Global Journal of Management and Business Research: D
Accounting and Auditing
Volume 23 Issue 1 Version 1.0 Year 2023
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

The Role of Corporate Governance in Reducing the Adverse Impacts on the Reliability of Financial Statements Evidence from Saudi Listed Firms

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Keywords: corporate governance, financial statements, reliability of financial statements.

GJMBR-D Classification: JEL Code: F65

THEROLEOFCORPORATEGOVERNANCEINREDUCINGTHEADVERSEIMPACTSONTHERELIABILITYOFFINANCIALSTATEMENTSEVIDENCEFROMSAUDILISTEDFIRMS

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I. Introduction

In this chapter, we will review the general framework of the research that focuses on the problem of the study, which is the application of corporate governance mechanisms as one of the mechanisms that aim to establish a group of controls that realize confidence in financial data, as a result of the financial crises that the world faced during the nineties and led to mistrust in the financial statements.

The research problem comes by studying the role of corporate governance mechanisms in reducing the adverse effects of the reliability of financial data, which we will show in this chapter. The chapter also reviews the importance of the study, given that the application of corporate governance will significantly help build confidence in the financial statements and thus helps investors and users of financial statements in rationalizing administrative decisions. This chapter also covers the study methodology, which depends on a descriptive and analytical approach to analyze the application of corporate governance mechanisms and their role in reducing the adverse effects on the reliability of financial statements.

II. The Research Problem

The global economy witnessed the financial and accounting collapse of several international companies due to several reasons; the most important one is the insincerity and fairness of the financial statements of the financial position of these companies, which means harm to the users of these financial statements, through which investment decisions are made. It is well-known that investment decisions depend primarily on these companies' information and financial statements. Therefore companies seek to work on preparing their financial reports to achieve reliability and credibility in front of all parties and thus achieve a high degree of confidence in their operating environment, which will allow them to attract investors and companies and award them a competitive advantage and enable it to achieve its desired goals. Also, in light of the financial and accounting crises in the nineties, there needed to be more confident in the published financial statements and the preparers and approvers. Some studies confirmed that "successive financial crises, including the recent global financial crisis that occurred in the world (2008 AD), led to a low level of confidence that shareholders and other stakeholders place in the financial reports issued by public joint-stock companies (Ismail, 2010 AD)."

Therefore, interest in the term "governance" began in the nineties of the twentieth century, which aims to protect the rights of shareholders and all other parties with various related interests, whether inside or outside the company, and to provide an appropriate degree of reliability and reliability on the financial statements, as governance helps eliminate conflicts of interest, and achieve harmony and balance between the

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interests of different groups, both inside and outside the company. (Al-Ajmi, 2011 AD). Therefore, corporate governance has become an essential pillar of strengthening this confidence due to its important role in the areas of combating financial and administrative corruption in those companies on the one hand, and on the other hand, being a tool of risk management, enhancing transparency and disclosing financial information in its published financial reports, which are reflected positively, On its reputation and then on the market prices of its shares on the stock exchange (Al-Ghazwi, 2010). By reviewing previous studies and the experiences of developed countries, the researchers concluded that the application of good governance rules is of great importance, especially in companies listed in the stock exchange markets, because they constitute an element of reassurance for investors, which leads to gaining the confidence of dealers in the stock exchange market. Therefore, the problem of the study is represented in the following central question: What is the role of corporate governance in limiting the adverse effects on the credibility of financial statements? From this central question, several sub-questions arose.

1. Does the size of the board of directors have an impact on the reliability of the financial statements?
2. Do the executives, as part of the governance mechanisms, harm the reliability of the financial statements?
3. Does the activity of the Board of Directors affect the reduction of adverse effects on the reliability of the financial statements?
4. Does the separation between the CEO and the Chairman of the Board impact reducing the adverse effects on the reliability of the financial statements?
5. Does applying laws and regulations reduce adverse effects on the reliability of financial statements?
6. Does audit quality provide an effect in reducing the adverse impact on the reliability of the financial statements?

III. Motivation for the Study

Because of the importance of the financial data that is published through the joint-stock companies in particular and because it is one- rather the most important- of the inputs to the investment decision in the stock exchange markets, the provision of these data in an appropriate manner by adding confidence and reliability in these data will have a positive impact on investment in the stock exchange markets, whose effect is reflected on stock prices and, consequently, on the level of development and growth of the company. Therefore, the motive for the study was to demonstrate the application of corporate governance mechanisms to reduce the adverse effects of the reliability of financial statements.

IV. The Aim of the Study

The study seeks to achieve the following objectives:

1. Clarifying the concept of corporate governance and highlighting its basic principles.
2. To determine the mechanisms used to apply corporate governance principles in Saudi public corporations to improve the accounting information in their financial reports.
3. It identifies the impact of applying governance mechanisms in reducing the adverse effects of shareholding companies in the Saudi stock exchange market and highlights its role in reducing financial and administrative corruption.
4. They are evaluating the impact of corporate governance principles on enhancing trust and increase credibility in the financial reports disclosed by shareholding companies in the Saudi stock exchange market.

V. The Importance of the Study

The importance of the study can be seen in the following points:

1. The study reveals the extent to which the firms under investigation commit themselves to the principles and concepts of corporate governance.
2. The study helps show the positive application of corporate governance principles and concepts to reduce the adverse effects on data reliability.
3. The study contributes to spreading the idea of corporate governance and consolidating its principles in line with the environment of companies listed on the Saudi Stock Exchange.
4. The study represents an addition to the university library, as it presents scientific evidence on the impact of corporate governance in reducing the adverse effects on the reliability of the financial statements, as well as benefiting from the reports submitted to the owners of companies in identifying and avoiding deficiencies.

VI. Contribution of the Study

The study will provide a scientific framework that helps identify factors that can negatively affect the reliability of financial statements and factors that have a positive impact.

VII. Literature Review and Hypotheses Development

Researchers have tackled the previous studies related to the issue of governance to identify the most important topics dealt with in these studies and to identify the points that the research should focus on to complement the findings of previous studies. The researcher dealt with many previous studies related to the subject research, which revolves around governance and its role in providing reliable financial statements through the use of governance mechanisms in reducing the adverse effects of the reliability of financial statements. These studies were presented by addressing the most important findings of each study. At the end of these studies, a comment was presented to them, and then the study's role was addressed through previous studies' results. Al-Agha (2011) dealt with the role that corporate governance plays in reducing the adverse impact on the reliability of financial statements, taking creative accounting in particular as one of the methods of fraud and manipulation in financial reports, while the current study dealt with the role that corporate governance plays in reducing all adverse impacts on data reliability. Hassan (2010) Also dealt with the role of corporate governance towards paying attention to profit operations and reducing the chances of manipulation of share profits. Sabah (2022) focused on the role of corporate governance in reducing the adverse aspects of creative accounting, which is similar to some other studies, such as the study of Linda (2009), which is similar to this study in studying the role of corporate governance in reducing the adverse aspects of creative accounting on the reliability of financial statements, except It differs from it in that this study relies on the study of adverse effects, whether these adverse effects are from intentional or unintentional acts or actions, as creative accounting mainly depends on deliberate acts to distort the financial statements. Study Abdul Rahman (2020) also relies on corporate governance's role in financial performance- like other studies- as it agrees with this study in studying the role of corporate governance in its relationship to financial aspects. This study is based on a study of the role of governance companies in the reliability of financial statements. Previous studies have also shown that most individual investors are currently interested in economic performance information in the first place, followed by governance, and then corporate social responsibility in the next place. The study by Halabi Linda Hassan (2009) talked about "The role of the external auditor in reducing the effects of creative accounting on the reliability of data issued by Jordanian joint-stock companies. "Creative accounting methods and determining the role played by the auditors of those companies in limiting the creative accounting procedures practiced by the boards of directors of Jordanian public shareholding companies in the audited financial statements. The study also found that the boards of directors of the Jordanian joint-stock companies practice creative accounting when preparing financial statements. In return, the auditors conduct procedures and tests to detect these practices. Among the most important recommendations are adequate attention of auditors to review the financial statements, the development of legislation that regulates auditors' work, and the development of legislation to tighten penalties for those who use creative accounting methods. Hassan, Hossam (2010) as pointed out the aims of his study to determine the extent to which the characteristics of corporate governance related to the financing structure affect the management's chances of manipulating dividends, which affects the evaluative role of dividends in determining share prices, earnings the evaluative role of profits, and the less the management of profits The more profitable the information, the more relevant and more reliable it is in making financial decisions. Hamada and Rasha (2020) and as a study entitled "The Role of Audit Committees in Reducing Creative Accounting Practices, A Field Study, aims to show the activities practiced by audit committees to limit creative accounting practices and their substantial The study concluded that the activities of the Audit Committee related to the supervision and control of financial reports, their examination and the study and evaluation of internal control systems, have a significant impact on reducing creative accounting practices in companies and that the activities of the Audit Committee related to supporting the internal/external audit function and mechanisms Governance has a medium effect in reducing creative accounting practices in companies. The study sample agreed that the activities carried out by the audit committee in risk management in companies have a weak effect in reducing creative accounting practices in companies. Among the recommendations of the study is also the generalization of the idea of audit committees to public and private companies because of the essential supervisory and control functions they provide, with the availability of the necessary qualifications and experience in the members of the committee members. A study by Mubarak and Al-Refai Ibrahim (2010), as well as the which entitled "The Quality of Internal Audit Activities and Their Role in Reducing Earnings Management Practices- An Applied Study on the Saudi Environment, aims to highlight the role that the internal audit function can play in limiting earnings management practices at the level A group of Saudi companies, the study found the following results: There is an inverse relationship between the quality of internal auditing and earnings management in Saudi joint stock companies. The current study is also similar to the study of Al-Agha and Imad Salim (2011) which, entitled "The Role of Corporate Governance in Reducing the adverse Impact of Creative Accounting on the Reliability of Financial Statements- An Applied Study on Palestinian Banks," aims to identify the role of corporate governance in reducing the adverse impact of creative accounting on Reliability of financial data, through an applied study on Palestinian banks. They concluded that corporate governance has a statistically significant role in reducing the adverse impact of creative accounting on the reliability of financial statements. Among the most important recommendations: work on developing and amending the principles of corporate governance to suit the requirements of limiting the occurrence of such collapses, the commitment of banks to the principles of corporate governance, strengthening and raising ethical behavior because of its great role in reducing the risks that may be exposed to financial reports as a result of the use of methods and methods Creative Accounting. In addition, the current study is similar to that of Mirdasi (2019). It aims to clarify corporate governance's role in reducing the harmful practices of fraudulent accounting. The latter is one of the latest accounting manipulation practices practiced using accounting flexibility, multiple alternatives, accounting methods, and policies that affect the quality of accounting information by distorting and misleading information users. Finance without violating accounting laws and standards, as these adverse accounting methods are adopted either for tax evasion and tax reduction or to inflate the result of deception, lenders, and shareholders obtaining a financing ladder to beautify the image that is reflected in the numbers in these lists as a result of the financial position of the institution. Hence, solutions were thought to reduce these practices to the lowest possible level and demandcorporate governance by activating its internal and external mechanisms to reduce the adverse effects of fraudulent accounting. Danoshana, S., and Ravivathani (2019) also examine the impact of corporate governance on the performance of listed financial institutions in Sri Lanka. The researchers use return on equity and assets to determine the company's performance. On the other hand, the size of the board of directors, the frequency of meetings, and the company's audit committee are used as variables to measure corporate governance. According to the analysis, corporate governance mechanisms positively impact corporate performance, such as the size of the board of directors and the size of the audit committee. However, the large number of meetings adversely affects the company's performance. Study Eman, B, and Malik. (2018), Along with verifying the assumptions of the agency theory regarding the relationship between corporate governance mechanisms and the financial performance of banks based on recent empirical research. The analysis of the relationship between corporate governance mechanisms and financial performance in the banking sector enabled us to indicate that the agency's theoretical assumptions regarding the impact of corporate governance mechanisms on the financial performance of banks are correct and strong after compiling various recent empirical studies. Study Al-Maskati et al. (2017). On the other hand, it examines the relationship between corporate governance and voluntary disclosure. The study found that the level of governance reached 47.1%. The percentage of voluntary disclosure reached 51.1% in the Bahrain Bourse, which is considered high compared to previous studies. The results of the study test indicate that there is a positive relationship between the principles: the ownership of the largest shareholder, the size of the board of directors, the independence of the board of directors with voluntary disclosure, and that there is no relationship between the ownership of the three largest shareholders and voluntary disclosure. Zurika Kalezic's (2012), even so, research aims to assess the quality of corporate management practices in the systems of companies and banks in Montenegro. Based on the OECD Questionnaire on Corporate Governance, we surveyed 43 joint stock companies in Montenegro to compile a corporate governance ranking of Montenegrin companies and banks. The team provided a better perspective on the different corporate governance mechanisms developed in parallel with the corporate and banking systems in Montenegro. The OLS, Probit, and Log-it models show that the general corporate governance practice in the banking system can be considered better than the corporate sector. However, the difference is insignificant.

VIII. Hypotheses Development

a) The Size of the Board of Directors

The Corporate Governance Regulations issued by the Capital Market Authority regarding the size of the Board of Directors refers to "several members commensurate with the size of the company and the nature of its activity, provided that the majority of it is non-executive members and that the number of independent members is not less than two or one-third of the members of the Board, whichever is greater." Article (17) also specified: "The company's articles of association specify the number of members of the Board of Directors, and that it shall not be less than three and not more than eleven members." (2017, p. 17) There are different opinions about the size of the board of directors: there are studies (Pfeiffer, 1972) that the increase in the size of the board of directors means the presence of a variety of knowledge and experiences that lead to the ability to manage the capital resources of the company, while another saw (Al-Jundi et al., 2013) that the size of the board Smaller ones provide more excellent quality of observation because there is no inconsistency in thinking or goals. Based on the argument that the small size of the board leads to the quality of monitoring and better disclosure, which means reducing the adverse effects of the financial statements, the following hypotheses can be formulated:

H_1: There is a positive correlation between the size of the trim board of directors and the reduction of adverse effects on the reliability of the financial statements.

b) Non-Executive Directors

Article (1) of the Corporate Governance Regulations issued by the Capital Market Authority states, “A non-executive member is a member of the Board of Directors who is not dedicated to managing the company and does not participate in its daily business." As Article (16), paragraph (2), states: "The following shall be taken into account in the composition of the Board: The majority of it shall be non-executive members" (2017, p. 17, 6) Shareholders are keen to monitor the performance of the executives by authorizing the board of directors to monitor the decisions taken by the executives to be more effective and work for the benefit of the shareholders. Therefore, the proportion of executive directors must be the highest on the board. (Janadi, 2013), which means that this will reflect on the results of the company's activities, including reducing the adverse effects of the financial statements. Accordingly, the following hypothesis can be formulated:

H_2: There is a positive correlation between the percentage of non-executive directors on the board and the reduction of adverse effects on the reliability of the financial statements.

c) Activities of the Board of Directors

Article (32) of the Corporate Governance Regulations issued by the Capital Market Authority states the following: "The Board of Directors holds at least four meetings a year, with no less than one meeting every three months" (2017, p. 29). In some studies (Elyati, Al-Mubarak, 2022), a positive relationship was found between the number of board meetings and the company's performance, as well as a study (Jamaan, Najat, 2017). However, in some studies, there is no statistically significant relationship between the number of board meetings and the company's financial performance (Roman & Persida, 2012). Therefore, based on the argument that the increase in board meetings means discussing matters related to the company continuously and developing appropriate solutions promptly, which means limiting the adverse effects of the financial statements, the following hypothesis can be formulated:

H_3: There is a positive correlation between the activities of the board of directors and the reduction of adverse effects on the reliability of the financial statements.

d) Separation between the Position of CEO and Chairman of the Board of Directors

Article (24) of the corporate governance regulations issued by the Capital Market Authority states, "It is not permissible to combine the position of the chairman of the board of directors with any other executive position in the company. "Paragraph (d) of the same article states the following: "In all cases, it is not permissible For a person to have the absolute power to make decisions in the company" (2017, p. 23). Some studies (Janadi, 2013); confirmed that the separation between the position of the chairman of the board of directors and the chief executive officer leads to strengthening the independent leadership of the board of directors and achieving the interests of shareholders because the independent chairperson of the committee can monitor and supervise the activities of the CEO and senior managers. Moreover, based on the argument that says that the separation between the positions of the Chairman of the Board of Directors and the Chief Executive Officer leads to strengthening the independent leadership of the Board of Directors and realizing the interests of shareholders, which means reducing the adverse effects of the financial statements, so the following hypothesis can be formulated:

H_4: There is a positive relationship between the separation of the positions of CEO and Chairman of the Board of Directors and the reduction of adverse effects on the reliability of the financial statements.

e) Complying with Laws and Regulations

Article (94) of the Corporate Governance Regulations states the following: "The Board of Directors shall establish corporate governance rules that do not conflict with the provisions of these Regulations, and it shall monitor their application, verify their effectiveness, and amend them when needed. For example: Could you verify the company's compliance with these rules? - Reviewing and updating the rules under the regulatory requirements. - Reviewing and developing rules of professional conduct that represent the company's values and other internal policies and procedures to meet the company's needs. Corporate Governance Regulations (2017, p. 61) Compliance with the application of laws and regulations will, of course, lead to the safety and legality of work performance and thus reduce the adverse effects on the reliability of the financial statements. Accordingly, the following hypothesis can be formulated:

H_5: There is a positive correlation between compliance with laws and regulations and the reduction of adverse effects on the reliability of financial statements.

f) Audit Quality

According to Article (80) of the Corporate Governance Regulations, "The company assigns the task of auditing its annual accounts to an independent, competent, experienced and qualified auditor, to prepare an objective and independent report for the board of directors and shareholders indicating whether the company's financial statements clearly and fairly express the company's financial position and its performance in all aspects. "Essentialism" Corporate Governance Regulations, (2017, pg. 50) the study, by Janadi. et al. 2013, and Al-Samrani and Al-Sharida (2011) proved a statistically significant positive relationship between the audit process and the quality of financial statements quality. Therefore, the quality of the audit leads to reducing the adverse effects on the reliability of the financial statements, and accordingly, the hypothesis can be formulated next:

H_6: There is a positive correlation between audit quality and the reduction of adverse effects on the reliability of financial statements.

g) Company Size

It is well known that the size's company is measured by the size of the assets acquired by the company. The size of the assets is small for small companies, and large companies have the size of significant investments. Therefore, the more the company's assets, the greater the size of the company, and thus the more influential the size of the financial statements, which means that the company may be exposed to some adverse effects that can affect the reliability of the financial statements, whether intended or unintended, which means that increasing the size of the company needs more effective controls to achieve oversight and reduce the adverse effects of the financial statements. Janaki. et al. 2013 study confirmed that the size of the company has a positive impact on financial disclosure, and based on that, the following hypothesis can be formulated:

H_7: There is a positive correlation between the size of the company and the reduction of adverse effects on the reliability of the financial statements.

h) Profitability

The company's profitability is one of the most important financial indicators that measure the company's position in the stock exchange market. When analyzing the financial statements, the company's profitability is analyzed and compared historically for the same company, with industry ratios, or with similar companies to evaluate the company's financial position. The investor always looks at the company's profitability as a basis for assessing its work and the extent of trust in it. If the company's profitability is appropriate and in growth from one period to another, there is greater confidence among the users of the financial statements and vice versa. Thus, profitability can provide greater certainty to the users of the financial statements in the company's ability to continue and grow. Correctly and avoid any adverse effects that may affect it now and in the future. The study (Abdul Rahman, 2020) also proved the existence of a statistically significant relationship between corporate governance mechanisms and the rate of return on ownership so that the following hypothesis can be formulated:

H_8: There is a positive correlation between profitability and the reduction of adverse effects on the reliability of financial statements.

i) Sector Type

Companies operate through many activities divided into three types: commercial shifting, industrial action, and service activity. Thus, commercial, industrial, and service sectors are the primary sectors for any economic activity. Looking at the financial statements in each industry, we find some differences regarding the size of the financial information, for example, the commodity stock in the commercial sector. As for the service sector, there is no commodity stock, as only a service is provided for a fee. The sectors differ among themselves in terms of the quality and size of the financial statements. Therefore, each activity must establish the necessary controls commensurate with the activity's nature to achieve the required power and limit the adverse effects on the reliability of the financial statements that the action may be exposed to, as demonstrated by Janadi. Et study .al 2013 that the type of industry has a positive relationship with financial disclosure, and based on that, the following hypothesis can be formulated:

H_9: There is a positive correlation between the type of sector and the reduction of adverse effects on the reliability of financial statements.

j) Financial Leverage

Financial leverage means the extent to which the company relies on borrowing from financial institutions to provide its financial needs and achieve a return that exceeds the cost of borrowing. The higher the financial leverage, the greater the borrowing, and thus this may lead to an increase in the risks that the company may be exposed to as a result of financing from outside the company. Suppose there are adequate supervisory controls on these funds, and thus help to achieve appropriate profitability for the company and gain the users' confidence in the financial statements of the company. In that case, the following hypothesis can be formulated:

H_{10}: There is a positive correlation between financial leverage and the reduction of adverse effects on the reliability of financial statements.

k) Summary of Hypotheses

H_1: There is a positive correlation between small board size and the reduction of adverse effects on the reliability of financial statements.

H_2: There is a positive correlation between the percentage of non-executive directors on the board and the reduction of adverse effects on the reliability of the financial statements.

H_3: There is a positive correlation between the activities of the board of directors and the reduction of adverse effects on the reliability of the financial statements.

H_4: There is a positive relationship between the separation of the positions of CEO and Chairman of the Board of Directors and the reduction of adverse effects on the reliability of the financial statements.

H_5: There is a positive correlation between compliance with laws and regulations and the reduction of adverse effects on the reliability of financial statements.

H_6: There is a positive correlation between audit quality and the reduction of adverse effects on the reliability of financial statements.

H_7: There is a positive correlation between the size of the company and the reduction of adverse effects on the reliability of the financial statements.

H_8: There is a positive correlation between profitability and the reduction of adverse effects on the reliability of financial statements.

H_9: There is a positive correlation between the type of sector and the reduction of adverse effects on the reliability of financial statements.

H_{10}: There is a positive correlation between financial leverage and the reduction of adverse effects on the reliability of financial statements.

IX. Research Methodology

The study relies on the use of the descriptive analytical approach to study and analyze the subject of the study. This approach is based on describing a phenomenon to reach the causes of this phenomenon and the factors that control it and draw conclusions for generalization. By studying the factors that can affect the reliability of financial information, some decisions can be removed, which can help increase the reliability of the financial statements. In addition, a study was conducted using the financial data of companies published on the Tadawul website to collect data. Concerning the measurement of corporate governance, which will be implemented through the study variables that include the principles of corporate governance issued by the Organization for Economic Cooperation and Development (OECD), the financial analysis relied upon using the financial ratios of the financial statements of the study sample institutions, which consist of 50 companies listed in the Saudi Stock Exchange. To measure the reliability and diagnosis of data during the period (2019-2020) and then study the interrelationship between the two variables.

a) Data and Sample

The study sample relies on several Saudi joint stock companies. The study data were taken through the Tadawul website, which presents the financial statements of the Saudi mutual stock companies registered in the stock exchange market (2020).

X. Determination and Measuring of Variables

The study variables were determined as follows: The dependent variable is the reliability of the financial statements, and the independent variables are: the size of the board of directors, the independence of the board of directors, the activities of the board of directors, the freedom of the position of the CEO from the role of the president, compliance with regulations and laws, audit quality, the controlling variables, the size of the company, profitability, leverage, and sector type. The study form can be presented as follows:

$$Y = B_0 + B_1X_{1+}\ B_2X_{2\text{--------}+}\ B_{10}X_{10+E}$$

The following table No. (3) shows the measurement of the study variable.

Table No. 3: Measuring the Study Variables

Independent Variables	Measurement of the Variables
Board size ($X_{1)}$	Number of board of directors
Board independent(X_2)	The number of non-executive directors in the committee ÷ total number of directors in the committee.
Board activities (X_3)	Number of board of directors meeting
CEO duality (X_4)	1 if the company has a NED as chairperson; 0 if otherwise
Compliance with listing laws and regulations (X_5)	1 if the firms did not pay fine, 0 if otherwise
Audit quality (X_6)	1 if the company has a big-six auditor: 0 if otherwise
Control variables:	
Firm size (X_7)	Log=LIN (LIN= Of total assets of the firm)
Profitability (X_8)	ROE
Leverage (X_9)	Debt to total assets
Sector type (X_{10})	1-for merchandise, 2 for industry and 3 for services sectors

Dependent variable	Measurement of the variables
reliability of financial statements(Y)	The personal correlation between price of share and ROE

From Table No. (3) above, the variables and how to measure them can be addressed as follows:

a) *Measurement of Independent Variables*

The size of the Board of Directors is symbolized by the symbol (X_1). it is measured by the number of members of the Board of Directors, where the annual report was obtained for each company, in which each section presents information about the Board of Directors in terms of the number of members, the capacity of each member, the qualifications of each member, and other data about the member and related to the company.

1. The independence of the Board Committee - the non-executive members of the Board and symbolized by the symbol (X_2) and is measured by the ratio of non-executive members to the total members of the Board, as the annual report of the company shows the number of members of the Board of Directors and the capacity of each independent, executive or non-executive member, and thus The number of non-executive members of the Board has been counted. This number is divided by the number of members of the Board of Directors.
2. The activities of the Board of Directors, symbolized by the symbol (X_3), and it is measured by the number of meetings of the Board of Directors, where the annual report of the company displays in a special section the meetings of the Board of Directors in terms of the names of the members, the meeting number and date, and the number of sessions that took place during the year.
3. The separation between the Chairman of the Board of Directors and the Chief Executive Officer, symbolized by the symbol (X_4), is measured using a scale of (1) if the Chairman of the Board is the Chief Executive Officer, (0) if otherwise, and this was evident through the annual report of the company, as it clarifies In the classification of the members of the Board of Directors and the Chairman of the Board of Directors, whether he is the Chief Executive Officer or not.
4. Compliance with laws and regulations is symbolized by the symbol (X5) and is measured using a scale (1) if the company does not pay fines (0) otherwise. This appears through the company's annual report, as it shows any penalties that the company paid during the year through a table that offers data on the sentence or fines that were produced, the amount paid, and the type of fine. If no penalties are born, it is explicitly confirmed that no penalties were imposed on the company during the year.
5. The quality of the review is symbolized by the symbol (X_6) and is measured using a scale (1) if it is one of the six significant offices (0); otherwise. This appears through the company's annual report and financial statements, where there is an auditor's report attached to the financial statements with the audit result for the fiscal year, indicating in the news the auditor's name. The audit company and whether it is one of the significant companies are determined through that.
6. The company's size is symbolized by the symbol (X_7) and is measured by the logarithm of total assets. The necessary data was obtained through the company's financial statements - the list of financial positions- where the size of the assets of each company was accepted, then the logarithm of the total assets of each company was determined from the study sample.
7. Profitability is symbolized by the symbol (X_8) measured by the rate of return on ownership (ROE). The necessary data was obtained through the financial statements - the income statement and the financial position statement - for each company, where the net profit was obtained from the income statement, the total shareholders from the financial position statement, and the rate of return on ownership was determined for each item of the study.
8. Financial leverage is symbolized by the symbol (X_9) and is measured by total debt divided by total assets. The necessary data was obtained through the company's financial statements - statement of financial position - total obligations from the liabilities side and real support from the assets side, thus dividing the total debts by the full support to obtain the financial leverage for each of the study items.

The type of industry, symbolized by the symbol (X10), and is measured using a scale (1) commercial activity, (2) industrial action,(3) service activity, where the type of sector was determined through the Tadawul website, which places a classification for each company, whether the category is commercial or industrial or service.

b) *Measurement of the Dependent Variable*

The reliability of the financial data is symbolized by the symbol (Y) and is measured by the correlation between the share price and the rate of return on equity

(ROE). The necessary data was obtained through the Tadawul website, where the share price for each study item was obtained from the site. The rate of return on ownership was previously determined through the financial statements. Therefore, a correlation was made between the share price and the rate of return on request through spss statistical software. The year 2019 and 2020 was chosen, and each year was divided into four quarter: the first quarter, the second quarter, the third quarter, and the fourth quarter. Thus, we have eight chapters, and a statement of net income and shareholders 'equity was obtained. By dividing the net income by the shareholders, we get the return on equity. The share price data was also obtained through 8 sections. Thus, a correlation was made between the share price and the rate of return on ownership to get the reliability of the financial statements.

c) Statistical Analysis and Testing of Hypotheses

This section aims to test research hypotheses and statistical analysis for each view to verify the acceptance or rejection of the idea of the study and determine the results. The statistical analysis of the study variables was carried out using the E-views program. This chapter presents the size of the study sample, which consists of 50 Saudi joint stock companies, and it is presented in detail in this chapter. A statistical analysis is also done for the study variables, which are the independent variables, with ten independent variables tested against the dependent variable, which is the reliability of the financial data through the statistical program used. At the end of the chapter, the statistical analysis results for each study variable and the final results for each variable were presented.

XI. Population and the Sample

The study population has represented the companies contributing to the Saudi stock exchange market. In contrast, the sample of the study is 50 companies listed on the stock exchange that apply corporate governance mechanisms according to the corporate governance regulations issued by the Capital Market Authority in 2006 and its amendments in 2017. The necessary data were obtained from the Tadawul website, the annual. Quarterly financial statements and the Board of Directors' annual reports were used to collect data for the study sample. Economic analysis was used through some financial ratios.

a) Statistical Analysis

i. Descriptive Statistical

Descriptive statistical analysis of the independent and dependent variables - through the E-views program.

In this section, we review the results of the descriptive statistical analysis of the independent and dependent variables, as shown in the following Table (5):

Table No. 5: Results of the Descriptive Statistical Analysis of the Independent and Dependent Variables Through the E-Views Program

Descriptive Statistics											
	y	BZ (X_1)	BI (X_2) %	BA (X_3)	CEOD (X_4)	COMP (X_5)	AQ(X_6)	FZ (X_7)	PROE (X_8) %	LEV (X_9)	SECT (X_{10})
Mean	0.225	8.343	0.446	5.263	0.990	0.737	0.444	19.195	0.106	0.348	2.081
Median	0.400	9.000	0.450	5.000	1.000	1.000	0.000	20.550	0.080	0.400	2.000
Maximum	0.996	11.000	0.660	13.000	1.000	1.000	1.000	22.830	0.590	0.800	3.000
Minimum	-0.994	6.000	0.000	2.000	0.000	0.000	0.000	14.190	0.010	0.010	1.000
Std. Dev.	0.579	1.153	0.175	1.536	0.101	0.442	0.499	2.811	0.089	0.235	0.583
Skewness	-0.515	-0.136	-1.036	2.593	-9.798	-1.079	0.224	-0.506	2.148	0.096	-0.007
Kurtosis	2.108	2.823	3.773	14.108	97.010	2.164	1.050	1.665	10.649	1.748	2.913
Jarque-Bera	7.662	0.433	20.170	619.936	38040.580	22.088	16.510	11.571	317.489	6.623	0.032

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Probability	0.022	0.805	0.000	0.000	0.000	0.000	0.000	0.003	0.000	0.036	0.984
Sum	22.269	826.000	44.176	521.000	98.000	73.000	44.000	1900.300	10.490	34.500	206.000
Sum Sq. Dev.	32.845	130.323	2.991	231.172	0.990	19.172	24.444	774.094	0.777	5.425	33.354
Observations	100.000	100.000	100.000	100.000	100.000	100.000	100.000	100.000	100.000	100.000	

From the previous table, No. (5) the following is evident:

1. The average of the independent variable is the size of the trim board of directors with its value (approximately eight members), with a median of its value (9 members), the upper value of the average board size (11 members), the minimum value (6 members), and the standard deviation value (1.153).
2. The average percentage of non-executive directors on the board is (44.6%), with a median of (45%), the highest percentage of the average rate of non-executive directors (66%), a minimum ratio of 0, and a standard deviation value of 0.175.
3. The average number of board meetings is (5.263), with a median value of (5 sessions), the upper value of the middle board meetings (13), the minimum value (2), and the standard deviation value of 1.536.
4. The average separation between the Chief Executive Officer and the Chairman of the Board is (0.99), with a median of 1.00, the highest value of the middle rift between the Chief Executive Officer and the Chairman of the Board is (1.00), the minimum value (0.00), and the standard deviation value (0.101).
5. The average compliance with laws and regulations is (0.737), with a median of (1.00), the highest value for the average compliance with laws and regulations (1.00), the minimum value (0.00), and the standard deviation value (0.442).
6. The average audit quality is (0.444), with a median of (0.00), the highest value of the audit quality average of (1.00), a minimum value of (0.00), and the standard deviation value of (0.499).
7. The average value of the company is (19,195), with a median of (20,550); the highest value of the average company size is (22,830), the minimum value is (14,190), and a standard deviation of (2,811).
8. The average profitability value is (0.106), with a median value of (0.080) and the upper value of the average profitability.
9. (0.590), the minimum value (0.010), and the standard deviation value (0.089).
10. The average leverage is (0.348), with a median of (0.400), an upper value of the average power of (0.800), a minimum value of (0.010), and a standard deviation of (0.235).
11. The average value of the sector type is (2.081), with a median of (2), the highest value of the middle sector type (3), the minimum value of (1), and the standard deviation value of (0.583).
12. The average reliability of the financial data is (0.225), with a median of (0.400), the upper value of the average reliability of the data is (0.996), the minimum value is (-0.994), and the standard deviation value is (0.579).

The Jarque-Bera Test

The decision rule is to accept the null hypothesis that the data follows a normal distribution if the probability value of the test is more significant than (0.05). To verify that the data are close to their normal distribution, the Jarque-Bera test was used: through the statistical software package (E-Views). Through the previous table, it turns out that:

- The BZ variable (X_1) and the (X_{10}) SECT variable follow a normal distribution with a value of (0.805 and 0.984), respectively, which is greater than (0.05).
- The remaining variables do not follow the normal distribution because they are less than (0.05), as shown in the previous Table.

Correlation Analysis

Correlation analysis between the independent variables through the E-views program. In this section, we present the results of the correlation analysis between the independent variables, as shown in the following table:

Table No. 6: The Results of the Correlation Analysis between the Independent Variables using the E-Views Program

Correlation Matrix										
	BZ (X_1)	BI (X_2) %	BA (X_3)	CEOD (X_4)	COMP (X_5)	AQ (X_6)	FZ (X_7)	PROE (X_8) %	LEV (X_9)	SECT (X_{10})
BZ(X_1)	1.000									
BI(X_2) %	0.214	1.000								
BA(X_3)	0.121	0.049	1.000							
CEOD(X_4)	-0.234	-0.002	0.017	1.000						
COMP(X_5)	0.079	-0.186	-0.138	0.169	1.000					
AQ(X_6)	-0.126	0.362	-0.087	0.090	-0.205	1.000				
FZ(X_7)	-0.181	-0.130	0.099	0.080	0.101	-0.120	1.000			
PROE(X_8) %	-0.070	-0.037	-0.032	0.109	0.071	0.066	0.086	1.000		
LEV(X_9)	0.133	0.326	0.203	-0.022	-0.190	0.149	0.164	0.216	1.000	
SECT(X_{10})	-0.087	0.075	-0.035	0.014	-0.154	0.051	-0.024	-0.186	-0.015	1.000

From Table No. (6) the following is clear

The rule in the analysis is that the closer the correlation value is to the correct one, the more there is a solid direct correlation and vice versa.

The preference is that whenever the correlation between the variables is weak or non-existent, the better for the study model so that the effect of each variable can be studied independently.

1. Examining the correlation between the size of the trim board of directors and the rest of the study variables

- The previous table shows that there is a very weak direct correlation with each of the following variables: percentage of non-executive directors (0.214), board meetings (0.121), compliance with laws and regulations (0.079), and financial leverage (0.133).
- There is also a weak inverse correlation with each of the following variables: separation between the chief executive officer and the chairman of the board (-0.234), audit quality (-0.126), company size (-0.181), profitability (-0.070), and sector type (-0.087).

2. Examining the correlation between the percentage of non-executive directors and the rest of the study variables

- The previous table shows a weak direct correlation with the following variables: Board meetings (0.049) and sector type (0.075).
- There is also a weak inverse correlation with each of the following variables: separation between the CEO and the Chairman of the Board (-0.002), compliance with laws and regulations (-0.186), company size (-0.130), and profitability (-0.037). There is also a medium direct correlation with the following variables: review quality (0.362) and financial leverage (0.326).

3. Examining the correlation between the meetings of the board of directors and the rest of the study variables

- The previous table shows that there is a very weak direct correlation with each of the following variables: the separation between the CEO and the Chairman of the Board (0.017), the size of the company (0.099), and the financial leverage (0.203).
- There is also a weak inverse correlation with each of the following variables: compliance with laws and regulations (-0.138), audit quality (-0.078), profitability (-0.032), and sector type (-0.035).

4. Examining the correlation between the separation between the CEO and the Chairman of the Board and the rest of the study variables

- The previous table shows that there is a very weak direct correlation with each of the following variables: compliance with laws and regulations (0.169), company size (0.080), profitability (0.109), and sector type (0.014). There is also a weak inverse correlation with leverage (-0.022).

5. Examining the correlation between complying with laws and regulations and the rest of the study variables
– The previous table shows a weak correlation between company size (0.101) and profitability (0.071).
– There is also a weak inverse correlation with each of financial leverage (-0.190), sector type (-0.154), and review quality (-0.205).
6. Examining the correlation between audit quality and the rest of the study variables
– The previous table shows that there is a very weak direct correlation with each profitability (0.066), financial leverage (0.149), and sector type (0.051).
– There is also a weak inverse correlation with the company's size (-0.120).
7. Examining the correlation between the size of the company and the rest of the study variables
– The previous table shows a weak correlation between profitability (0.086) and financial leverage (0.164). There is also a weak inverse correlation with sector type (-0.024).
8. Examining the correlation between profitability and the rest of the study variables
– The previous table shows a weak direct correlation with financial leverage (0.216). There is also a weak inverse correlation with sector type (-0.186).
9. Examining the correlation between financial leverage and the rest of the study variables
– The previous table shows a weak inverse correlation with the sector type (-0.015).
10. Examining the correlation between the type of industry and the rest of the study variables
– This relationship with other variables was dealt with in the previous analysis.
– Referring to the previous analysis, it is clear that the correlations between the independent variables are acceptable since it was at most 80% in all its correlations.

b) Regression Analysis and Test of Hypotheses

Regression analysis using time series through least squares through the E-views program. In this section, we review the results of the regression analysis using time series through least squares, as shown in the following table (7):

Table No. 7: Results of Regression Analysis using Time Series Through Least Squares Through the E-Views Program to Analyze the Extent of Acceptance and Rejection of the Study Hypotheses

Dependent Variable: SER01
Method: Panel Least Squares
Sample: 2019 2020
Periods included: 2
Cross-sections included: 50
Total panel (unbalanced) observations: 99 vation 100

Variable	Coefficient	Std. Error	T-Statistic	Prob.	
C	1.6786	0.980203	1.712502	0.0903	
BZ(X_1)	-0.0726	0.056524	-1.284452	0.2024	
BI(X_2) %	0.755245	0.389556	1.938735	0.0557	sig.
BA(X_3)	0.043997	0.039516	1.113408	0.2686	
CEOD(X_4)	-0.51064	0.610277	-0.836728	0.405	
COMP(X_5)	0.055251	0.144114	0.38338	0.7024	
AQ(X_6)	-0.21794	0.13053	-1.66962	0.0985	sig.
FZ(X_7)	-0.02136	0.022017	-0.970069	0.3347	
PROE(X_8) %	-0.30352	0.690564	-0.43952	0.6614	
LEV(X_9)	-0.51385	0.284565	-1.805744	0.0744	sig.
SECT(X_{10})	-0.11229	0.102432	-1.096245	0.276	

From Table No. (7) the following is clear:

1. The sign of the fixed amount is a positive sign with a value of (1.6786), which represents the value of the reliability of the financial statements when the independent variables are BZ(X_1), the size of the board of directors, BI (X_2) the percentage of non-executive directors in the panel, BA(X_3) the meetings of the board of directors, CEOD(X_4) Separation between CEO and Chairman, COMP(X_5) compliance with regulations, AQ(X_6) audit quality, FZ(X_7) company size, PROE(X_8) profitability, LEV(X_9) leverage, SECT(X_{10}) sector type equals zero.
2. Suppose the sign of the independent variable is positive. In that case, this indicates a direct relationship between them. Still, the association is inverse in the case of the adverse sign. The probability value (prob) determines whether or not there is a statistically significant relationship if it is less than 10%, i.e. (0.1). the relationship is statistically significant, the opposite is not statistically significant, and through the results shown in the previous table, the following can be reached:

- *The First Hypothesis:* BZ (X_1) the size of the board of directors: From the results shown in the table, it is clear that there is no significant relationship between the size of the board of directors and the reliability of the financial statements. Therefore, based on the results shown, the null hypothesis is accepted. The alternative hypothesis is rejected: "there is no positive correlation between the size of the small board and the reduction of the adverse effects on the reliability of the financial statements."
- *The Second Hypothesis:* BI (X_2) the percentage of non-executive directors in the council: Through the results shown in the table, it is clear that there is a significant relationship between the rate of non-executive directors in the board and the reliability of the financial statements, which means that the greater the number of non-executive directors in the board, the greater the reliability of the financial statements. This is evidenced by the probability value (prob) (0.0557), which is less than (0.1). Therefore, based on the results shown, the null hypothesis is rejected. The alternative view is that "there is a correlation between the percentage of non-executive directors in the board and the reduction of adverse effects on the reliability of the financial statements.".
- *The Third Hypothesis:* BA (X_3) Board meetings: Through the results shown in the table, it is clear that there is no significant relationship between the meetings of the Board of Directors and the reliability of the financial statements. Therefore, based on the results shown, the null hypothesis is accepted. The alternative hypothesis is rejected: "there is no positive correlation between the activities of the Board of Directors and the reduction of adverse effects on the reliability of the financial statements."
- *The Fourth Hypothesis:* CEOD(X_4) Separation between the CEO and the Chairman of the Board: From the results shown in the table, it is clear that there is no significant relationship between the separation between the CEO and the Chairman of the Board and the reliability of the financial statements. This is evidenced by the probability value (prob) (0.405), which is Greater than (0.1); therefore, based on the results shown, the null hypothesis is accepted, and the alternative hypothesis is rejected that "there is no positive relationship between the separation between the position of CEO and Chairman of the Board of Directors and the reduction of adverse effects on the reliability of the financial statements."
- *The Fifth Hypothesis:* COMP (X_5) Compliance with regulations and laws: Through the results shown in the table, it is clear that there is no significant relationship between compliance with rules and statutes and the reliability of financial statements. This is evident through the probability value (prob) (0.7024), which is greater than (0.1); therefore, based on the results shown, the null hypothesis is accepted, and the alternative hypothesis is rejected that "there is no positive correlation between compliance with laws and regulations and the reduction of adverse effects on the reliability of the financial statements."
- *The Sixth Hypothesis:* AQ (X_6) Audit quality: Through the results shown in the table, it is clear that there is a significant relationship between audit quality and the reliability of the financial statements. The results rejected the null hypothesis and accepted the alternative view that "there is a positive correlation between the audit quality and the reduction of the adverse effects on the reliability of the financial statements."
- *The Seventh Hypothesis:* FZ (X_7) Company size: Through the results shown in the table, it is clear that there is no significant relationship between the size of the company and the reliability of the financial statements. This is evident through the probability value (prob) (0.3347), which is greater than (0.1).
- *The Eighth Hypothesis:* PROE(X_8) Profitability: The results in the table clearly show no significant relationship between profitability and the reliability of the financial statements. This is evident through the probability value (prob) (0.6614), which is greater than (0.1).

- *The Ninth Hypothesis:* LEV (X_9) financial leverage: Through the results shown in the table, it is clear that there is a significant relationship between financial power and the reliability of the economic data. This is evident through the probability value (prob) (0.0744), which is less than (0.1).
- *The tenth hypothesis:* SECT(X_{10}) Sector type: Through the results shown in the table, it is clear that there is no significant relationship between the sector type and the reliability of the financial statements. This is evident through the probability value (prob) (0.276), which is greater than (0.1)

Table No. 8: Results of Regression Analysis using Time Series Through Least Squares - Correlation Coefficient Analysis

Dependent Variable: SER01
Method: Panel Least Squares
Sample: 2019 2020
Periods included: 2
Cross-sections included: 50
Total panel (unbalanced) observations: 99 vation 100

R-squared	**0.128556**
Adjusted R-squared	**0.029528**
S.E. of regression	0.570313
Sum squared resid	28.62265
Log likelihood	-79.0493
F-statistic	**1.298179**
Prob(F-statistic)	**0.24407**
Mean dependent var	0.224939
S.D. dependent var	0.578925
Akaike info criterion	1.819178
Schwarz criterion	2.107525
Hannan-Quinn criter.	1.935843
Durbin-Watson stat	**2.097268**

Referring to the statistical analysis as shown in Table (8), the following is evident:

- The R2 coefficient shows that there is a weak positive relationship between the dependent variable, the reliability of the financial statements, and the independent variables, as the value of R2 was (0.1285), and the Adjusted R-squared coefficient was (0.0295), or about 3% of the changes in the dependent variable - the reliability of the financial statements - The difference in the independent variables explained it. In comparison, other factors explain the remaining 97%, which is a large percentage.
- As shown in the previous table, the value of the F-statistic is (1.298) with a probability value of (0.2440), which is greater than (0.10), which indicates that the regression is not significant.
- The previous table shows the autocorrelation test between random errors: the existence of linear autocorrelation for first-order errors can be tested using the Durban-Watson test after extracting the calculated value from the linear regression table and comparing it with the tabular values, where we find that the value of (2.0972) falls Between the upper limit (2.23) 4-du and the lower limit du (1.77), which means that the calculated value (2.09) is in the acceptance region, which means that the zero hypotheses are accepted and that there is no autocorrelation between random errors.

XII. Results of Study

Through the results of the current study, it is possible to address the relationship of these results to the effects of previous studies regarding the issue of corporate governance regarding the financial statements and the level of corporate performance as follows:

First: The results of the study that are consistent with other studies

- The results of this study are consistent with the results of other studies regarding the percentage of non-executive members of the board of directors, as there is a positive impact on the financial statements with the possibility of trusting them in the event of an increase in the percentage of non-executive members. Among these studies (Al-Janadi, Rahman, Omer, 2013) (Abdul Rahman, 2020), (Harfoush, 2015).
- The results of this study are also consistent with previous studies regarding the quality of the audit. The higher the quality of the audit, relying on one of the significant audit offices, the more this leads to an increase in the reliability of the financial statements. Among these studies (Al-Halabi, 2009), (Al-Janadi, Rahman, Omer,2013).

Second: The Results of the Study that Differ from other Studies

- This study proved that there is no positive effect of the size of the board of directors in reducing the adverse impact of the reliability of the financial statements. At the same time, other studies proved otherwise, including (Abdul Rahman, 2020) (Donoshana & Ravivathani, 2019).
- The study proved that there is no positive effect of the separation between the CEO and the chairman of the board of directors in reducing the adverse impact of the reliability of the financial statements. At the same time, other studies proved otherwise, including Al-Janadi, Rahman, and Omer (2013).
- The study proved that board meetings have no positive effect on reducing the adverse impact of the reliability of the financial statements. At the same time, other studies have proven otherwise, including these studies (Donoshana & Ravivathani, 2019), (Harfoush, 2015), (Abdul Rahman, 2020). - The study proved that there is no positive effect for each of the company's size, company profitability, and sector type in reducing the adverse impact of the reliability of the financial statements. At the same time, other studies proved otherwise, including (Al-Janadi, Rahman, and Omer, 2013).

XIII. Recommendations

The researchers recommend the following recommendations, according to the findings of the theoretical and field studies:

1. Given the importance of the purpose of applying corporate governance - and the historical events that took place in some companies - which led to many financial crises, the study provides evidence of the need for joint stock companies, in particular, to apply corporate governance mechanisms regularly.
2. The necessity of having specialized oversight bodies in corporate governance to monitor the extent to which corporate governance mechanisms are applied regularly and correctly.
3. The board of directors of joint-stock companies activates the corporate governance mechanisms correctly and follows up on their implementation permanently through the specialized committees.
4. The executive management of companies should provide appropriate financial statements to serve investors and other dealing parties to give confidence in the financial statements, which is reflected in the growth of the company's shares in the stock exchange market.

XIV. Future Research

The researchers recommend further study in corporate governance in general due to the great importance of this topic in financial and administrative control.

The researchers also recommend more research linking corporate governance, achieving integrity, and combating corruption by studying the possibility of integration between the virtue and boards of directors of joint-stock companies to achieve integration in work performance, combat corruption, and gain control and quality in the financial and administrative work.

Thanks:

Researchers would like to thank the Deanship of Scientific Research, Qassim University for funding the publication of this project.

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