Role of Corporate Governance Mechanisms in Enhancing the Quality of Accounting Information- Applied Research on a Sample of Companies Listed in the Iraqi Stock Exchange

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Abstract

Aim of the research, in its theoretical framework, is to present a conceptual approach to corporate governance and the quality of accounting information, and then study the impact of the selected corporate governance mechanisms (board of directors, internal audit, audit committee, external audit) in enhancing the quality of accounting information, and the research dealt with the practical aspect of joint stock companies registered in the Iraq Stock Exchange in the services and agriculture sectors, as the study sample amounted to (8) companies by (4) companies from each sector, and for the period from 2009-2018, and the method of content analysis of financial reports was used as a tool for the study in addition to the use of some appropriate statistical methods Such as the correlation coefficient, regression coefficient and arithmetic mean, and their application through the (SPSS) and (AMOS) programs to test hypotheses and reach the results of the study. The research reached a set of results, the most important of which is the presence of a positive moral effect of corporate governance mechanisms on the quality of accounting information, and the research recommended the need to pay attention to applying governance mechanisms and urging corporate management to apply them because of their great importance in improving companies performance, reducing fraud and manipulation in financial statements and improving the quality of information accounting.

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And the need to work to increase attention to the quality of accounting information by obliging the joint stock companies in Iraq to apply the mechanisms of corporate governance correctly and to create a legislative and professional environment that ensures the production of appropriate and credible financial information that is the basis for issuing quality financial reports that reflect the real financial position of the company and reduce the case of asymmetry Information between management and investors

Keywords: External Auditor Turnover, Corporate Governance, Quality of Accounting Information.

1 INTRODUCTION

The past decade has witnessed a growing interest by governments and international institutions in the issue of corporate governance, so that it has become one of the most prevalent and common issues in the business and investment environment. The mechanisms and principles of governance aim to achieve transparency and justice, and grant the right to hold the company's management accountable, and thus achieve protection for all shareholders and policyholders, and in light of It can be said that the collapse of many economies is due to non-compliance with accounting principles, the absence of disclosure and transparency, and the failure to show information and data that reflect the true financial reality of these economic units. Namely, its quality. Therefore, interest in the issue of corporate governance has increased and it has become one of the basic pillars upon which economic units must be based. Not only that, but many organizations and bodies have confirmed the merits of the concept and urged its generalization in various companies.

2 THEORITICAL PART

Corporate governance is one of the most important topics in the financial world today, to drive development and achieve economic progress for countries, avoid the occurrence of financial crises and thus avoid losing investor confidence, and enhance the social welfare of peoples. This is done by establishing a set of performance standards, which works to control the work of the company and detect cases of fraud, corruption and mismanagement. The concept of corporate governance in general refers to a set of mechanisms and rules that show and define the bulk of the relationship between stakeholders and parties that have a relationship with the company on the one hand, and the company's management on the other hand (Abu Arab,2017:154). The definitions of international organizations and bodies for governance have varied according to the vision The policy of the countries represented by these bodies, and in this field, the Organization for Economic Cooperation and Development (OECD) defined corporate governance as a set of principles and duties that link the company's management, shareholders and other stakeholders, and provide the framework through which the company's goals and tools are set in which these are implemented. Objectives and determining the level of performance required (OECD , 2004: 5). As for the International Federation of Accountants (IFAC), it defined governance as the system that enables the company's board of directors to achieve the company's goals (Al-Afandi,2018:85). The researcher can define corporate governance as a system consisting of a set of mechanisms, principles, rules and laws through which it defines responsibilities, powers, rights and duties and governs the relationship between the company's management, its board of directors and other stakeholders in a way that ensures maximizing the value of the company and the interests of owners and investors. In this research, the researcher will address four mechanisms (the board of directors, the audit committee, the internal audit, and the external audit).

1. Board of Directors: The Board of Directors consists of representatives chosen from a group of shareholders who possess a set of qualitative strategic characteristics that qualify them to occupy such a position, to take over the management of the company's affairs based on a mandate from the General Assembly. Therefore, the final responsibility for the company remains with the council, even if it forms committees or delegates entities to carry out some of its work. (Al-Ghandour, 2020 :178)

2.Audit Committee: The effectiveness of the Audit Committee depends on the extent to which the Board responds to its recommendations for the tasks assigned to it. It submits reports and recommendations to the Board of Directors on the results of operational operations, financial statements and internal control systems. Therefore, activating this committee will contribute to limiting fraud and manipulation in the financial statements. and profit management practices and supports the credibility of the company's financial statements and reports. (Suquor, 2014: 45).

2.1.1 Internal Audit

The internal audit function plays an important role in the governance process, by increasing the ability of shareholders and stakeholders to hold the company accountable. The internal auditors, through the activities they implement, increase credibility, fairness, improve the behavior of employees working in the company and reduce corruption risks. Administrative and financial, and in this context, both internal and external audit are an important control mechanism within the framework of the governance structure, especially with regard to ensuring the accuracy and integrity of financial reports and detecting fraud and misleading cases. Therefore, this function must be independent and well-organized, and in This trend should strengthen the independence of the internal audit when it reports directly to the audit committee and not to the management (Fedawi, 2014: 67).

2.1.2 External Audit

It has been noticed in the recent period that the role of the external auditor has exceeded its traditional role in giving his opinion about the fairness of the financial statements that constitute the subject of his primary work, and the emergence of another role for him represented in the application of corporate governance, as it has become in the eyes of many official authorities and oversight bodies an effective tool to achieve Financial stability and a means by which the rights of shareholders and other stakeholders can be preserved, as it limits the conflict of interests between the owners and the management of the company, in addition to it limits the problem of asymmetry of accounting information, as the practice of auditing by an auditor who enjoys independence, professionalism and impartiality is one of the most important means that helps To achieve an effective governance system. (Al-Qara Ghouli, 2020: 65).

There are several definitions of the quality of accounting information, and these definitions differed with the different purpose of using that information, as well as the behavior and direction of the decision-maker. It should be prepared according to a set of standards and in a way that helps to achieve the intended purpose of its use.

And (Beest.et, al; 2009) defined it as "information that pertains to the reporting unit and that is useful to both current and potential equity investors, lenders and others in order to make their decisions as capital financiers" (Beest et al, 2009: 6). As for (Pounder; 2013), he defined it as “the extent of the accuracy of the accounting information in reflecting the current operational performance of the economic unit, the extent of its ability to predict future performance, and its ability to determine the value of the economic unit.” (Pounder, 2013: 18)

3 RELATIONSHIP OF CORPORATE GOVERNANCE MECHANISMS TO THE QUALITY OF ACCOUNTING INFORMATION

Good disclosure and transparency in the presentation of financial and non-financial information is one of the main principles and pillars upon which corporate governance is based. Therefore, no report issued by an organization, body, or scientific study was devoid of emphasizing the role of governance in achieving disclosure and transparency, and that the level and quality of the disclosed information from On the part of the companies, whether that disclosure is voluntary or obligatory, depends on the quality of the applied corporate governance mechanisms. (Mohammed, 2010:62), and the commitment to applying governance will positively affect the overall performance of the company through the optimal use of available economic resources and the optimal application of accounting standards and auditing standards and procedures, and the application of governance will directly affect the level of credibility and transparency, and this indicates The existence of a reciprocal relationship between the application of governance on the one hand and credibility and transparency in the presentation of financial information on the other hand, and financial reports cannot be considered a strong tool to ensure the performance of companies and thus protect the rights of investors without a high-level disclosure and transparency system based on the quality of accounting information.(al saad, 2012:105)

There are two main reasons that push economic units to pay attention to good governance. The first reason is that many investors believe that economic units with good governance are more transparent and less risky. The second reason is that economic units with good governance achieve credibility in financial information and a higher rate of return for owners, which makes them more valuable in the markets. Finance (Al-Fahdawi, 2020:51) researcher believes that the application of the selected governance mechanisms represented (the board of directors, internal audit, audit committee, external audit) properly and the selection of the right people who enjoy independence, competence, professionalism and integrity will support and enhance monitoring and accountability and the proper application of regulations and instructions within the company will also support and enhance the optimal application of accounting standards Auditing standards and procedures, and this will reflect positively on the accuracy and credibility of the accounting information published in the company's financial reports.

4 PRACTICAL PART

(H) The main hypothesis: There is a statistically significant effect of governance mechanisms on the quality of accounting information. Four sub-hypotheses emerge from it:

(H) The first sub-hypothesis: There is a statistically significant effect of the board of directors mechanism (measured by the independence of the board) on the quality of accounting information. A simple linear regression equation has been formulated to estimate the quality of accounting information in terms of the council's independence, for the purpose of knowing the level of the latter's impact on the quality of accounting information, and Table (1) shows the results of the impact test.

Table (1): The regression equation for the effect of the independence of the board on the quality of accounting
Information.

Dimensions		constant Parameter (β0)	regression coefficient (β)
Council independence		1,094-	1,014
V(T) (Sig)	V(F) (Sig)	(R^2)	(R^2) Adj
2,827 0,006	7,990 0,006	0,093	0,081

It is noted from Table (1) that:

1. The stability of the regression model in terms of the value of (F) of (7,990), which is significant at the level of significance of 5%, meaning that the quality of the accounting information can be estimated in terms of the independence of the Board of Directors and this indicates the validity of the model.

2.The stability of the fixed limit coefficient of the value (T) of (2,827), with a significant significance (0.006), which is less than 5%, which indicates the significant impact of the independence of the Board of Directors on the quality of accounting information.

3.The positive value of beta (β) of (1,014) indicates that the effect is positive, meaning the greater the independence of the board of directors, this is reflected in the increase in the quality of accounting information

4. The value of the coefficient of determination (R2) of (0.093) indicates that the independence of the board of directors explains (9.3%) of the changes in the quality of accounting information, which is a small percentage, and that the largest explanation rate of (90.7%) is due to other causes and factors Not shown in the current form. It has to accept the first sub-hypothesis.

(H.2) The second sub-hypothesis: There is a statistically significant effect of the audit committees mechanism (measured by the committees' independence) on the quality of accounting information. A simple linear regression equation has been formulated to estimate the quality of accounting information in terms of the independence of audit committees, for the purpose of knowing the level of influence of the latter on the quality of accounting information, and table (2) shows the results of the impact test.

Table (2): The regression equation for the impact of the audit committees independence mechanism on the quality of accounting information.

Dimensions		constant Parameter (β0)	regression coefficient (β)
Risk Reports		0,300-	0,234
V(T) (Sig)	V(F) (Sig)	(R^2)	(R^2) Adj
3,459 0,001	11,962 0,001	0,133	0,122

It is noted from Table (2) that:

1. The stability of the regression model in terms of the value of (F) of (4,267) which is significant at the level of significance of 5%, meaning that the quality of the accounting information can be estimated in terms of the independence of the audit committees, and this indicates the validity of the model.

2. The stability of the fixed limit coefficient of the value (T) of (2,066), with a significant significance (0.042), which is less than 5%, which indicates the significant impact of the independence of audit committees on the quality of accounting information.

3. The positive value of beta (β) of (0.323) indicates that the effect is positive, meaning the greater the independence of the audit committees, this is reflected in the increase in the quality of accounting information.

4. The value of the coefficient of determination (R2) of (0.053) indicates that the independence of the audit committees explains the rate (5.3%) of the changes in the quality of accounting information, which is a small percentage, and that the largest explanation rate (94.7%) is due to other causes and factors Not shown in the current form. It has to accept the second sub-hypothesis.

(H.3) The third sub-hypothesis: There is a statistically significant effect of the internal audit mechanism (measured by preparing risk reports) on the quality of accounting information. A simple linear regression equation has been formulated to estimate the quality of accounting information in terms of preparing risk reports, for the purpose of knowing the level of the latter's impact on the quality of accounting information, and Table (3) shows the results of the impact test.

Table (3): Regression equation for the effect of preparing risk reports on the quality of accounting information.

It is noted from Table (3) that:

1.The stability of the regression model in terms of the value of (F) of (11,962) which is significant at the level of significance of 5%, meaning that the quality of accounting information can be estimated in terms of preparing risk reports by the internal auditor, and this indicates the validity of the model.

2.The stability of the fixed limit coefficient of the value (T) of (3,459), with a significant significance of (0.001) which is less than 5%, which indicates the significance of the effect of preparing risk reports on the quality of accounting information.

3. The positive value of beta (β) of (0.234) indicates that the effect is positive, meaning the greater the effectiveness of the risk reports, the higher the quality of the accounting information.

4.The value of the coefficient of determination (R2) of (0,133) indicates that the preparation of risk reports explains (13.3%) of the changes in the quality of accounting information and that the largest explanation rate of (86.7%) is due to causes and factors other than Shown in the current model. Therefore, the third sub-hypothesis is accepted.

(H.4) Fourth sub-hypothesis: There is a statistically significant effect of the external audit mechanism (measured by the audit period) on the quality of accounting information. A simple linear regression equation has been formulated to estimate the quality of accounting information in terms of the audit period, for the purpose of knowing the level of the latter's impact on the quality of accounting information, and table (4) shows the results of the impact test.

Table (4): The regression equation for the effect of the audit period on the quality of accounting information.

Dimensions		constant Parameter (β0)	regression coefficient (β)
audit period		0,146-	0,073-
V(T) (Sig)	V(F) (Sig)	(R^2)	(R^2) Adj
1- 0,321	0,999 0,321	0,013	0,00

It is noted from Table (4) that:

1.Inconsistency of the regression model in terms of the value of (F) of (0,999), which is not significant at the level of significance of 5%, meaning that the quality of accounting information cannot be estimated in terms of the time period of the external auditor, and this indicates the invalidity of the model.

2.The instability of the fixed limit coefficient of the value of (T) amounting to (-1), with a significant significance (0.321), which is greater than 5%, which indicates the insignificance of the impact of the time period of the external auditor on the quality of accounting information.

3.The value of beta (β) of (-0.073) indicates that although the effect is not significant, the negative value indicates that the effect is negative, meaning the longer the audit period for the external auditor, the lower the quality of the accounting information.

4.The value of the coefficient of determination (R2) of (0.013) indicates that the external auditor's audit period explains (1.3%) of the changes in the quality of accounting information, which is a very small percentage, and the largest explanation is (98.7%). It is due to other causes and factors that are not apparent in the current model. Therefore, the fourth sub-hypothesis is rejected.

5 RESULTS AND RECOMMENDATION

5.1 Results

1.There is a positive, significant impact of the three governance mechanisms (the board of directors, the audit committee, the internal audit) on the quality of accounting information.

2.There is a negative impact of the external audit mechanism (measured by the period of the external auditor) on the quality of accounting information.

3. The quality of accounting information increases if governance mechanisms are applied properly in joint stock companies published in the Iraq Stock Exchange.

5.2 Recommendations

1. The necessity of paying attention to the application of governance mechanisms and urging corporate management to apply them because of their great importance in improving companies' performance, reducing fraud and manipulation of financial statements and improving the quality of accounting information.

2.Requiring joint stock companies to submit a special report on governance to be attached to the final statements at the end of each fiscal year.

3.The necessity of working to increase attention to the quality of accounting information, by obliging the joint stock companies in Iraq to apply the mechanisms of corporate governance correctly and to create a legislative and professional environment that ensures the production of appropriate and credible financial information that is the basis for issuing quality financial reports that reflect the real financial position of the company and limit From the case of information asymmetry between management and investors.

4. Take advantage of information systems, modern programs, statistical methods and mathematical methods in the process of preparing and presenting financial reports and the important financial information they contain

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