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The role of the Algerian financial accounting system in strengthening the principles of corporate governance

- analytical study -

*Nouara Mohamed[1] djaid cherif[2] mechter fatima[3]

University of Alger 3 (ALGER), NouaraMohamed.djelfa@gmail.com

University of amar telidji laghouat (ALGER), cf.djaid@lagh-univ.dz

University akli mohand oulhadj bouira, (ALGER), fatimamechter2016@gmail.com

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Abstract:

The reforms carried out by the Algerian state in the field of accounting have resulted in the adoption by Algeria of the financial accounting system, where this system includes many laws, instructions and rules that regulate the accounting of the institution, define the powers of management and clarify the relationship of the institution with external parties, as well as guarantee the rights of all parties.

Through this research paper, we will try to conduct an analytical study of the content of various laws of the financial accounting system to find out its contribution to achieving the principles of corporate governance approved by the OECD (Organization for Economic Cooperation and Development) .

Keywords: the Algerian financial accounting system, corporate governance.

** Corresponding author: Nouara Mohame, NouaraMohamed.djelfa@gmail.com

INTRODUCTION:

Many international accounting bodies have carried out accounting reforms aimed at achieving international consensus in the field of accounting, and these reforms resulted in the issuance of international accounting standards that regulate the accounting work of companies and determine the rules and policies to be followed, and like the countries of the world, the Algerian accounting environment interacts positively with the international accounting environment by carrying out the outputs of the financial accounting system.

The continuation and development of the company depend on the quality of its accounting system and its outputs, as well as the extent of the organization's commitment to the requirements (principles) of corporate governance, which directly contribute to the rationalization of the company's decisions.

From the above, we can ask the following question as a problem for this research paper:

Does the financial accounting system contribute to strengthening the principles of corporate governance?

The importance of studying

The importance of studying is to clarify the role that the Algerian financial accounting system can play in strengthening the principles of corporate governance and this through its content, which increases the credibility of the disclosed information, which in turn is directed to all stakeholders and relevant parties to the institution that leads to the governance of their decisions.

Objectives of the study:

This research seeks to achieve a set of goals, The Most important ones are mentioned as follow :

- ✓ -Highlighting international efforts to define this concept in general and national efforts in particular;
- ✓ Highlighting the requirements of corporate governance;
- ✓ Reviewing the content of the Algerian financial accounting system and its contribution to strengthening the requirements of the economic governance institutions.

1- the scientific and practical framework for corporate governance

Through this axis, we will try to introduce corporate governance, its characteristics and determinants, Then we will focus on the principles and pillars on which it is based.

1-1 Definition of Corporate Governance:

There is no unified definition agreed upon among all economists, legal, analysts and academics of the concept of corporate governance, so we will only mention the most important definitions:

Corporate governance is a set of laws, rules and standards that define the relationship between the management of a company on the one hand, and shareholders, stakeholders and related parties of a company on the other (Mohamed, 2008, p: 14-15), and is also defined as a set of processes, policies and laws that affect the way a company is directed or managed (D.HEMA, 2012, p: 02).

According to the famous Cadbury Report (1992), corporate governance is the system by which companies are managed and controlled (Belén , et al 2018, p 158), boards of directors are responsible for corporate governance, and the role of shareholders is to appoint managers and auditors (Justine and John, 2013, p 105).

The International Finance Corporation (IFC) defines corporate governance as the system through which companies are managed and their business is controlled (Walid and Hussein, 2015, p 24), In other words, it is a set of mechanisms that determine the discretionary space of the manager (Wirtz, 2005, p 142).

The Organization for Economic Co-operation and Development (OECD) defines corporate governance as that system through which companies are directed and managed and through which rights, duties and responsibilities are defined between various parties such as the board of directors, managers, shareholders and other stakeholders, It also defines the rules and procedures for making decisions related to the company's affairs, as well as defining the structure through which the company's goals are set, the means to achieve them, and the performance control mechanisms (Essam, 2015, p 258).

Accordingly, and from the above, we can give a comprehensive definition of corporate governance as a system that manages and monitors the company through a set of laws, procedures and standards that define the rights and duties of the company with various parties, With the aim of narrowing the gap that contradicts their interests, as well as protecting their rights and rationalizing their decisions.

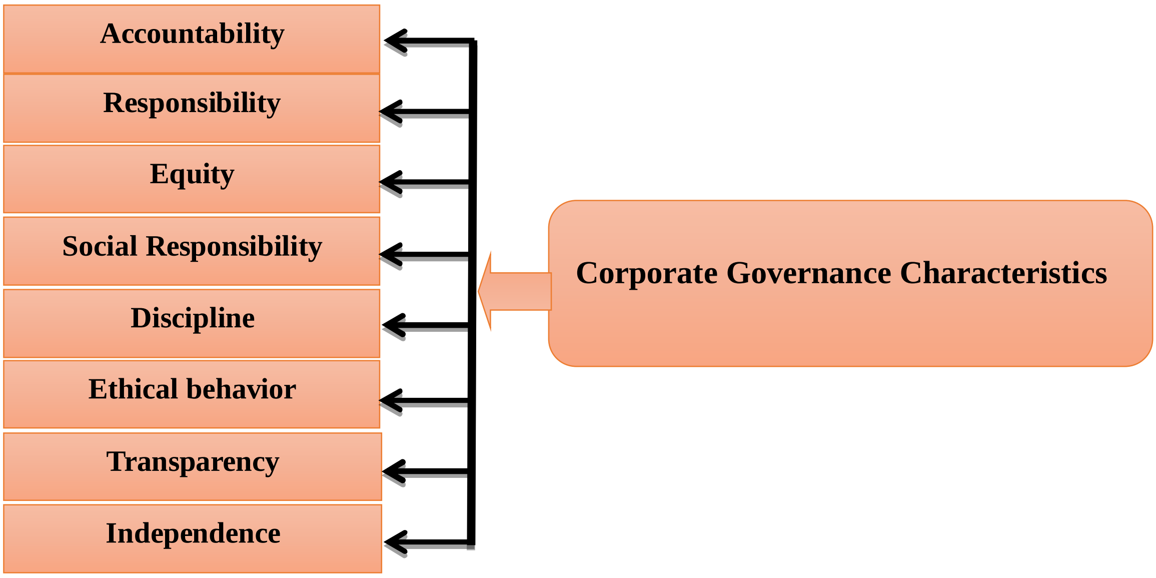
1-2- Characteristics of Corporate Governance

The most important characteristics of corporate governance are as follows:

- **Accountability**: It can be seen as an essential issue and a prerequisite for good companies (K.Shankaraiah and D.N.Rao, 2004, p 04), The corporate governance system allows the board of directors to be accountable to shareholders, Monitor management and provide advice and guidance to the Board of Directors on how to set strategies and objectives.
- **Responsibility**: It is intended to provide a clear structure that defines the points of authority and responsibility and to hold the board of directors and decision makers accountable for their responsibilities towards the company and shareholders (Munad, 2014, p 117).
- **Equity**: the rights of the various stakeholder groups in the company must be respected.
- **-Social Responsibility**: Considering the company as a good citizen (Tarek, 2007, p 25).
- **Discipline**: Following appropriate and correct ethical behavior.
- **Ethical behavior**: that is, ensuring behavioral commitment to ethics and rules of rational, professional conduct, balance in achieving the interests of all parties associated with the company, and transparency when presenting financial information.
- **Transparency**: providing a true picture of what is happening.
- **Independence**: meaning that the decision-maker is free and not bound by any factors that affect his decisions (Nouara and Malika, 2017, p 18-19).
- **Integrity**: integrity or honesty, Meaning that the company or its key employees carry out their business in accordance with the normative principles and values consistently and with all stakeholders (Nicholas, Samuel. Idowu, Rene , 2017, p 65).

The following figure shows these characteristics:

Figure No. 01: Corporate Governance Characteristics

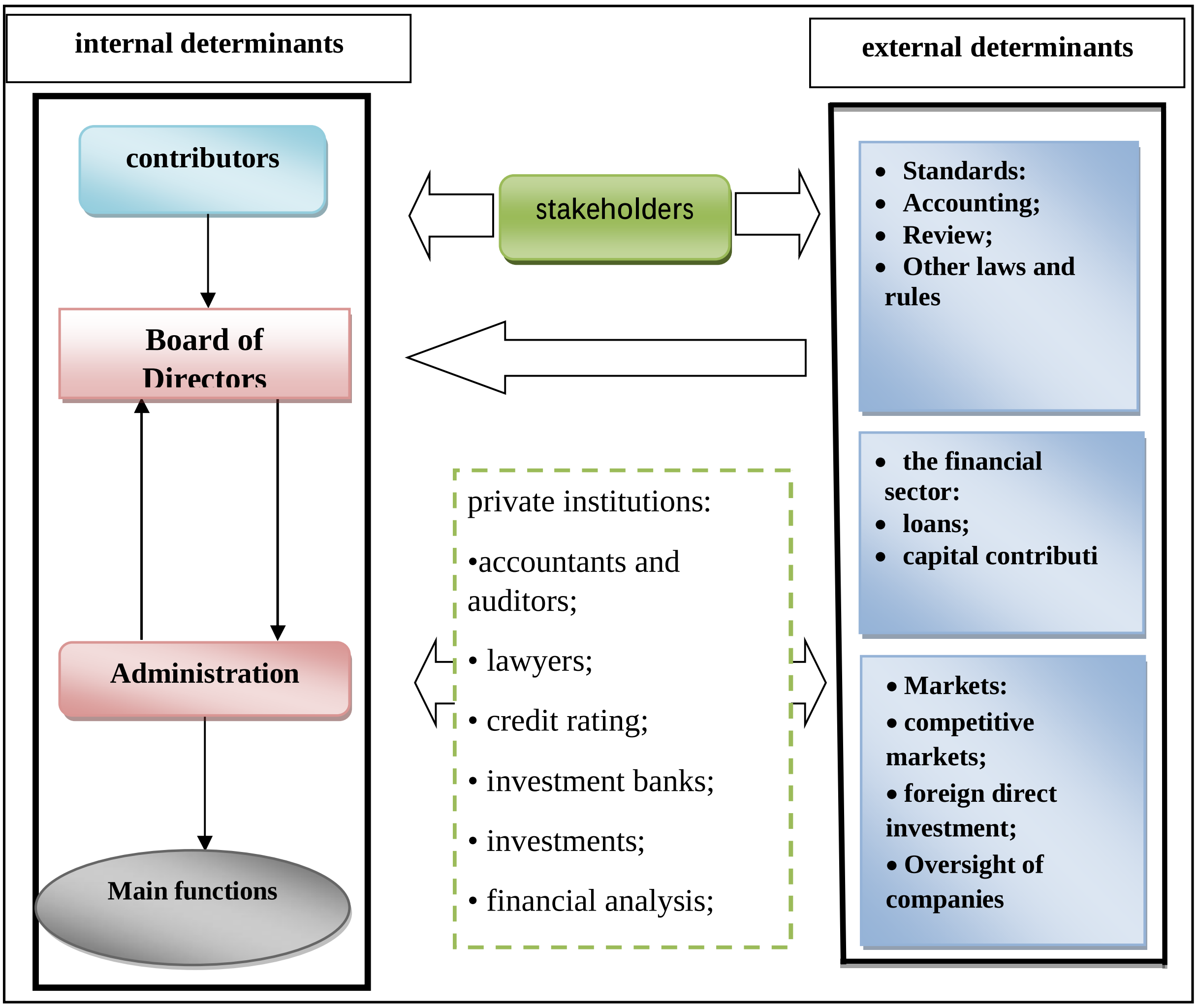


Source: Nouara Mohamed, Malika Hafid Chebaiki, **Corporate Governance in Algeria and its Compatibility with the Requirements Principles of Governance of International Institutions,** New Economy Journal, Issue No. 12, December 2017, p: 19.

1-3- Determinants of Corporate Governance:

Corporate governance has internal and external determinants that can be clarified through the following figure:

Figure No. (02): Internal and External Determinants of Corporate Governance



Source: Mustafa Youssef Kafi, **The Global Economic Financial Crisis and Corporate Governance (roots - causes - implications - prospects)**, first edition, Arab Society for Publishing and Distribution Library, Amman, Jordan, p.: 229.

1-4- Principles of Corporate Governance

The principles endorsed by the Organization for Economic Co-operation and Development (OECD) for corporate governance and agreed upon by the governments of OECD member states are as follows:

1-4-1- The role of stakeholders in corporate governance

The corporate governance framework should recognize stakeholder rights recognized by law or through mutual agreements and encourage active cooperation between companies and stakeholders in creating wealth, employment and the sustainability of a healthy company, The rights of stakeholders that are established by law or through mutual agreements must be respected, In addition to the need to protect the interests of stakeholders under the law and redress them in the event of a violation of their rights.

The corporate governance framework also allows for stakeholder participation in the corporate governance process, They should have access to relevant, sufficient and reliable information on a timely and regular basis (ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENTOECD, 2004, p 21).

1-4-2- Protecting the rights of shareholders

The corporate governance framework should ensure the protection of shareholder rights by:

- ✓ Securing the methods of registering ownership, transferring and transferring ownership of shares and obtaining information about the company in a timely and regular manner;
- ✓ -Shareholders have the right to participate and to obtain adequate information on decisions relating to fundamental changes in the company;
- ✓ -Shareholders should have the opportunity to actively participate and vote in general meetings of shareholders;
- ✓ -Capital structures and arrangements must be disclosed (Hakim and Hamad, 2011, p 66-67).

1-4-3- Disclosure and transparency

The principle of disclosure and transparency is one of the most important principles necessary to achieve or implement the corporate governance system, All shareholders must have access to accurate and timely information about the company's financial performance and ownership (Marc, 2012, p 140), In addition to the necessity of not concealing any information and showing it to the public in a timely manner, Disclosure of all financial statements, other information, performance reports, ownership and the method of using powers, and that the following information be disclosed:

- ✓ Financial statements and material matters relating to employees;
- ✓ -The risks that are expected to surround the company's business;
- ✓ Salaries and benefits granted to managers and employees;
- ✓ -The approved governance structures and policies;

- ✓ -Company principles and objectives (Ahmed, 2013,p 96).

1-4-4- Equal treatment of all shareholders

Means the equality of shareholders within each class and their right to defend their legal rights and to vote in the General Assembly on fundamental decisions, as well as protecting them from any suspicious acquisition or merger, or from trafficking in inside information, As well as their right to see all transactions with members of the Board of Directors or executive managers (Medhat, 2015, p 65).

1-4-5- Existence of an effective corporate governance framework

Ensuring an effective corporate governance framework relates to transparent, efficient and well-regulated markets with effective firms supervising markets and implementing existing regulations (Marc, 2012, p 140), It must be in accordance with the provisions of the law and clearly define the distribution of responsibilities between the various supervisory, regulatory and executive bodies (Mohamed, 2014, p 810).

1-4-6- Responsibilities of the Board of Directors

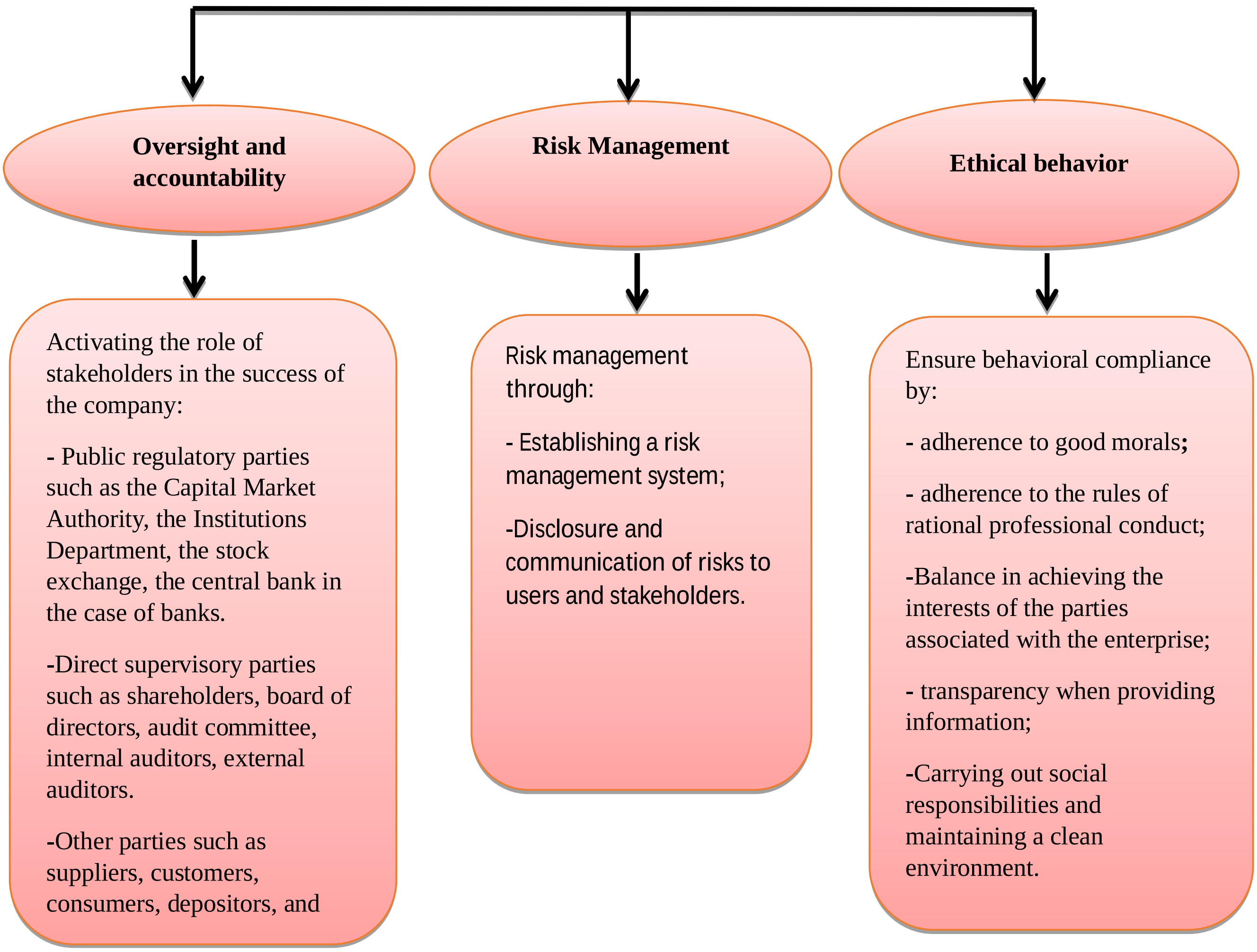
The governance framework should ensure a strategic guideline for the company, effective control of management through the board, and accountability of the board to the company and shareholders, The members of the Board should act on a basis that is well known to them, with good sincerity, proper interest and diligence in serving the interests of the company and the shareholders, In addition to the need for the Council to adhere to high ethical standards (ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENTOECD, 2004, p 21).

The decisions of the Board of Directors have different effects on the various categories of shareholders. The Board should work to achieve equal treatment for all shareholders, The Board of Directors must comply with the applicable laws and take into account the interests of stakeholders, And that this be done in particular, independently of the executive management, In order to fulfill these responsibilities, the members of the Board of Directors must be ensured that they have access to accurate and relevant information in a timely manner (Hakim and Hamad , 2011, p 71-72).

1-5- Pillars and requirements of corporate governance

The corporate governance requires pillars that ensure the existence of an effective and a sound framework embodying the principles of corporate governance, The financial figure illustrates the most important pillars of corporate governance:

Figure No. (03): Basic Pillars of Corporate Governance



Source: Akram Mohsen Al-Yasiri, Enas Nasser Oklah Al-Mousawi, **Contemporary Concepts in Strategic Management and Organization Theory,** Part Two, First Edition, Dar Safaa for Publishing and Distribution, Amman, Jordan, 2015, p.: 107.

2- the conceptual framework of the Algerian financial accounting system

Through this axis, we will try to introduce the Algerian financial accounting system and the scope of its application, Then we will explain its accounting organization and the principles on which it is based.

2-1- Definition of the Algerian financial accounting system

Law No. 07-11 November 25, 2007 defines the financial accounting system in Article No. 03 of it, and at the heart of this text is called “financial accounting” where it crossed according to the following (Official Gazette of the Algerian Republic, 2007, p 03):

Financial accounting is a system for organizing financial information that allows storing, classifying, evaluating and recording many base data (Global Blue Pages Publications, 2010, p 10), Presenting lists that reflect an honest picture of the financial position and property of the company (Haj Ali, 2009, p 08) , Its efficiency and the position of its treasury at the end of the financial year (Belaroussi, 2009, p 21).

From an economic point of view, the financial accounting system includes a reference framework for financial accounting, accounting standards and a code of accounts that are characterized by the creation of financial statements on the basis of generally recognized accounting principles and that comply with international financial and accounting requirements.

As for the legal aspect, the financial accounting system is a set of procedures and regulatory texts that regulate the financial and accounting work of companies that are obliged to apply it in accordance with the provisions of the law and in accordance with agreed international financial and accounting standards, The new accounting law aims to define the financial accounting system, which is called at the heart of the legal text financial accounting (Kattoush, 2009, p 290-291).

2-2- Scope of application of the financial accounting system

Article No. 4 of Law 07-11 November 25, 2007 stipulates that the following companies are required to maintain financial accounting, namely:

- ✓ -Every natural or legal person is obligated by a legal or regulatory text to maintain a financial account, taking into account the relevant provisions (Official Gazette of the Algerian Republic, 2007, p 03)
- ✓ Companies subject to the provisions of the Commercial Code;
- ✓ Cooperatives (Nouara and Malika, 2017, p 56);
- ✓ Natural or legal persons producing commercial and non-commercial goods or services if they carry out economic activities based on repetitive operations;
- ✓ All natural or legal persons subject to this by a legal or regulatory provision (Haj Ali, 2009, p 8-9);

Article No. 05 of the previous law stipulates that small enterprises whose business number, number of employees, and activity do not exceed the specified limit may maintain a simplified financial accounting (Belaroussi, 2009, p 21).

2-3- Organization of accounting

Articles 10 to 24 of Law 11-07 set out the regulation of accounting, and the following are some points that give more consistency to accounting control:

- ✓ -Accounting must meet the obligations of regularity, credibility and transparency associated with the process of holding, controlling, displaying and communicating the information it processes, The institution also determines, under its responsibility, the procedures necessary to establish an accounting organization that allows for both internal and external control (Official Gazette of the Algerian Republic,, 2007, p 4-5) ;

- -Accounting adherence to the national currency;
- - Accounting registration is according to double entry;
- -Each accounting record shall be accompanied by a supporting document (Global Blue Pages Publications, 2010, p 11-13) ;
- -It is not possible to set-off between an element of assets and an element of liabilities, unless the clearing is done on legal and contractual grounds;
- -Every company is obligated to keep the journal and ledger, inventory book;
- -Documents and books are kept for 10 years (Haj Ali, 2009, p 11-14) ;
- -The accounting is maintained manually or automatically;
- - Design of the procedure book;
- -The content of the notebooks is mandatory and limited (Belaroussi, 2009, p 22-24).

2-4- Accounting principles of the financial accounting system

The accounting principles and rules adopted by the financial accounting system are:

2-4-1- indication

The financial information and accounting data must be recorded on the basis of date supporting documents and documents that ensure their credibility.

2-4-2- Comparability

Any possibility of comparing the financial statements of previous years or with other institution (Nouara and Malika, 2017, p 57).

2-4-3- Commitment accounting (accrual basis)

The effects of transactions and other events are recognized when those transactions or events occur (not when payments are made in cash) and are recorded in the financial statements for the years to which they belong (OULD, 2010, p 31).

2-4-4- Continuity of exploitation

The financial statements are prepared to assume that the institution is going on and will remain operational for the foreseeable future, Accordingly, it is assumed that the institution has no intention or need for liquidation or to reduce the volume of its operations in general, but if there is such an intention or need, it must be disclosed.

2-4-5- Credibility

The financial statements should give an honest picture of the financial position of the institution (Haj Ali, 2009, p 9-10).

2-4-6 Historical Cost Principle

Assets and liabilities are recorded in the financial statements at the value of their acquisition, but there are cases in which the historical cost can be offset by the so-called fair value.

2-4-7- Giving priority to the economic reality over the legal aspect

It is necessary to account for financial operations and other events according to their economic reality and not based solely on their legal form, Because in some cases there is a contradiction between the legal form and the economic reality, For example, the rental loan process considers the rental process as the non-transfer of ownership from the legal point of view, It is an economical process of buying or selling (Belaroussi, 2009, p 22).

2-4-8- Understandability

The financial information is required to be presented clearly and without complexity so that users can understand it (Official Gazette of the Algerian Republic, 2007, p 04).

3-the contribution of the Algerian financial accounting system to strengthening the principles of corporate governance

By following the content of the laws related to the Algerian financial accounting system, we find that some articles of these laws indirectly contribute to strengthening the principles of corporate governance, we summarize them as follows:

3-1- The contribution of the Algerian financial accounting system to the protection of stakeholders

Article 17 and Article 18 of Law No. 07-11 of November 25, 2007 stipulates that each accounting record determines the source, content and specification of each information, As well as the reference document on which it is based, Each accounting writing is based on a document that is dated and affixed to a piece of paper or any support that guarantees credibility, preservation and the possibility of returning its content on the papers, The operations of the same nature that took place in the same place and on the same day are summarized in a single accounting document (Official Gazette of the Algerian Republic, 2007, p 04) .

Law 07-11 of November 25, 2007 stipulates the necessity of clarifying the principles and rules that should guide the accounting application, especially the recording of transactions, Evaluating and preparing financial statements, which reduces the risks of voluntary and involuntary interference by manual processing in the rules, as well as facilitating the examination of accounts (Ministry of Finance, 2009, p 02).

Law 08-11 of May 26, 2008, through the text of Article 19, also confirms that the financial statements, in their nature and quality, and within the respect of accounting principles and rules, must respond to the goal of giving an honest picture by providing appropriate information on the financial position, efficiency and change of the financial position of the institution, In the case in which it is found that the application of the accounting rule is not appropriate to provide an accurate picture of the institution, it is necessary to indicate the reasons for this in the appendix of the financial statements (Official Gazette of the Algerian Republic, 2008, p 13).

It should be noted here that the conflict of interest gap between the various actors with the institution can only be reduced by increasing the level of accounting disclosure, As well as proving and recording accounting operations, In addition to clarifying the various policies and rules related to evaluation, registration and presentation, Accordingly, and through what was included in the previous legal texts, we find that all of this is achieved, and this will inevitably contribute to protecting the interests of the various parties.

3-2- The contribution of the Algerian financial accounting system to the protection of shareholders' rights

The role of the financial accounting system in protecting shareholders' rights appears throughout its content, Article No. 8 and Article 11 of Law 156-08 of May 28, 2008, which includes the financial accounting system, The qualitative characteristics that must be available in the information such as relevance, accuracy, comparability and clarity, The financial statements must also highlight every important information that may affect the judgment of its users towards the institution (Official Gazette of the Algerian Republic, 2008, p 12).

Law No. 07-11, whose entry into force was postponed to January 1, 2010 by virtue of Ordinance No. 08-02 containing the Supplementary Finance Law of 2008, included an accounting system that replaced the National Accounting Scheme. This new accounting reference in accordance with International Accounting Standards (IAS/IFRS) made changes Very important at the conceptual level are:

- ✓ -Clarify the principles and rules that should run the accounting application, especially the recording of transactions, their evaluation and the preparation of financial statements, which reduces the risks of voluntary and involuntary intervention by manual processing in the rules, as well as facilitating the examination of accounts;
- ✓ Taking care of the needs of current or potential investors who own financial information about institutions that is both formatted and readable and allows comparison and decision-making (Ministry of Finance, 2009, p 02).

Through the foregoing, we find that the content of these laws focuses on how to prepare and deliver information to all users without bias, and this, of course, will guarantee the right of shareholders to track the achieved results and contribute to rationalizing their decisions.

3-3- The contribution of the Algerian financial accounting system to strengthening the principle of disclosure and transparency

Law 07-11 of November 25, 2007, through Article 25, obligates the institutions that fall within the scope of the application of this law to present the financial statements at least annually:

- ✓ budget;
- ✓ Calculation of results;
- ✓ Treasury liquidity table;
- ✓ schedule of change of own funds;
- ✓ An appendix that shows the accounting rules and methods used and provides complementary information on the budget and the calculation of results.

The financial statements must also adequately reflect the financial position of the institution, its efficiency, and any change that occurs to its financial condition, These lists reflect the overall operations and events resulting from the transactions of the institution and the effects of events related to its activity, and this is in accordance with what was approved by Article 26 of the previous law (Official Gazette of the Algerian Republic, 2007, p 4-5).

Law 11-08 of May 26, 2008, through articles 8 and 11, emphasized that the information contained in the financial statements must have appropriate qualitative characteristics, accuracy, comparability and clarity, And that the financial statements highlight every important information that could affect the judgment of its users towards the institution (Official Gazette of the Algerian Republic, 2008, p 12).

We note from the above that the content of the accounting system has determined the methods of preparing and presenting the financial statements, as well as the qualitative characteristics that must be available in the disclosed information, all of which enhances the principle of disclosure and transparency.

3-4- The contribution of the Algerian financial accounting system to achieving equal treatment among all shareholders

The financial accounting system has determined the minimum information that must be disclosed in order to achieve equality between the different shareholders despite their different contributions and positions, The following are the minimum requirements of the information that must be disclosed related to the equal treatment of all shareholders, and this is in accordance with what is approved by the financial accounting system:

- ✓ contributions included in the accounts according to the formula method;
- ✓ Minority interest;
- ✓ a description of the nature and subject matter of each precaution;
- ✓ Payment and receipt amounts;
- ✓ branches;
- ✓ the institutions contributing to the complex;
- ✓ Within the capital companies and for each class of shares;
- ✓ The number of licensed shares issued but not fully issued;
- ✓ the nominal value of the shares;
- ✓ Evolution of the number of shares between the beginning and end of the fiscal year;
- ✓ The number of shares owned by the Corporation, its subsidiaries and participating institutions;
- ✓ rights, privileges and possible reductions in shares;
- ✓ Taking care of the needs of current or potential investors who own financial information about institutions that is both formatted and readable and allows comparison and decision-making (Nouara, 2019, p 133-134).

3-5- The contribution of the Algerian financial accounting system to activating the role and responsibility of the board of directors

The role of the financial accounting system in activating the role of the board of directors is evident through the content of Law 07-11 of November 25, 2007, which confirms that the control of the financial statements is under the responsibility of the managers and is prepared within a maximum period of four months from the date of closing the accounting fiscal year and must be distinct from the information other that the Corporation may publish, Accounting must also fulfill the obligations of regularity, credibility and transparency associated with the process of holding, controlling, displaying and communicating the information it processes, Under its responsibility, the institution determines the procedures necessary to establish an accounting organization that allows for both internal and external control (Official Gazette of the Algerian Republic, 2007, p 4-5).

While Law 11-08 of May 26, 2008 stipulates that the financial statements must highlight every important piece of information that may affect the judgment of its users towards the institution, The honest picture of the financial statements should also reflect the managers' knowledge of the information they hold about the reality and the relative importance of the recorded events (Official Gazette of the Algerian

Republic, 2008, p 12), Accordingly, the financial accounting system allows for the control of accounts, which guarantees to managers, shareholders and other users their credibility, legitimacy and transparency (Kattoush, 2009, p 292-293).

3-6- The Algerian financial accounting system as an effective framework for corporate governance

The Algerian financial accounting system includes a set of laws, instructions and rules aimed at regulating the accounting and financial work of the institution, which began with the processes of registration, measurement, and then disclosure, It also defines the responsibility of the institution towards the users, which guarantees their rights, All of these laws and the rules and policies they contain are an effective framework for achieving corporate governance, Because the effective framework for corporate governance is the existence of laws that regulate the work of the institution and define responsibilities.

Conclusion

The financial accounting system and the laws and rules it contains contribute indirectly to strengthening the principles of corporate governance, The financial accounting system works to narrow the gap of conflict of interests between the various actors with the company, and this is by proving and recording the accounting operations and clarifying the methods of evaluation, registration and presentation, As well as determining the minimum level of disclosure required, all of this will contribute to protecting the interests of the various parties and guaranteeing their rights.

The financial accounting system has obligated national economic companies to present five financial statements, including the appendices, through which the operations not clarified in the other lists are clarified and explained, The system also defined the qualitative characteristics that must be available in the financial statements and accounting information, and focused on transparency and impartiality, and this is the principle of disclosure and transparency that achieves justice among shareholders, whether minority or majority owners, and protects their rights.

The Algerian financial accounting system includes a set of laws, instructions and rules that define the responsibility of the board of directors and clarify its rights and duties, The laws and rules included in the financial accounting system are considered an effective framework for achieving corporate governance because an effective corporate governance framework requires the existence of laws that regulate the company’s work and define responsibilities, Accordingly, and from the foregoing, we find that the good application of the financial accounting system and the commitment to its content by the national economic companies will contribute to achieving the principles of corporate governance.

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