Contributions of Corporate Governance to Improving the Quality of Accounting Information: An Overview

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Abstract

Corporate governance practices play an essential role in preventing crises and restoring investor confidence in the accounting information contained in the financial reports. The study aimed to identify the contributions of corporate governance to enhance the quality of accounting information. A study concluded that implementation of corporate governance leads to more accountability and administrative control, supports the application of international standards, enhancing the disclosure and transparency, and strengthening the tasks of the audit committees, internal audits and external audits. All this reflects positively on the quality of accounting information.

Keywords: Corporate Governance, Accounting Aspects of Governance, Accounting Information Quality, Compliance, Financial Statements

1. INTRODUCTION

Corporate governance is outlined as possessing legitimacy, accountability and capability in the field of policy and delivery of service by respecting the law and human rights at the same time (Al-ahdal et al., 2020). The concept can be understood as *"the system by which the company is managed and controlled"* (J. Napier & Shah, 1992)**.** Corporate governance has received growing focus together in the practitioner community and academic researchers (Ghazali, 2019; Cohen et al., 2004; Blue_Ribbon_Committee, 1999; Solomon & Solomon, 2004). That interest was in order to study the causes of the financial collapses that left a failure to provide sufficient capital for investment, that threatens the existence of the companies themselves and whose impact is reflected in the entire economy (CIPE, 2003).

Perhaps among the most important causes of these failures is the misuse of executive management authorities, the poor performance of boards of directors, lack of specification of powers and responsibilities, and the absence of disclosure and transparency in financial reports (Hindi, 2016). As well as, the fraudulent accounting practises designed to achieve personal interests at the expense of the company and other parties interests. Therefore, good corporate governance practices may prevent crises and restore confidence to investors (Mallin, 2016).

When corporate governance is applied, the quality of the accounting information that users of financial statements rely on to make their decisions improves (Jamil et al., 2013). The key motive for implementing corporate governance is to restore confidence in and expand control over accounting information through accountability and control; striving to develop and implement accounting and auditing standards, and to enable the role of external and internal auditors and audit committees in ensuring the disclosure and transparency of this information and raise its quality level (Akary & Busalma, 2013).

The importance of this study comes for several justifications, the most important of which is the increasing trend of many companies to avoid the occurrence of problems that may lead to collapses by adopting the concept of governance. Furthermore, corporate governance has become an indicator of reassurance and safeguard for the interests of stakeholders due to the fairness and transparency it provides. Likewise, enlarging the circle of applying the concept of governance and increasing the number of those interested in it, in the several fields of management, accounting, finance and economy.

In light of this, a problem of the study formulated in the following question: How does corporate governance contribute to improving the quality of accounting information?

In the context of the study question; the study seeks to achieve the following objectives:

- Understand the concept of corporate governance, its objectives, importance, principles and the determinants on which it is based.
- Describe the concept of accounting information, its importance, users and characteristics.
- Identify the role of corporate governance in enhancing the quality of accounting information.

To answer the study problem and achieve its objectives; the study adopted on the secondary data and historical approach by reviewing the literature in some pioneered accounting journals, dissertations, and papers at both English and Arabic sourced, which related to the study topic. Furthermore, it was divided into three main axes, namely: Previous studies that dealt with the study dimensions; the theoretical context, that includes the theoretical parts of the study dimensions, and discussion of the role of governance in enhancing the quality of accounting information through the accounting dimensions of corporate governance; and finally, the conclusion.

2. REVIEW OF LITERATURE

Researchers addressed the issue of governance and its impact on the quality of accounting information mentioned in annual reports from several perspectives. The first perspective, in which the researchers measured the effect of applying governance principles on the quality of accounting information, such as (Shaheen & Alwshah, 2017; Alaga et al., 2011) stated that the application of governance principles affects the quality of financial reporting. While, (Al-shaikh & Zarab, 2012; Safari et al., 2015) found that there is a positive effect on the quality of the accounting information that resulted from the application of the principles. (Al-mashal et al., 2014; Alabdi; & Qaid, 2016; Mohammed, 2017) they concluded that there is a positive relationship between the study axes. Whereas, (Jamil et al., 2013; M. Mohammed & Eiman, 2014) they reinforced that there is a strong positive effect between the application of governance principles and the quality of accounting information. Moreover, (Alsalim et al., 2018) was supported by the existence of a statistically significant association between the study variables. As well as, there are positive effects of companies commitment to applying corporate governance principles on quality financial statements (Ghazali, 2019; Qaid & Zaf, 2019; Alamry & Abbas, 2018).

The second perspective, in which the researchers measured the effect of corporate governance mechanisms on the quality of accounting information. (Cristina, 2009) found that is no influence between the composition of the BOD and its independence on the quality of accounting information. In contrast, (Habib & Jiang, 2015; Kukah et al., 2016; Gajevszky, 2016) concluded that the independence of the BODs affects the quality of accounting information. As well as, (Abu-Risheh & Al-Sa'eed, 2012; Akeju & Babatunde, 2017; Dabor & Adeyemi, 2009; Zia, 2017) seen that there is a strong positive relationship between the board independence and the quality of accounting information. However, (Chalaki et al., 2012) did not specify the direction of the relationship between the variables. Unlike (Cristina, 2009); (Alhiari & Matar, 2017; Peace Ebele & Alphonsus Sunday, 2016) they noted the board composition has a significant and strong effect on the quality of accounting information, that is confirmed by (Anastasia Chi-Chi & Oghenefegha Friday, 2016).

Regarding the BOD's size and their effect on the quality of accounting information, (Gajevszky, 2016; Kukah et al., 2016) stated there is a significant effect; This was contradicted by (Zia, 2017). On the other hand, (El-Gammal & Showeiry, 2012) mentioned the existence of a positive effect between the BOD's characteristics and the quality of accounting information; as well as, this was reinforced by (Akeju & Babatunde, 2017) that the existence of a significant positive relationship between these two variables. In another context, (Ismail & Alsa'aidah, 2010) indicated that both the qualification and experience of board members have nothing to do with the quality of the accounting information. This was contradicted by (Anastasia Chi-Chi & Oghenefegha Friday, 2016).

Regarding the remuneration of BOD's members, according to (Habib & Jiang, 2015) found that it affects the quality of accounting information. Also, (Ismail & Alsa'aidah, 2010) indicated that there is no statistically significant relationship to the percentage of non-executive directors in the Remuneration and Nominations Committee with the quality of accounting information.

However, the number of board meetings had a statistically significant relationship with the quality of accounting information.

(Alhiari & Matar, 2017; Gajevszky, 2016) hinted that the existence of the audit committee has a significant impact on the quality of accounting information. Furthermore, (Akeju & Babatunde, 2017) reinforced that there is a strong positive relationship between it. Likewise, with the same strength of relationship and direction, (Anastasia Chi-Chi & Oghenefegha Friday, 2016) found that the size of a committee affects the accounting information quality.

(Alabdi & Qaid, 2016; D’onza & Lamboglia, 2011; Dabor & Adeyemi, 2009; El-Gammal & Showeiry, 2012; Peace Ebele & Alphonsus Sunday, 2016) indicated that there is a strong positive effect between the formation of the audit committee and the quality of accounting information.

The audit committee independence had affected the quality of accounting information (Kukah et al., 2016; Paulinus et al., 2017). Moreover, (Abu-Risheh & Al-Sa’eed, 2012) said the relationship was strong; while, (Zia, 2017) found no relationship between it.

(D’onza & Lamboglia, 2011; Ismail & Alsa’aidah, 2010) showed that there is a positive relationship between the number of audit committee meetings and the quality of accounting information.

The separation between the Chairman of BOD's and the Executive Director; (Dabor & Adeyemi, 2009) mentioned that there is a weak adverse effect on the quality of accounting information, while (Ismail & Alsa’aidah, 2010) noted that there is no relationship between them. This is confirmed by (Zia, 2017). On the contrary, (Alabdi; & Qaid, 2016; Gajevszky, 2016; Kukah et al., 2016) concluded that there is a significant effect on the quality of the accounting information.

(Chalaki et al., 2012) mentioned there is a relationship between ownership concentration and the quality of accounting information. Also, (Habib & Jiang, 2015) hinted that the ownership structure affects the quality of accounting information, while (Peace Ebele & Alphonsus Sunday, 2016) has reached a high impact between it.

(Zia, 2017) indicated that there is a negative relationship between institutional ownership and the quality of accounting information, and this was confirmed by (Dabor & Adeyemi, 2009), While

(Chalaki et al., 2012; Gajevszky, 2016) found a relationship. Whilst government ownership via the percentage of the politicians in the board has a significant positive correlation with the quality of accounting information (Salleh & Bin, 2009).

The internal auditor had a high impact on the quality of accounting information (Alabdi; & Qaid, 2016). (Oyebisi Ogundana et al., 2017) they stressed that there is a relationship between the function and competence of the internal auditor on the quality of accounting information. While in terms of independence, there is no relationship.

The external auditor affects on the quality of accounting information (Habib & Jiang, 2015); also that was confirmed by (Gajevszky, 2016). As well as (Alabdi; & Qaid, 2016; Anastasia Chi-Chi & Oghenefegha Friday, 2016) noted that the appoint of external auditor from the Big 4 affects significantly positive on the quality of accounting information.

3. THEORETICAL FRAMEWORK

3.1. CORPORATE GOVERNANCE

Globally, the term of corporate governance is broad and interrelated with many institutional, administrative, economic and social aspects (Al-Alimi & Katdare, 2013). Therefore, there is no general definition accepted by all economists, legal experts and scholars of this term (Jamil et al., 2013). One of the famous definition stated as *“a system by which companies are directed and controlled”*" (Cadbury, 1992). Likewise, IFC mentioned the governance is *“the structures and processes for the direction and control of companies”* (IFC, 2007)**.** Silmilarly, Organization for Economic Cooperation and Development (OECD) describes corporate governance as *“a set of relationships between a company’s board, its shareholders and other stakeholders; It also provides the structure through which the objectives of the company are set, and the means of attaining those objectives, and monitoring performance, are determined”*(Mallin, 2016).

The major financial crises and institutional collapses in many countries brought corporate governance issues to the forefront in developed and developing countries, emerging markets and transitional economies; where there are only a few of the topics that can outweigh their significance of that importance accorded to the corporate Governance for international business companies (Kuchta-Helbling & Sullivan, 2002). According to (S. M. S. A. Mohammed, 2017) the importance of corporate governance appear evident in establishing confidence in the financial information included in the published financial statements; helping companies to attract investment and increase their competitiveness; ensuring the company meets its obligations and ensuring that its goals are achieved legally and economically; fighting internal corruption in companies, not allowing its existence, and eliminating them; ensuring the achievement of impartiality and integrity of all employees of the company; providing adequate and transparent information to all relevant parties associated with the company.

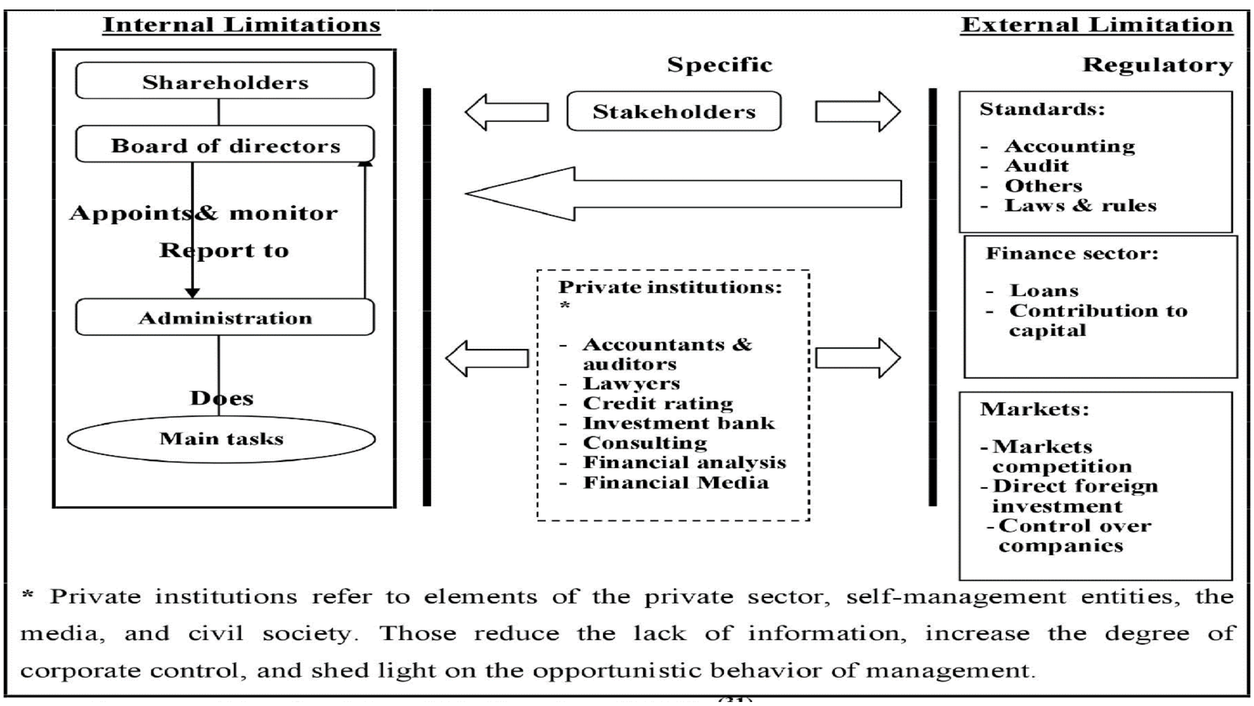
The goal of corporate governance is to help build the atmosphere of trust, transparency and accountability needed to encourage long-term investment, financial stability, business integrity, and thus support stronger growth and more inclusive societies (OECD, 2016). According to (Alhefnawy, 2005) the objectives of corporate governance are confirm management responsibilities and enhance accountability; protecting the company's assets, the rights of shareholders and other stakeholders; and enhancing their role in monitoring the company's performance; enlightening the performance of the company and its economic value; improving accounting, financial and administrative practices in the company; achieving fairness, integrity and transparency in all the company's transactions and operations.

The OECD is the one of the most famous interested bodies on governance around the world; It issued a revised version of the principles in 2004, which included six principles, which is concerned with developing the legal and institutional frameworks for implementing governance in public or private companies that are either traded or not traded in the capital markets (OECD, 2004). These principles are:the ensuring the basis for an effective corporate governance framework; The rights of shareholders and key ownership functions; The equitable treatment of shareholders; The role of stakeholders in corporate governance; disclosure and transparency; and responsibilities of the board.

There is agreement that whether or not good corporate governance is implemented depends on the availability and quality of two sets of determinants. Figure No.1 shows that the determinants divided into two sets, namely the external and internal determinants.

External determinants refer to the investment climate surrounding the company; including the laws and regulations that regulate labour in the markets, such as corporate law, capital market law, and laws related to bankruptcy, competition, and prevent monopoly; A good and effective financial system such as banks, the capital market, and stock exchanges that work to tighten control over companies; Efficiency of regulatory agencies and bodies such as professional societies; In addition to private institutions for liberal professions such as law firms, auditing, credit ratings, and financial and investment advice. The importance of external determinants is due to the fact that their presence guarantees the implementation of laws and rules that ensure good management of the company and that reduce the conflict between the social return and the private return (Jemaa & Nawal, 2010). Internal detrminants refer to rules and instructions that applied in the companies include the establishment of sound administrative structures that clarify how to make decisions and the appropriate distribution of powers and duties among the parties involved in applying the corporate governance such as the board of directors, senior management, shareholders and stakeholders (Suliman, 2006).

Figure 01. External and Internal Determinants of Corporate Governance



- Source: (Iskander & Chamlou, 2000)

3.2. ACCOUNTING INFORMATION QUALITY

Accounting information is the final product of the accounting system, it helps many users, whether inside or outside the firm, to make economic decisions; also, in order for these decisions to be rational and sound, the accounting information must have many features and characteristics that make it useful information.

Accounting data and information are basic components of accounting information systems; they are often used in practical life as synonymous terms and with the intent to denote one meaning despite the fundamental differences between it (S. M. S. A. Mohammed, 2017). The standard of utilization by users is the basis for distinguishing between data and information (Akary & Busalma, 2013). To distinguish between "data" and "information", data is what is processed to prepare or produce the information. Whilst the information, it is the final product targeted in a formal system to data processing (Al samhi & Gowda, 2010).

Data is the raw material that is collected and revised in order to produce information, it represents the basic inputs to the accounting information system, also it expresses the events and the operations practiced by the economic units; further, it may be expressed either in the form of numbers, facts, weights, or combined forms (Madah & Saedi, 2018). In contrast, information is defined as a collection of facts that have been organized and processed to provide meaning to users, and it useful in a decision-making activity (Fitriati & Mulyani, 2015).

Providing accounting information is not an end in itself. Rather, it is necessary for this information to have useful informational content that can be used by the user's; also the benefit is related to the information and its usefulness from the point of view of the reports preparators. For the data to become information, it must fulfil two essential conditions; The information should increase the knowledge of the decision-makers, and the information should reduce the degree of uncertainty among the decision-makers, by reducing the number of alternatives available to them. If one of the two conditions not met can consider it as arranged data, which will be processed again to obtain information (Akary & Busalma, 2013).

Today, the world lives in the age of information and its' systems and searching for the best way to prepare it according to the principle of economic cost; the accounting system is considered one of the most important systems that produce information useful in the making-decisions process, then the importance of accounting information lies in that it is an effective tool for management to accomplish its tasks and achieve its goals. (Madah & Saedi, 2018, P.86) discussed that the importance of accounting information increases as a basic result of a number of reasons, as follows:

- Scientific and technological revolution and the spread of e-commerce.
- Economic factors, the large size of projects, the diversity of their goals, and the emergence of multinational companies.
- Environmental and social factors represented by corporate social responsibility and their role in protecting the environment and achieving society's goals.
- Legal and legislative factors and the necessity for companies to comply with legal requirements.
- Administrative factors and management's use of information for planning, monitoring, performance evaluation and sound decision-making purposes.

The groups that use the financial statements are as varied according to their relationships with the company (Akary & Busalma, 2013, P.47). Accounting information users can be divided generally into two groups are internal users and external users (Kimmel et al., 2013). Internal users of accounting information in a precise refer to managers in charge of business planning and management. Conversely; external users are a diverse group that includes investors, creditors, clients, tax authorities, labor unions, and regulatory agencies. (Alabdi; & Qaid, 2016) also added the public as an external user.

Accounting information quality means to the qualitative characteristics or informational qualities that make the information reported by financial reporting a desirable commodity and guide the chosen of preferred accounting methods and policies from among available alternatives (Khodadady & Kumaraswamy, 2012). These are the qualities that distinguish the most useful accounting information from the less useful information. The FASB issued a list of concepts No.2 in the year 1980, under the title "Qualitative Characteristics of Accounting Information", through which it explained a set of fundamental and enhancing characteristics of accounting information, namely:

Table 01. Definitions of Hierarchy Elements

ELEMENTS	DEFINITIONS
Relevance	Capable of making a difference in a decision
Predictive value	Information that can aid to predict the future
Confirmatory value	Confirms (or dis-confirms) user's expectations
Materiality	Degree of omission or misstatement of information on its users.
Faithful Representation	The ability to count on the information, it's referring to what happened.
Completeness	The degree to which information covers data about every relevant event or object
Neutrality	Reasonably free from bias
Free from error	Containing no mistakes; faultless
Comparability	Can be compared to a benchmark
Verifiability	It can be extracted independently from the same underlying data.
Timeliness	Availability before the point of need
Undersandability	Presentation as a familiar form, and it makes sense to the user
Cost	Overall constraint on the amount of information decision-makers will get.

***source:** (Alasbahi & P., 2020)

3.3. ROLE OF CORPORATE GOVERNANCE IN ACCOUNTING INFORMATION QUALITY

The starting point for any review of the quality of financial reports is the concept of corporate governance; the reason for this is that financial transparency, accounting and auditing are only part of the larger framework of corporate governance (Suliman, 2006). Corporate governance has brought about significant changes in the business environment in general and the accounting and auditing profession in particular, especially after the issuance of the OECD principles and Sarbanes-Oxley Law, which sought to restore the confidence of users in the financial reports. By enhancing the efficiency of the internal audit function; detailing the responsibilities of the board and its committees, and the extent of their independence and the efficiency of their members; as well as directing the external auditor to avoid providing consulting services to his clients while making the necessary professional care (CARPENTER et al., 2004).

Therefore, Accounting and auditing are closely related to governance, whether at the professional level or the organizational level, as accounting is one of the most scientific and professional fields affecting or affected by the principles and practices of governance (Aksa & Salah, 2015). Likewise, (Al-gezwi & Al-hiali, 2010) indicated that the relationship of corporate governance with the accounting information contained in the financial statements reflected in the proper application of governance principles. One of the most important principles on which corporate governance is based on the principle of disclosure and transparency, and the necessity to prepare financial statements in accordance with generally accepted accounting standards and principles. As well as, the financial statements to be audited by an auditor who has complete independence to give an impartial opinion about these reports. In order to provide high-quality information that enables its users can rely on in making their economic decisions.

The following are a set of mechanisms that corporate governance relies on to influence the quality of accounting information, which some researchers have called the accounting aspects of corporate governance, namely:

Accountability and accounting oversight: Cadbury Committee report indicated that the shareholders have the right to accountable the BOD and each of them has a role in activating the accountability, where the BOD provides the information to shareholders, and shareholders can be expressing their desire for the practices of their rights as owners (Cadbury, 1992). Likewise, Lyonnais Credit Bank report indicated that the role of the board of directors is more of a supervisory role than an executive role and that the board members are able to perform effective audits; besides, stated it's necessary to develop mechanisms that allow for the punishment for executives and board members if necessary (Saleh, 2007). As for the OECD principles, indicated the necessity of effective follow-up to the executive management by the BOD and the accountability of the BOD by shareholders (OECD, 2004). In the same context, the NYS Exchange pointed out the need to activate the supervisory role of shareholders by participating in the essential decisions of the company (NewYork Stock Exchange, 2010). In light of this, it can be said that the accountability and accounting oversight adopted by corporate governance take two directions; the first, accountability and vertical oversight from the highest managerial levels to the lowest managerial levels; and the second, accountability and horizontal oversight which is mutual between the BOD, shareholders and stakeholders.

Commitment to Applying Accounting and Auditing Standards: In order to restore the confidence and reliability of the accounting information of various users, the BOD is responsible for the integrity of the financial reports of companies and ensures that the financial reports are prepared in accordance with international standards (OECD, 2004). Certainly, there was an urgent need to adopt the accounting and auditing standards, if the development of accounting standards is surely accompanied by a similar development in auditing standards. Hence, A reason for the negative corporate governance practices is the weakness of the accounting and auditing practice in the companies. The application of governance limits the use of agency theory, which encourages the flexibility of the management movement in choosing accounting policy; thus, the application of corporate governance mechanisms and principles helps resolve the problem of misuse of accounting and auditing standards (Saleh, 2007).

Audit Committee: The audit committee is mentioned in most reports and laws related to global governance legislation. Its key function is to supervising and controlling the process of preparing financial reports, not the task of preparing it (Suliman, 2006). In other word, the main task of the audit committee is to ensure that the processes were undertaken by management, internal auditors, and independent external auditors lead to improved quality of financial reporting (CIPE, 2003, P.213).(Suliman, 2006) specified the responsibilities of the audit committees related to the preparation of financial reports by auditing the financial statements, whether issued annually or periodically, reviewing the accounting policies applied, examining internal control systems, and evaluating the possibility of fraud. Likewise, among its responsibilities towards the external auditor is related to the recommendation in appointing the external auditor, determining his fees, ensuring his independence, and resolving disputes between management and the external auditor. Similarly, its responsibilities towards the internal auditor, it is represented in activating the role of internal audit and its independence, providing sufficient resources to carry out its tasks, reviewing its activities and appointing the head of the internal audit department.

What the audit committee is doing will lead to an increase in the confidence of investors and other external parties that base their decisions based on this accounting information contained in the financial reports. Indeed, some financial and global stock exchanges are now demanding the companies listed in it, that the audit committees issue a report within the financial reports and the auditor's report to increases the quality and reliability of the information it contains (Jemaa & Nawal, 2010).

Internal Auditing: Internal auditing is the cornerstone of other corporate governance mechanisms (Alwashaly, 2013; Belfaqeeh & Bashaish, 2014). According to standard No. 2130; internal audit function must assess the adequacy and effectiveness of controls in responding to risks within the company's governance, operations and information systems related to achieving the company's strategic goals; reliability and integrity of financial and operational information; the effectiveness and efficiency of operations and programs; asset protection; compliance with laws, policies, regulations, procedures, and contracts (IIA, 2017). (Mahrous et al., 2011) considered that the internal audit is the first defenders to confront fraud in the financial statements. In particular, their function is to ensure the accuracy and integrity of financial reports and prevent and detect fraud and forgery (Amina, 2014). Too, the function of the internal audit in corporate governance arises from the fact that the internal audit determines the reality, reliability and integrity of the financial and operational information on which it relies in decision-making (Joksimovic & Alseddig, 2017).

Likewise, (Cohen et al., 2004) indicated that the internal audit can interact with the audit committees to play a role in effectively monitoring the management and improving the quality of financial reports. As well (Christopher, 2015) noted it provides essentially assurance to the Board regarding the effectiveness and compliance of the Agency-oriented controls through the Audit Committee. Drexler (2003) explained the importance of internal audit in applying corporate governance by assisting both the BOD and the Audit Committee and Executive Management in carrying out their responsibilities by providing them with the detailed information they need and the advice they provide to them. Similarly, Adawec (2005) told that internal audit assists executive management in applying governance through the assurances it provides about compliance with legislation, regulations, and laws (Alwashaly, 2013).

External auditing: The role of the external auditors under corporate governance is to grant credibility to the declared financial statements by providing reasonable assurance that users are receiving relevant, reliable, transparent, and useful financial information in making sound decisions (Rezaee, 2004). The Cadbury Committee report indicated that the annual audit is one of the cornerstones of corporate governance, it is implemented by an external party objectively examines the method of preparing and presenting the financial statements; moreover, the audit process is a direct way to ensure companies are held accountable for their actions and provides reassurance to all those who have a financial interest in it (Cadbury, 1992). As well, OECD emphasized the importance of the external audit by requiring that the annual audit of the company be conducted through an independent and qualified auditor, with the aim of providing an external and objective guarantee to the board of directors, shareholders and all interested parties; the auditing reports refers to that the financial statements represent the financial position and performance of the company in a fair manner (OECD, 2016).

4. Conclusion

This paper focused on highlighting the importance of corporate governance in recent times , particularly after the financial collapses witnessed by many firms, the key causes of which were manipulation and fraud in financial reporting. It was concluded that commitment to applying corporate governance principles leads to more disclosure and transparency in the preparation of corporate financial reports; in addition, corporate governance mechanisms have a role in enhancing the quality of accounting information by strengthening the tasks of the audit committee, internal auditor, and external auditor. Furthermore, the application of corporate governance leads to improvement the confidence of investors and dealers in the financial markets. The study recommended the necessity of concerting efforts of each of the professional organizations and the concerned authorities to highlight the role of corporate governance in enhancing the credibility and transparency of financial reports, which leads to improving the quality of the accounting information contained therein, in addition to conducting more research and studies in the field of corporate governance related to improving the quality of Financial reports, supporting disclosure and transparency or other areas of restoring confidence in accounting information.

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