص:** الهدف الأساسي لهذه الدراسة هو تسليط الضوء على تأثير حوكمة الشركات على جودة المعلومة المحاسبية في البنوك في بسكرة، بالإعتماد على المنهج الوصفي، واستعمال برنامج SPSS لتحليل نتائج الاستبيان، وتوصلت الدراسة إلى أن هناك تأثير إيجابي لحوكمة الشركات على جودة المعلومة المحاسبية، وأفراد العينة في البنوك محل الدراسة لديهم إدراك حول موضوع جودة المعلومة المحاسبية ، وهم يوافقون على أن أدوات حوكمة الشركات تعمل على تحقيق هذه الجودة.

الكلمات المفتاحية : حوكمة الشركات ؛ أدوات الحوكمة ؛ جودة المعلومة المحاسبية.

تصنيف JEL : G31 ، G21

Corresponding author: Wiem Hamdaoui, E-Mail: [wimahamdaoui22@gmail.com](mailto:wimahamdaoui22@gmail.com).

## **1. Introduction :**

The financial crisis which happened in worldwide led to think in how to protect the investors, especially in the absence of transparency and clarity for users of financial statements, and to restore their confidence the corporate governance has emerged, therefore, governance procedures and standards will remain addressed to plug gaps in commercial laws and legislation established, to ensure the quality of financial reporting and to prevent fraud and cheat.

The quality of accounting information is among basic factors in decision making, and the quality is a set of characteristics that the accounting information distinguishes it, where the International Accounting Standards Board (IASB) determined the main characteristics which are: reliability and relevance.

Algeria is also among the countries that has sought to adopt the corporate governance to improve the quality of accounting information and to protect stakeholders from arbitrary of administration, through the application of good governance project in 2009, which illustrates and determines rights and responsibilities in companies and banks among senior management, junior management, shareholders and other stakeholders.

thereby the research problematic is:

**What is the impact of corporate governance on quality of accounting information?**

- **Hypotheses:**

They are:

- The sample members in the banks under study have knowledge about the concept of the quality of accounting information;
- The sample members have no knowledge about corporate governance subject;
- The corporate governance mechanisms are working to improve the quality of accounting information.

- **The importance of the study**

The importance of this study is a result of the importance of corporate governance and quality of accounting information, and their important

role in the protection of stakeholders and increasing the confidence of investor, where the banks aim to attract investors to make profits and through adoption the corporate governance to improve quality of accounting information, it will achieve this attraction.

– **Objectives of the study:**

The main goal of this study is to highlight the impact of corporate governance on accounting information quality by achieving the following goals:

- Clarifying the theoretical framework of corporate governance and accounting information quality;
- Exploration the extent of knowledge of the sample members in banks about the study variables;
- Clarify the opinion of the sample members in the presence of this effect and making recommendations based on the results of the study.

– **The society of the study:**

The case study was in banks in Biskra, which are: CPA, CNEB, BEA and BADR bank, and was excluded some banks like: Baraka, Trust, and Salam bank because their accounting is centralized in Algiers.

## **2. Corporate governance concept**

### **2.1 Definition of Corporate Governance**

- a system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby, mitigating agency risks which may stem from the misdeeds of corporate officers (Belkacem & Fellag , (2018));
- Corporate governance is concerned with ways of bringing the interests of (investors and managers) into line and ensuring that firms are run for the benefit of investors. Corporate governance is concerned with the relationship between the internal governance mechanisms of corporations and society 's conception of the scope of corporate accountability (yindenaba, komla , & delali , 2007);
- Corporate governance is “the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations”. It

encompasses the mechanisms by which companies, and those in control, are held to account (Mayne, 2007).

## **2.2. Principles of Corporate governance**

There are five principles of corporate governance (Al\_sufy & Others, 2013):

### **- The first principle**

The rights of shareholders. Must ensure that the wording clear, disclosure rules and procedures governing the acquisition of rights of control over the companies in the capital markets, and also of the amendments are irregular, such as mergers and sale of large proportions of the assets of the company, so that investors understand their rights and to identify the paths available to them. The financial transactions should be conducted at undisclosed, and place under fair conditions that would protect the rights of all shareholders according to their different categories.

### **- The second principle**

Equal management of shareholders. Must ensure that the exercise of authorities under the methods of management in companies equal treatment for all shareholders, including small shareholders and foreign shareholders. It should be made available to all shareholders the opportunity to obtain effective redress in case of violation of their rights.

### **- The third principle**

the role of stakeholders in the methods of the exercise of management companies Must involve the exercise of authorities under the methods of management companies to recognize the rights of stakeholders as established by law, and also works to encourage cooperation between companies and between stakeholders in creating wealth and employment N and sustainability of projects based on sound financial footing.

### **- Fourth principle**

Disclosure and transparency Should ensure that the methods of the exercise of powers under the corporate governance disclosure verify the exact - in a timely manner on all matters relating to the establishment of the company, including financial situation, performance, ownership, and method of exercise of power.

– **Fifth Principle**

Responsibilities of the Board of Directors Must indicate the method of exercising such powers under the corporate governance guidelines to guide corporate strategy, and should ensure effective follow-up to the executive management by the governing council and to ensure the accountability of the board of directors by the company and shareholders.

**2.3. Corporate governance tools**

In order to effectively implement corporate governance, mechanisms and tools must be available to help. These tools represent a set of mechanisms, namely the auditing. In this paper it will be focused on the external audit and the audit committee:

– **External Audit**

External Auditor adds confidence and credibility to accounting information by providing a neutral and technical opinion on the validity and fairness of the financial statements prepared by the economic units through a report prepared by the external audit annexed to the financial statements. The role of external audit has become essential and effective in the field of corporate governance because it limits the conflict between owners and management of economic unity. In other words, eliminating the procuration problem. It also limits the problem of information asymmetry, particularly between managers and shareholders. Furthermore, external audit reduces the problem of congenital deviation in economic units.

– **Audit Committee**

Several scientific studies in the United States have shown that the establishment of audit committees within companies will increase the quality of accounting information and reports issued by companies to third parties. The existence of an independent committee to oversee the preparation of financial reports, to strengthen the independence and role of the external auditor, and to ensure the compliance with the principles of governance, will necessarily increase the confidence of investors and other external parties that base their decisions on the basis of this financial information issued by companies in these reports.

Moreover, many international and financial stock exchanges are now demanding the audit Committee in the registered companies to issue a report within the financial reports in order to increase the quality and credibility of the information contained therein. Also, the audit committee should ensure that the disclosed accounting information is adequate, and it was prepared in accordance with generally accepted accounting principles. Through the previous tools, the accounting information can be reached by achieving different criteria for the quality of accounting information.

### **3. Quality of accounting information**

#### **3.1 Definition of quality accounting information**

There are several definitions of accounting information quality including:

- Accounting Information (AI) about the results of business operations of a company that can be used to estimate, compare, and manage the risk and return of corporate liabilities. AI provides information of any financial events occurring in a company but it does not reveal the future events so it can be said that accounting cannot provide all information used for the economic decision making. There are three characteristics of information that can be used for the decision making (Nelsi Wisna. (2018));
- De Lone and McLean (1992) to specify the characteristics that apparently determine system- and information-quality. A literature review revealed four important characteristics of information quality. Namely, accuracy, completeness, currency and format. Accuracy of information is generally defined as the degree to which the reality is represented by the information (Susanto & Meiryani., 2018);
- The quality must be defined in terms of the overall objective of financial reporting, to provide users with information useful for making an investment, credit, and similar decisions.” In the new framework groups, relevance and faithful representation are defined as two fundamental QCs of useful information. This means it must be relevant and faithfully represent what it purports to represent if financial information is to be useful (Nasrin Azar & Sulaiman, 2019).

### **3.2 Characteristics of accounting information**

The characteristics of accounting information are divided into main and secondary characteristics:

#### **3.2.1 The main characteristics:**

- **Reliability:** The information in the statement should be reliable. This is improved if information is independently verified. The law requires accounts, of limited companies to be verified by an auditor who must be a person independent of the company and the holder of an approved qualification (Florence, 2011);
- **Relevance:** means that quality of financial information which exists when that information influences decisions by users about the allocation of scarce resources by helping them form predictions about the outcome of past, present or future events; and/or confirming or correcting their past evaluations (SAC 3, 1990). The American Statement of Concepts defines relevance as the capacity of information to make a difference in a decision describes relevant information as confirming or correcting prior expectations, or assisting in forming future decisions (Matovu, 2005).

#### **3.2.1 Secondary characteristics:**

- **Comparability**

Comparability can be defined as the quality of information that enables users to identify similarities in and differences between two sets of economic phenomena. Users must be able to compare the financial statements of a company through time in order to identify trends in its financial statements and compare different companies to evaluate their relative financial position, performance and changes in financial position (Ayman abu haija, aryan, & alrabie, 2016);

- **Consistency**

Consistency means conformity from period to period with unchanging policies and procedures. Conformity can be achieved by applying the same accounting treatment to similar events from period to period. It does not mean that an enterprise can't switch from one accounting method to

another if the new method is justified and is preferable. The enterprise should disclose the reasons and the effect of such change (Obaidat, 2007);

- **understandability**

Means that quality of financial information which exists when users of that information are able to comprehend its meaning (Board, 1990).

#### 4 Study Methodology :

In order to answer the main question of this study, we depended on the analytical descriptive approach to study various aspects of theory, and we used program SPSS to analyzing the results of questionnaire.

#### 5 Study Results :

##### 5.1 Demographic characteristics of the study sample

**Table (01): The sample's demographic characteristics**

Variable		number	percentage%
<b>Function</b>	1-accountant	15	100
	2-accounting expert	0	0
	<b>Total</b>	<b>15</b>	<b>100</b>
<b>Specialization</b>	1-accounting	11	73.33
	2-finance	4	26.67
	<b>Total</b>	<b>15</b>	<b>100</b>
<b>Diploma</b>	1-licence	7	46.67
	2-master	8	53.33
	3-magister	0	0
	<b>Total</b>	<b>15</b>	<b>100</b>
<b>Years of experience</b>	1-Less than 5 years	4	26.67
	2-From 5 to 10 years	9	60
	3-From 11 to 20 years	1	6.67
	4-More than 20 years	1	6.67
	<b>Total</b>	<b>15</b>	<b>100</b>

**Source:** Results of the program (Excel).

Through the table above all the sample members are working as accountants by 100%, and the majority of them their specialization is accounting by 73.33 %, and we also noted that the majority of them their diploma is master by 53.33%, and their years of experience are from 5 to 10 years by 60%, it means that they have knowledge and



experience in accounting, which makes their answers more accurate and credible.

**5.2 The sample’s reliability**

**Table (02): The sample’s reliability**

Cronbach's Alpha	N of Items
.751	24

**Source:** Results of the questionnaire using SPSS.

To measure the reliability of the questionnaire, the researcher used the internal consistency coefficient of the constituent paragraphs this measure is acceptable if the alpha value is above 60%. When calculating this factor, we found that the reliability of the instrument was tested by using the Alpha Cronbach coefficient that reached (0,751), which is significant and acceptable for the purpose of the study

**5.3 The sample members have a realizing about quality of accounting information concept**

**Table (03): Analyzing the first axis’ s questions**

	N	Mean	Std. Deviation
x1(Accounting information has the ability to influence the rationalization of decisions)	15	4.33	.488
x2 (Accounting information has a predictive value that increases the efficiency and effectiveness of its users' decisions)	15	4.13	.516
x3 (Provide timely accounting information to its users)	15	4.13	.834
x4 (Accounting information has the ability to correct users' previous forecasts)	15	4.13	.915
x5 (The accounting information reflects the true picture of economic activities)	15	4.20	.862
x6 (Accounting information is free from errors and bias)	15	3.27	.961
x7 (Accounting information should be prepared based on its relative importance)	15	3.93	.594
x8 (Accounting information is comparable)	15	3.67	.900
x9 (To make the comparison, the accounting principles and methods must be consistent)	15	4.13	.743
X	15	3.9926	.53858
Valid N (listwise)	15		

**Source:** Results of the questionnaire using (SPSS).

The table above shows that the sample members have knowledge about the accounting information quality’s subject through the total average value which equals (3.99), and std. deviation which estimated of (0.53) and it is a higher value to prove it. We also found that the sample members agree with the majority of questions in the first axis which means that the characteristics are a basic for determining of accounting information quality that are (reliability, relevance, comparability, and consistency).

**5.4 The sample members haven’t a realizing about corporate governance concept**

**Table (04): Analyzing the second axis’ s questions**

	N	Minimum	Maximum	Mean	Std. Deviation
y1(Corporate governance ensures the rights of stakeholders (shareholders)	15	3	5	3.73	.704
y2(Corporate governance emphasizes the separation of ownership from administration)	15	3	5	3.53	.640
y3(Governance promotes disclosure and transparency)	15	2	5	3.53	.834
y4(Governance supports ethical behavior in decision-making)	15	2	5	3.73	.884
y5(Governance clearly defines the tasks of shareholders)	15	2	5	3.73	.799
y6(All employees are exposed to legal accountability to shareholders in case of violation of laws and regulations)	15	2	5	3.67	.816
y7(Corporate governance ensures justice at work, especially for minority owners)	15	2	5	3.27	.704
y8(corporate Governance supports social responsibility towards employees and society)	15	3	5	3.60	.632
Y	15	2.86	4.29	3.6000	.41192
Valid N (listwise)	15				

**Source:** Results of the questionnaire using (SPSS).

When analyzing the second axis through descriptive statistics, we found that the sample members have knowledge about corporate governance subject through the mean (3.60) and std. average (0.41),

despite the subject of corporate governance is new in Algeria (2009) compared to the rest of the world, and we noted that the banks (under study) in Biskra are interested in applying the principles of corporate governance through calculated the mean and std. deviation of axis' s questions, especially the questions y4 and y5 which its mean (3.73, 373) and its std. deviation (0.88, 0.79) Which are considered higher values.

### 5.5 Corporate governance mechanisms affect on quality on accounting information.

**Table (06): Analyzing the third axis' s questions**

	N	Minimum	Maximum	Mean	Std. Deviation
z1(Disclosure enhances the reliability and relevance of accounting information)	15	3	5	4.13	.743
z2 (Independence of roles and tasks lends transparency to accounting information)	15	3	5	4.27	.594
z3(The report of the External Auditor enhances the accounting information quality)	15	2	5	4.00	.845
z4(Provide an effective governance framework within the company supports the quality of accounting information)	15	3	5	4.07	.704
Z5(Information prepared in accordance with governance mechanisms is free from ambiguity)	15	2	5	3.40	.986
Z6(Corporate Governance obligates the Board to provide timely financial reporting)	15	4	5	4.27	.458
z7(Audit Committees work to achieve relevance and reliability)	15	3	5	4.00	.378
Z	15	3.57	4.43	4.0190	.32337
Valid N (listwise)	15				

**Source:** Results of the questionnaire using (SPSS).

The last axis' s questionnaire indicates that there is the relationship between corporate governance mechanisms and accounting information quality, and the table above shows that the sample members are agree with the corporate governance mechanisms affect on accounting information quality, Where the value of mean is (4.01) and the value of

std. deviation is (0.32), it means that the disclosure, report of the external auditor, audit Committees, and independence of roles and tasks are working to improve the quality of accounting information.

### 5.6 Test hypotheses:

**Table (07): Hypotheses Test Result**

	Test Value = 3					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
X	7.138	14	.000	.99259	.6943	1.2908
Y	5.641	14	.000	.60000	.3719	.8281
Z	12.205	14	.000	1.01905	.8400	1.1981

**Source:** Results of the questionnaire using (SPSS).

Depending on the results of table above, we can explain the hypotheses as the following:

- The results of the statistical analysis indicate that they have a significant realization about quality of accounting information at the level of significance (0,000) which is less than the level of significance adopted (0,05) and thus we accept the first hypothesis;
- The results of the statistical analysis indicate that they have a significant realization about corporate governance subject at the level of significance (0,000) which is less than the level of significance adopted (0,05) and thus we accept the alternative hypothesis;
- The results of the statistical analysis indicate that there is a significant effect of corporate governance mechanisms on quality of accounting information at the level of significance (0,000) which is less than the level of significance adopted (0,05) and thus we accept the third hypothesis.

## 6 Conclusion :

The study focused on how the corporate governance mechanisms influencing the quality of accounting information in some banks in Biskra, to highlight on accountants who are working in these banks to measure their knowledge about the importance of corporate governance and their opinion on its impact on quality, and through analyzing the questionnaire using SPSS, we have reached to the following result:

- One of the most important objectives of quality of accounting informatoion is increasing of confidence in the financial reporting and to reduce the possibility of the misusing of financial reporting information;
- Nobody has denied that the quality of accountin information iscrucial to making a decision by the users. Users of accounting information, as the basis for their decisions;
- The sample members in banks under study are realizing about the quality of accounting information, and reliability and relevance are the main characteristics which are determined of this qaulity;
- The sample members in banks under study are realizing about the corporate governance and its importance and its tools for achieving the quality of accounting informatin;
- Results show that there is a positive effect of corporate governance mechanisms on the quality of accounting information.

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