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The Impact Of The Application of E-Governance Rules on Accounting Disclosure and Quality Of Financial Reporting

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Abstract:

This Study examined the impact of governance on the quality of financial Accounting Information. Regulators have asserted that strong E- governance enhances the transparency and validity of financial statements. Previous studies addressing the relationship between E-governance and financial reporting quality yield mixed results. This study employs analyst earnings forecasts to determine whether E- governance procedures impact the quality of accounting information. Using multiple measures of financial reporting governance and reporting quality, we find that higher reporting quality is associated with increased governance. We find that our market-based governance measures have a more consistent effect on nonprofit reporting quality than do our regulatory-based measures.

Our findings suggest that attempts to enhance the monitoring and oversight of nonprofits can lead to higher quality financial reports, particularly if those efforts involve market participants such as lenders or donors. effective implementation of the principles of E-governance affect the quality of financial *reporting, makes it more accurate and quality in a community study. Furthermore, found that there should be fully aware of the designers and users of financial statements of the concept of E-governance and the foundations of their application in industrial companies listed on valuable Financial Market. Besides that the study recommended that there will be effective implementation of the principles of E- governance affected the quality of financial reporting and makes it more precise and worth.*

Keywords: Accounting Disclosure, E-Governance, Financial Reporting, Financial Market.

INTRODUCTION:

Recently, the growing interests in the concept of E- governance in several highly developed economies and emerging, especially after the entry of many countries in the membership of the World Trade Organization and European conventions and enter into agreements free trade with many countries. These create a large amount of competition among companies at the local and global in terms of marketing and services, the ability to obtain funding sources. As the global investment in emerging markets is going through a phase of growing, this makes it necessary for companies to follow established policies and govern their work as principles of E-governance. Regarding to this issue the study deal with many economists, analysts and experts to the importance and the impact of the concept of E-governance in many respects the economic, legal and social efforts to the benefit of individuals, institutions and societies as a whole, including working to achieve comprehensive development in both developed and developing countries. Globally, there is no standard definition agreed upon by all economists, legal experts and analysts of the concept of E- governance, which may be due to overlaps in many matters of organizational, economical, financial and social businesses, which affect the society and the economy as a whole. Generally, the concept of E- governance on the creation, organization of applications and good practice for those in charge of the company's management so as to maintain the rights of shareholders, bondholders and employees of the company and its stakeholders and others, through a commitment to standards of disclosure and transparency.

Publicly available financial reports play an important informational role by mitigating the inherent principal-agent conflict within organizations. By utilizing information about the financial condition and performance of an organization, various stakeholders can make more informed investing, contracting, and regulating decisions. The appropriateness of stakeholder decisions is at least partly a function of the quality of the financial reports used. Recent well-known accounting related scandals in the for-profit setting suggest that financial reporting quality is not uniformly high. Failures in financial reporting also occur in the nonprofit sector. One recent example involves an organization whose charitable purpose was to collect and aggregate over $100 million in donations annually from various donors and distribute the funds to other charities in accordance with the originating donors' wishes.

Since its founding, the charity's financial reports received unqualified opinions from its auditor. When two former employees (who were fired for questioning the charity's accounting methods) tipped off authorities about potential financial fraud, the ensuing investigation revealed that millions of dollars were misallocated towards officer salaries and other operating expenses rather than being passed on to charities. The charity shut its doors, laid off all of its employees, and terminated all employee benefit plans.

Prior research shows that effective governance can increase the quality of financial reports in the for-profit setting. We analyze the effects of governance on the quality of nonprofit organization financial reporting. Because the financial reporting requirements, objective functions, and governance mechanisms of nonprofits are different from those of for-profit firms, it is not clear which, if any, of the existing nonprofit governing mechanisms affect the quality of nonprofit financial reports. By examining the relationship between the existing governance mechanisms and reporting quality, we hope to provide information that is valuable to nonprofit financial statement users as well as to individuals and regulators seeking to enhance nonprofit reporting quality.

We rely on prior research as well as federal and state regulatory reports to identify several measures of reporting quality that are unique to nonprofit organizations. Our governance measures include both market-based and regulatory-based measures. The results of our analysis are consistent with the interpretation that monitoring and oversight increase the quality of nonprofit financial reports. In general, we find that our measures of market-

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based governance have a more consistent effect on reporting quality than do our regulatory-based measures.

RELATED STUDY:

According to Bushman and Smith (2001) refers to the dual role of financial accounting systems. On the one hand the financial accounting system provides direct inputs to E- control mechanisms; on the other hand it provides indirect inputs into E- control mechanisms, by its contribution to the information contained in stock prices. The financial accounting information is the product of E- accounting and external reporting systems that measure and publicly disclose audited, quantitative data concerning the financial position and performance of publicly held firms.

Dahmash (2005), E- governance in companies and their relationship to the profession of accounting and auditing. This study intended to clarify the relationship between E- governance and the accountixddng profession and auditing, and pointed to boil to manipulation and fraud that is happening in some companies adversely affect all of investors, employees, banks, creditors and communications sector, technology, and the stock market, and will require investors for a long time to restore confidence in these companies . Which requires a fundamental re-examination of the relationship between auditors and management firms, especially the Governing Council. The solution lies Puffy application of the laws, and improve the ethics of implementers of these laws, whether They were members of the E- Governance or auditors and therefore there is an vital need at the present time to re-examine the concept of E- governance on one hand, accounting standards, manners and ethics of management on the other hand.

Holthausen and Watts (2001) strongly advocated the use of research methods that do not rely on capital market data to assess the relative quality of financial disclosures, especially when research using capital markets data yields inconclusive results. Recent research (e.g., Barron et al. 2002) examined analyst ‟ s reliance on financial statements to measure the quality of financial disclosures. Analysts are market intermediaries that aggregate both financial and non-financial information to derive estimates of earnings. Behavior of analysts provides insight into the activities and beliefs of investors that cannot be directly observed (Nichols 1989). Thus, we utilize analysts ‟ earnings forecasts to provide an alternative framework for examining the impact of E- governance on financial markets.

According to (Abu Bath, 2009) entitled after the application of the rules on E-governance and accounting disclosure quality of financial reports / Palestine. The study analyzed the impact of the discussion and application of the rules on E- governance and accounting disclosure quality of financial reporting, a field study on companies listed on the Palestine Securities Exchange. Where they were addressed to the concept of governance, and statement of significance, objectives and rules and the extent of the effect of disclosure and quality of financial reporting by those rules, and then clarify aspects of the interrelationship between them, has been used a fieldworker descriptive analytical method in the study by collecting data from sources of primary and secondary were collected data via a questionnaire specially set for this purpose, were spread to the study population numbering 150 of the Board of Directors and executives in listed companies in the Palestine Securities Exchange operating in Palestine, in data analysis and hypothesis testing, has been using SPSS and study a set of results was the most important: that the application of the rules of governance have contributed greatly to strengthening the role of accounting disclosure and the quality of financial reporting, and the evolution of the governance culture reflected mainly on improving the E- website and continuity towards the attainment of its objectives, research has shown the need supply the necessary ingredients to ensure the implementation of governance through the establishment of an administrative organization and professional integrated based on the foundations of the credibility of the board of directors and executives. One of the main recommendations of the study: the need to deepen the concepts and abide by the rules pronounced by the Organization for Economic Cooperation and Development through the holding of training courses necessary rehabilitation and work on the follow-up to modernize and develop the applications of sound rules of governance, and the need for a specialized committee workaround for this purpose in pursuing applications of the principles and rules of governance and controls associated with, and to disseminate the concept and culture of governance more broadly with all relevant parties, and the issuance of bulletins and instructions that mirror this affair, and abide by its rules and principles in the financial community.

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PRINCIPLES OF E- GOVERNANCE

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

The second principle Equal management of shareholders: Must ensure that the exercise of authorities under the methods of management in companies equal treatment for all shareholders, including small shareholders and foreign shareholders. It should be made available to all shareholders the opportunity to obtain effective redress in case of violation of their rights. The third principle: the role of stakeholders in the methods of the exercise of management companies Must involve the exercise of authorities under the methods of management companies to recognize the rights of stakeholders as established by law, and also works to encourage cooperation between companies and between stakeholders in creating wealth and employment N and sustainability of projects based on sound financial footing.

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

Fourth Principle Responsibilities of the Board of Directors Must indicate the method of exercising such powers under the E- governance guidelines to guide E-strategy, and should ensure effective follow-up to the executive management by the Governing Council and to ensure the accountability of the Board of Directors by the company and shareholders. E- governance in Country The increased attention to the rules and applications of E- governance recently in Country, in the context of this interest and the initiative of the World Bank has been the formation of a national team of consultants to conduct a study to evaluate and study the legislative environment in Country and the commitment of the legal framework and regulatory and oversight of the laws of Country rules and standards International E- Governance.

The purpose of this study was to evaluate rules that ensure the proper application of E- governance in Country. Where this study accomplished that the most important strengths and weaknesses in the climate of E-governance in all of the financial sector and corporations in Country. The study pointe out in its entirety to the concept and principles of E- governance in Country is present in many of the laws and the most important of the Companies Law No. (22) for the year 1997 and its amendments and the Securities Law No. (76) for the year 2002 and the Banking Law No. (28) for the year 2000 and the Law the organization of the accounting

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profession legal number (73) for the year 2003 and other laws and regulations that are related to E- governance in Country, either directly or indirectly. There are also many positive points in these laws and consistent with the concept of E-governance in Country, but on the other hand there are a number of issues that need to be developed or modified to prevent any negative practices.

It is the positive aspects of E-governance in Country, we find that the law guarantees the fundamental rights of shareholders such as participation in the distribution of profits and voting at general assembly and access to information about the company and many others. The accounting and auditing standards consistent overall and international standards. As for the manifestation of the negative, there are some items that you need to study and modification, including the absence of any type of legal separation between the responsibilities of executives within the Governing Council and non-executive directors, and that the perception of independent directors is not existing in Country legislation relevant as to the procedures in appointment of members of various committees in the company as members of the Audit Committee and other executive committee members lack the transparency and credibility.

The relationship between the application of the principles of governance and the quality of financial reporting: The most important motives for the application of the rules of governance for industrial companies and financial markets is to return customer confidence of investors and shareholders and management of companies in those markets in order to keep away from prone to landslides or

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failures due to the inaccuracy of the data and accounting information and the lack of transparency and lack of accountability in financial reporting, so the accuracy and objectivity in reporting financial side of compliance with laws and regulations issued by the state and professional associations specialized have clear impact in stimulating the movement of the stock market and boost trading and stock prices, as well as the consequence of timing appropriate to disclose all the information necessary to do so, which affects the capability of prediction for all the information and the behavior of investors both cases, and prospective. The direct target of applying the principles of E- governance is to bring back confidence in the accounting information as a effect of achieving the overall concept of this information as the information produced by the financial reports are the most important pillars that can be relied upon to measure the size of the risks of various types such as: market risk and liquidity risk and interest rate and business risk management and price exchange.

SAMPLE AND DESCRIPTIVE STATISTICS

Our sample is comprised of firms that have data available from the E- Library, Compustat, and the Institutional Brokers Estimates Systems (I/B/E/S). The E-Library contains evaluations of the governance structures of sample firms after evaluating the seven component ratings. Firms with excellent E-governance ratings receive a grade of A while those with poor governance structures receive a grade F. In order to complete our evaluation, we transformed grades of A"s into a governance score of

5, and those with F‟s into a governance score of 1. We calculated the market capitalization of sample firms as well as their market to book ratios using data from Compustat. We obtained analysts forecast of EPS, actual EPS and the number of analysts following a firm from the I/B/E/S database. Matching across the three data sources resulted in a final sample of 1,150 firms with complete observations.

The descriptive statistics for the sample firms are provided in Table 1. The sample firms exhibit a fair amount of time-series variability in earnings, with the average (median) value of CHNIj,t taking a value of 1.239 (0.445). In addition, their three year standard deviation in earnings is relatively high. Firms tend to be large (average market capitalization of 2,407 million dollars) and have a relatively large high number of analysts following.

Variable	Mean	Median	SD	75%	25%
m(U-SE)i	-0.022	0.001	2.407	0.009	-0.001
m(ρ)i	0.364	0.336	0.59	0.691	0.003
NUM i	11.267	9.000	7.276	15	6
SDEPSi	0.561	0.300	0.479	0.630	0.280
CHNIi	1.239	0.445	2.581	1.072	0.184
MKTCAPi	2,407	1,413	2,996	2,716	704
MKBKi	3.156	2.571	1.979	3.901	1.302
%INSi	0.122	0.055	0.174	0.137	0.024
BESTi	84.846	86.000	8.631	91.000	80.000
CGRATEi	3.534	3.556	0.381	4.105	3.308

Variables are defined as follows:

m(U-SE)I = mean of the U-SE variable
m(ρ)I= mean of the ρ variable
NUM i = number of analysts following the firm,
SDEPSi= the standard deviation of EPS
CHNIi= absolute value of change in earnings,
MKTCAPi= market capitalization in millions of dollars,
MKBKi= market value of firm deflated by to book value of equity,
%INSi= % insiders on board of directors,
BESTi = % of E- governance best practices

The E- governance characteristics reveal some interesting facts about our firms. On average, the boards of directors of our sample companies are composed of 12.2% insiders. In addition, the sample firms follow approximately 85% of the best practices defined by the E- Library database1. Finally, the firms received an average aggregate E-governance grade of 3.534, or an average grade of C. Interestingly, according to the best practices checklist, the average grade would be a B.

RESULTS

Consistent with prior research (e.g., Barron et al. 2002) ranked regression is used in our primary analysis. Table 2 provides results of a ranked regression of the relationship between E- governance measures and information properties of analysts‟ forecasts. The dependent variable in Columns 1 and 2 is dispersion of analysts‟ forecasts. The regression results indicate that dispersion in analysts‟ forecasts are positively related to the number of analysts following the company, NUM, and the variability in net income, CHNI. Further, as the size of the corporation increases, the dispersion of analysts‟ forecasts decreases. Contrary to our expectations, dispersion is not related to the two variables of interest: the percent of best practices an organization follows, BEST, or to their E- governance rating, CGRATE. These results suggest that the accuracy of analyst forecasts are not impacted by variation E- governance structures.

Columns 3 and 4 of Table 2 provide the rank regression results for the relationship between E- governance measures and analysts consensus. Complimenting the results presented above, consensus is negatively correlated with the number of analysts following the company, NUM, and with the variability in net income, CHNI. The

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size of the company, MKTCAP, is not related to analysts‟ consensus. In contrast to the previous regressions, we find some evidence of a relationship between forecast dispersion and the variables of interest. Specifically, the percent of E- governance best practices followed, BEST, is modestly related to analysts‟ consensus. However, the coefficient on CGRATE is not significant. These results suggest that there is limited evidence of a relation between E- governance quality and the characteristics of analyst forecasts.

Dependent Variables:				
Ind. Variables:	m(U-SE)i		m(ρ)i	
INT.	471.69 (105.9)*	545.60 (96.1)*	861.42 (7.72)*	601.73 (5.93)*
NUM i	0.159 (4.78)*	0.157 (4.73)*	-0.069 (-1.97)**	-0.064 (-1.83)*
SDEPSi	-0.046 (-1.35)	-0.046 (-1.35)	0.061 (1.69)***	0.061 (1.68)***
CHNIi	0.192 (5.98)*	0.193 (6.00)*	-0.061 (-1.82)***	-0.065 (-1.92)***
MKTCAPi	-0.278 (-8.17)*	-0.277 (-8.14)*	-0.019 (-0.53)	-0.019 (0.53)
MKBKi	-0.028 (-0.92)	-0.028 (-0.92)	0.023 (0.73)	0.020 (0.64)
%INSi	11.44 (0.20)	-6.075 (-0.11)	-67.08 (-1.10)	-16.44 (-0.28)
BESTi		1.313 (1.13)	-2.767 (-2.27)**	
CGRATE		11.24 (0.44)	5.489 (0.21)	
Adj R2	0.1054	0.1046	0.0075	

Table 2: Rank Regression Analysis of Cross-Sectional Relationship Between Aggregate E-Governance Measures and Information Properties

Table 3 reports the results from regressing dispersion and consensus on Consistent with the results of Table 2, many of the control variable are significantly related to analyst forecasts accuracy and dispersion. Moving to the analysis of the disaggregated E-governance grades, we find little

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evidence of a relationship between E-governance and forecast accuracy. Specifically, no significant relationships are indentified between analyst forecast accuracy and E- governance measures. In the dispersion regressions, the only relationship that was marginally significant was between consensus and Litigation and Regulatory Problems, LITPROB. Firms with fewer litigation and regulatory issues had greater consensus among analysts. Overall, the results of this analysis provide extremely weak evidence of a relation between E-governance and analyst forecast characteristics. In both of those papers, stronger E- governance directives did not appear to contribute to more transparent and reliable financial statements. Our results indicate that stronger E- governance ratings, do not seem to influence the information environment faced by analysts.

Table 3: Rank Regression Analysis of Cross-Sectional Relationship between Disaggregated E- Governance Measures and Information Properties

Ind. Variables:	m(U-SE)i	m(ρ)i
INT.	401.1 (2.69)*	736.54 (4.41)*
NUM i	0.158 (4.73)*	-0.066 (-1.87)***
SDEPSi	-0.047 (-1.38)	0.062 (1.72)***
CHNIi	0.194 (6.03)*	-0.064 (-1.87)***
MKTCAPi	-0.276 (-8.09)*	-0.018 (-0.49)
MKBKi	-0.028 (-0.91)	0.019 (0.60)
%INSi	22.38 (0.37)	-58.44 (-0.92)
BDEFF	-6.03 (-0.40)	4.67 (0.29)
BDCOMP	11.88 (0.98)	-4.52 (-0.35)
CEOCOMP	-2.44 (-0.24)	-1.80 (-0.17)
SHREP	18.62 (0.76)	-6.57 (-0.25)
LITPROB	2.72 (0.15)	32.11 (1.69)***
TAKEOVER	11.47 (1.16)	-12.09 (-1.16)
ACC	-8.24 (-0.97)	5.20 (0.58)
STRAT	19.44 (0.70)	-45.55 (-1.54)
Adj R2	0.1027	0.0022

The benefits of increased regulation and E- governance scrutiny are difficult to measure. "The promised benefits of the reform movement are hard to spot and difficult to quantify: frauds that never happened, or the boost to investor confidence that has helped bring life back to U.S. markets." Prior empirical research examining the benefits from strong E- governance provide mixed results. The current paper evaluates the impact of E- governance ratings, developed by The E- Library, on the information environment of analysts. We postulate that stronger E- governance will lead to improved financial reporting. Enhanced financial reporting should result in less dispersion and greater consensus in analysts‟ forecasts as they seek less idiosyncratic information. The results provide only weak evidence of a relation between E- governance and enhanced financial disclosure.

CONCLUSION:

The study concluded that there is effective implementation of the principles of e-governance affect the quality of financial reporting and makes it more accurate and quality in a community study. The study found that there is a relationship between E-governance (the principle of the family equal to the shareholders) and the quality of financial reports. The study recommends that there be quality in the financial reports and that the principle of disclosure and E- governance culture in which helps to attract capital and keep the rights of shareholders, as shown the effectiveness of internal control and strength. The study recommends that there will be quality in the financial reports as a matter of principle administration in the implementation of its functions in terms of equality between classes of shareholders and senior managers referred when necessary and provide a formal system characterized by transparency to achieve the necessary degree of accountability and subsidiaries.

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