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The role of the financial accounting system in enhancing governance in the commercial corporate sector

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Abstract---This study seeks to emphasize the importance of the financial accounting system in reinforcing and operationalizing governance principles within the commercial corporate sector. The financial accounting system is regarded as a critical instrument for restoring confidence in financial statements by improving their quality and reliability. It plays a vital role in facilitating the implementation of governance by enhancing transparency and credibility in financial operations. Moreover, the study examines the role of Algerian legislation in promoting these principles through relevant agreements and statutory provisions, thereby reinforcing corporate governance and contributing to institutional stability.

Keywords---Financial accounting system, Governance, Commercial corporations.

Introduction

Governance has become increasingly significant on a global scale due to its influence on enhancing economic, investment, and financial performance. The need to implement governance frameworks and monitor their effectiveness has grown more evident across various administrative structures, aiming to safeguard the rights of shareholders, investors, and the wider community.

This necessity stems from the prevalence of fraudulent activities and the widespread occurrence of corruption in certain companies, which often manipulate financial reports to conceal their actual financial status. These circumstances underscore the urgent need for an effective governance system that regulates corporate activities within a framework of legal provisions, regulations, and guidelines intended to prevent the misuse of administrative authority at the expense of shareholders' interests.

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Given the pivotal role that corporations play in driving national and global economic growth, such entities act as instruments through which countries can enhance their openness and integration into the international economy. To ensure the sustainability of a stable and resilient economic environment, it is essential to recognize the role of corporate governance in supporting national economic frameworks by embedding governance principles within the corporate structure, principles actively promoted and developed by the state.

Accordingly, this study addresses the key research question: What role does the financial accounting system play in promoting governance within the corporate sector? It examines the extent to which the financial accounting system contributes to enhancing governance practices in commercial enterprises.

Study Objectives:

- To define the concept of governance and highlight its relevance for commercial enterprises, particularly in terms of improving financial and administrative performance.
- To explore the role of the financial accounting system in reinforcing governance principles and promoting transparency and integrity.
- To examine how the financial accounting system functions as a mechanism for implementing governance principles and ensuring transparency and accountability in financial activities.
- To propose a practical framework or set of recommendations aimed at strengthening governance within corporations through the effective use of accounting systems.

Study Plan:

To address the stated research problem, the study is organized into three primary sections:

- The first section presents the conceptual framework of corporate governance.
- The second section investigates the development of the financial accounting system in relation to enhancing governance principles.
- The third section analyzes the financial accounting system as an operational mechanism for implementing corporate governance.

1. Conceptual Framework of Corporate Governance

The term *governance* is considered a contemporary concept that has attracted considerable attention in recent years due to its relevance in achieving performance quality and excellence by ensuring transparency, discipline, and fairness. This is accomplished by regulating corporate managerial conduct to ensure the optimal utilization of available economic resources, thereby maximizing benefits for all stakeholders associated with the company.[1]

1.1 The Concept of Corporate Governance

Corporate governance refers to a system of rules through which a company is directed and controlled. It encompasses mechanisms that define the relationships between the board of directors, executive management, shareholders, and other relevant stakeholders. These mechanisms involve specific procedures designed to streamline decision-making processes and ensure transparency and credibility. The fundamental aim is to safeguard the rights of shareholders and other stakeholders while fostering fairness, competitiveness, and transparency within the market and broader business environment.[2]

According to the Organisation for Economic Co-operation and Development (OECD), corporate governance constitutes a framework of relationships among company management, the board of directors, shareholders, and all relevant parties. It represents the process through which a company's

[1] Karim Gouba, *The Impact of the Development of the Internal Audit Profession on Supporting Internal Control in Activating Corporate Governance*, University of Ahmed Bouguerra, Boumerdes, June 2017, Issue 22, p. 134.

[2] http://cma.org.sa/Awareness/piblications/booklets/booklet_13.pdf

objectives are set, its performance monitored, and its outcomes evaluated. Governance thus provides the structural foundation for the efficient and effective deployment of resources.[3] Additionally, it offers incentives for both the board of directors and senior management to pursue objectives that align with the interests of the company and its shareholders, under conditions of sound oversight and strategic direction.

Multiple definitions of corporate governance have been proposed, each shaped by the cultural and intellectual context of its origin. One notable definition is provided by the United Nations Development Programme (UNDP), which describes governance as "the exercise of economic, political, and administrative authority to manage the affairs of a society at all levels." Governance encompasses the mechanisms, processes, and institutions through which individuals' interests are expressed, legal rights are exercised, obligations are fulfilled, and disputes are resolved.[4]

The World Bank, in 1992, defined "good governance" as synonymous with effective and efficient economic management. This definition was introduced as a progressive framework aiming to respond to various criticisms directed at governments and institutions, particularly those concerning the top-down implementation of structural reforms, which often resulted in institutional deficiencies rather than mobilizing the latent capacities and resources of society.

As such, it becomes essential to associate good governance with participatory development, human rights, and democratic practices, while simultaneously underscoring the importance of legal compliance, effective public sector administration, anti-corruption measures, and the curtailment of excessive and unwarranted expenditures in both administrative and military domains.[5]

Corporate Governance in Algerian Legislation:

In July 2007, Algeria hosted the first international conference on "Corporate Governance." This event provided a timely platform for all stakeholders in the corporate sector to convene. The objective of the conference was to deepen participants' understanding of the governance concept and its associated challenges by examining practical applications and exploring mechanisms to enhance organizational performance.

This was achieved through heightened awareness of the importance of corporate governance and its role in improving the competitiveness of Algerian enterprises. Additionally, the conference functioned as a space for drawing insights from international experiences, particularly as governance-related issues had become increasingly critical. In response, the state established an entity known as the "Good Governance Committee," albeit primarily to address the concerns of external stakeholders.

Algeria's efforts to institutionalize governance principles further included the establishment of the National Commission for the Prevention and Fight against Corruption in 2006. This body is mandated to propose relevant policies, directives, and measures to curb corruption; to gather information necessary for identifying and preventing corrupt practices; and to conduct periodic assessments of the legal and administrative tools in place. The Commission has also joined the Arab Network to Promote Integrity and Combat Corruption, an organization founded in 2008 that brings together 42 ministries and public entities from across the Arab region.

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[3] www.oecd.org

[4] Djamila Kherkhach and Belajouz Hocine, *The Role of Internal Control in Activating Corporate Governance in Algerian Commercial Banks*, *Journal of Law and Humanities (Economic Studies)*, Issue 1, University of Ziane Achour, Djelfa, p. 59.

[5] Djamila Kherkhash and Belajouz Hocine, *Ibid.*, p. 218.

Moreover, the inaugural conference on institutional good governance, held in January 2007, provided another key forum for actors within the institutional landscape. A principal outcome of this conference was the recommendation to develop an Algerian Charter for Institutional Good Governance, which represented the first scientific initiative of its kind in the national context.

Algeria also played a role in the establishment of a Corporate Governance Working Group, which maintains close cooperation with the Global Corporate Governance Forum (GCGF) and the International Finance Corporation (IFC) to develop a comprehensive governance framework for Algerian corporations. This collaboration led to the publication of the Algerian Guide for Corporate Governance, supported by both the CARE Association and the National Committee for Corporate Governance in Algeria.

Building upon the momentum generated by the publication of this guide, the Algerian Corporate Governance Working Group inaugurated the Algerian Governance Center in October 2010 in Algiers. The Center was created to serve as a support platform for Algerian companies, assisting them in aligning with the guide's provisions, adopting international best practices in governance, and promoting public awareness about the concept. The launch of the Center marked a renewed opportunity for the national business community to reaffirm its commitment to enhancing the country's economic environment and promoting core democratic governance values, such as transparency, accountability, and responsibility.[6]

1.2 Importance and Features of Corporate Governance

1.1.2 Importance and Benefits of Corporate Governance

The significance of corporate governance is evident in several key domains, including:

- **Economy:** Corporate governance plays a vital role in improving economic efficiency by contributing to the stability of financial markets, enhancing transparency, and attracting both domestic and foreign investment. It also serves to reduce the levels of risk faced by the broader economic system.
- **Companies:** The implementation of governance principles enables companies to cultivate a robust operational environment that supports improved performance, particularly when combined with effective managerial practices. This, in turn, leads to an increase in the firm's economic value. Furthermore, sound governance facilitates access to capital markets, reduces financing costs, supports expansion efforts, mitigates risks, and fosters trust among stakeholders.
- **Investors and Shareholders:** Corporate governance is designed to safeguard investments from potential losses resulting from the misuse of authority in ways that conflict with the interests of investors. It also seeks to enhance investment returns, uphold shareholder rights, and maintain the overall value of investments, while mitigating conflicts of interest. Adherence to governance standards by a company strengthens the involvement of shareholders in critical decision-making processes and guarantees their right to timely and transparent access to information concerning their investments.
- **Other Stakeholders:** Governance practices ensure the protection of all stakeholder rights as stipulated in the company's founding legal documents. These practices aim to cultivate strong and effective relationships between company management and key external and internal actors, including employees, suppliers, and creditors.[7] The implementation of sound corporate governance increases trust among all involved parties and significantly contributes to improved company performance and the achievement of strategic objectives.

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[6] Ministry of Small and Medium Enterprises and Traditional Industries, *Charter of Good Governance for the Algerian Enterprise*, 2009, p. 14.

[7] Karim Gouba, *Ibid.*, p. 134.

2.2.2 Features of Corporate Governance:

a. Governance as a Tool for Partner Protection:
This function is reflected in the responsibility assumed by partners for any losses, operational disturbances, or bankruptcies that may affect the company. This responsibility arises from their full capital contributions in joint-stock companies and from personal liability in partnership structures. However, such responsibility does not diminish the extent of their involvement or the obligations shareholders bear in relation to investment losses.
The rights of shareholders, as delineated in the corporate agreement, include the right of ownership and its associated prerogatives; the right to participate in corporate decision-making and supervise its execution; and the right to submit complaints and initiate legal proceedings before administrative or judicial bodies. An additional component ensuring partner protection is the right to access detailed information on the company's activities, secured through the principle of disclosure and transparency, as mandated by Article 656 of the Algerian Commercial Code.

b. Governance as a Monitoring Tool for Companies:
The emergence of corporate governance is largely attributed to the financial collapses experienced by prominent international corporations and financial institutions. Within the governance framework, strategic direction and effective oversight of managerial activities fall under the purview of the board of directors, which holds primary responsibility for the company's administrative performance[8]. The board is accountable to both the company and its shareholders, with duties formally defined within a regulatory structure encompassing the following principles:

- Making decisions based on accurate and comprehensive information, and exercising due diligence in a manner that serves the best interests of the company and its shareholders.
- Ensuring equitable treatment of all shareholders, particularly when decisions may disproportionately affect specific groups.
- Guaranteeing full legal compliance and acting in alignment with the interests of the enterprise and its shareholders.
- Maintaining the ability to render objective and independent decisions, uninfluenced by managerial pressure.
- Ensuring timely access to appropriate and precise information, thereby enabling the board to fulfill its responsibilities effectively.

Foreign investment and capital are of considerable significance to host economies. This significance is reflected in sustained efforts to cultivate a favorable environment for foreign investors and to attract substantial inflows of international capital. Since commercial corporations serve as principal conduits for facilitating such investment, the legal framework governing corporate governance extends beyond the conventional provisions of corporate law, which typically address incorporation, management, and operational procedures. It also encompasses broader legal mechanisms aimed at fostering a stable and attractive investment climate, drawing on complementary domains of economic legislation such as investment law, financial market regulations, and bankruptcy statutes.
Among the central priorities of Algeria is the promotion of accountability, transparency, and the combatting of administrative and financial corruption in all its manifestations. The state also places emphasis on attracting both domestic and international investment through targeted legislation, legal safeguards, and investor incentive schemes. Additionally, the adoption of high ethical standards in commercial and economic activities remains a key objective. Ethical conduct within companies is regarded as one of the most effective approaches to fostering sound and successful governance.

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[8] Badi Fatima Zahra, *The Role of the Board of Directors in Corporate Governance in Joint-Stock Companies*, *Mediterranean Journal of Law and Economics*, Vol. 4, No. 2, p. 59.

The financial accounting system further established a set of principles and attributes codified in Executive Decree No. 08/165, which includes thirteen officially approved principles.

2.2 Concept of Tax Auditing:

Tax auditing refers to the process of examining tax declarations, records, documents, and files of individuals or legal entities subject to taxation, with the aim of verifying the accuracy of the information submitted in their tax records. The official responsible for conducting the audit must employ the most appropriate investigative and analytical techniques to assess the content of the declarations and the accompanying documentation. Tax auditing therefore constitutes a procedural framework designed to scrutinize tax filings submitted by taxpayers and to reconcile them with their corresponding accounting records.

3.2 Concept of the Effectiveness of Tax Auditing:

Tax auditing is regarded as one of the most essential mechanisms for enforcing compliance with tax obligations. It represents a core objective within the Algerian tax system and is considered a principal criterion for determining the system's effectiveness or shortcomings. This necessitates a rigorous evaluation of both its effectiveness and efficiency.

a. Concept of Effectiveness:

The United Nations Population Fund defines effectiveness as "a measure of the extent to which a program achieves its intended results." Alvar defines effectiveness as "the ability of an organization to survive, adapt, and grow, regardless of the specific objectives it achieves." In this context, effectiveness denotes the successful attainment of predefined objectives, affirming the existence, continuity, and sustainability of an institution or system.

b. Concept of the Effectiveness of Tax Auditing:

The emergence of corporate governance is attributed to the financial collapses suffered by major global corporations and banking institutions. Within the framework of corporate governance, strategic direction and effective oversight of company management must be ensured by the board of directors, which holds primary responsibility for administrative performance. It is also essential to ensure that the board of directors is accountable to both the company and its shareholders. The responsibilities of the board must be clearly defined within a framework of authority that includes the following principles:

- Acting on the basis of sufficient and reliable information, while exercising diligence and care in the interest of the company and its shareholders.
- Ensuring fair treatment of all shareholders, particularly in cases where decisions may affect different groups of shareholders.
- Ensuring compliance with legal provisions and acting in the best interest of both the company and its shareholders.
- Maintaining the ability to make objective and independent decisions concerning the company, free from managerial influence.
- Upholding the right to receive timely, accurate, and relevant information to enable the board to carry out its duties effectively.[9]

Foreign investment and capital hold significant value and benefit for any country in which they are established. This is reflected in the openness of such countries to foreign investment, with efforts aimed at attracting the highest possible volume of foreign capital. As commercial companies constitute the most important avenues for foreign investment and capital, the legal framework for corporate governance extends beyond company law, which governs the legal foundation for establishing, managing, and operating companies. It also involves the provision of a stable and attractive legal

[9] Ali Menad and Mohamed Mouloud Ghezil, *Assessing Corporate Governance in Algeria Using Affiliation Countries*, *Economic Notebooks Journal*, Vol. 2, No. 1, p. 93.

environment for investment and capital, by integrating other areas of economic legislation, including laws related to investment, financial markets, and bankruptcy.

Among Algeria's most prominent objectives is the promotion of accountability, transparency, and the fight against administrative and financial corruption in all its forms. In addition, the state seeks to utilize all available means to attract both domestic and foreign investment, whether through legislation, legal provisions, or incentives granted to investors. Moreover, Algeria emphasizes the adoption of high ethical standards in business and economic transactions between corporate actors. The ethical dimension of corporate conduct is among the most effective elements in promoting sound and successful governance.[10]

2. Introduction of the Financial Accounting System towards Strengthening Governance Principles

2.1 Concept of the Financial Accounting System

2.1.1 From an Economic Perspective:

"Financial accounting is a system for organizing financial information that enables the storage, classification, presentation, and documentation of quantitative base data. It provides reports that accurately reflect the financial position, assets, and treasury status of an institution at the end of the fiscal year."[11]

2.1.2 From a Legal Perspective:

"The new financial accounting system is a set of procedures and regulatory texts that govern the financial and accounting operations of institutions that are legally required to apply it, in accordance with the provisions of the law and internationally agreed-upon financial and accounting standards."[12]
From the two definitions above, it can be concluded that the fundamental purpose of establishing the financial accounting system is as follows:
The financial accounting system is designed to regulate financial information within a legal framework and in accordance with international accounting standards, in order to meet investor needs by providing a truthful and clear representation of the institution's financial position.
According to Articles 02, 04, and 05 of Law No. 07-11, the financial accounting system specifies its scope of application as follows: "Any natural or legal person obligated by legal or regulatory text to maintain financial accounting, in accordance with its relevant provisions."
Entities required to maintain financial accounting include:

- Companies subject to the provisions of commercial law.
- Cooperatives.
- Natural or legal persons involved in the production of goods or services, whether commercial or non-commercial, if their activities are based on recurring operations.
- Any other natural or legal persons subject to accounting requirements under legal or regulatory texts.
- Small entities, whose turnover, number of employees, and nature of activity do not exceed a specified threshold, are permitted to maintain simplified financial accounting.

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[10] El Abdi Dalal, *Corporate Governance and Its Role in Achieving the Quality of Accounting Information: Case Study of Alliance Insurance Company – Algeria*, Doctoral Thesis in Commercial Sciences, Accounting Specialty, Mohamed Khider University, Biskra, 2016, p. 27.

[11] Article 3 of Law 11/07 dated 15 Dhu al-Qi'dah 1428 AH, corresponding to November 25, 2007, regarding the financial accounting system, *Official Gazette* No. 74, p. 3.

[12] Sofiane Ben Abdelaziz and Youssef Moumni, *The Financial Accounting System as a Mechanism for Activating the Tax Audit Process: A Field Study of Tax Audit Services in Béchar Province*, *Journal of Financial, Accounting and Administrative Studies*, Vol. 4, No. 1, p. 603.

The financial accounting system also established a set of principles and characteristics, as outlined in Executive Decree No. 08/165[13], of which thirteen principles have been officially approved.

2.2 Concept of Tax Auditing

Tax auditing refers to the examination of declarations, records, documents, and supporting files of taxpayers, whether natural or legal persons, with the purpose of verifying the accuracy of the information contained in their tax files. The individual responsible for conducting the audit must employ the most effective methods of inquiry, clarification, and investigation with respect to everything stated in the declarations and attached documentation[14]. Thus, tax auditing constitutes a set of operations aimed at monitoring the tax declarations submitted by taxpayers and comparing them to their accounting records.[15]

2.3 Concept of the Effectiveness of Tax Auditing

Tax auditing is considered one of the most essential systems for enforcing taxpayer obligations. It constitutes a primary goal of the Algerian tax system and is a key indicator in measuring its success or failure. Consequently, there is a need to assess its effectiveness and efficiency.

a. Concept of Effectiveness:

The United Nations Population Fund defines effectiveness as "a measure of the extent to which a program achieves its intended results."

Alvar states that effectiveness refers to "an organization's ability to survive, adapt, and grow, regardless of the specific goals it achieves."[16]

Therefore, effectiveness refers to the achievement of established goals, affirming the existence, continuity, and sustainability of the institution or system.

b. Concept of the Effectiveness of Tax Auditing:

Effectiveness is a critical indicator for evaluating the success of tax auditing in attaining its intended objectives. To assess both the effectiveness and efficiency of tax auditing, it is essential to examine the results obtained through the implementation of its programs. Accordingly, the effectiveness of tax auditing may be defined as the degree to which the goals underlying the imposition of tax controls are achieved, including the ability to recover public treasury funds, which ultimately benefit society as a whole.

Effectiveness, therefore, lies in the balanced achievement of the objectives for which tax auditing was established. However, certain goals may come into conflict. For example, financial objectives may clash with social objectives, particularly in regions where intensive audit programs are implemented to recover lost treasury revenues. This may lead to a compromise in the social objective of ensuring equal treatment among all taxpayers. Given the potential conflict among these objectives, it is imperative for the legislator to balance the three core interests: the interest of the state, the interest of the taxpayer, and the interest of society.[17]

The application of the financial accounting system has resulted in several differences from the tax system. These differences are attributed to various factors, which will be addressed in detail.

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[13] Articles 04 to 09 of Executive Decree No. 08/165 concerning the implementation of the provisions of the Financial Accounting System, dated May 28, 2008, *Official Gazette* No. 27, p. 11.

[14] Abdel Moneim Fawzi, *Public Finance and Fiscal Policies*, First Edition, Dar Al-Maaref, Alexandria, 2002, p. 46.

[15] Ben Ammara Mansour, *Accounting and Tax Audit Procedures*, Houma Publishing House, Algeria, 2011, p. 11.

[16] Fatima Boudra and Moukadem Abirat, *The Impact of the Compatibility Between the Financial Accounting System and the Tax System on the Effectiveness of Tax Auditing in Algeria*, *Journal of Law and Humanities (Economic Studies)*, Vol. 10, No. 29, p. 241.

[17] El Othmani Mostafa, *The Role of Information Systems in Activating Tax Auditing: The Case of Algeria*, Master's Thesis in Economic Sciences and Management, University of Médéa, 2008, p. 105.

2.4 Points of Divergence between the Financial Accounting System and the Tax System

2.4.1 Factors Contributing to Differences Between the Two Systems:

- The financial accounting system is based on the principle of economic reality, while the tax system relies on legal form.
- The financial accounting system is designed to meet the needs of investors, whereas the tax system focuses on maximizing tax collection measures.
- The financial accounting system supports financial culture, credibility, and neutrality in the presentation of financial statements, whereas the tax system aims to achieve financial, economic, social, and political objectives.

2.4.2 Some Points of Divergence Between the Financial Accounting System and the Tax System

a. Profit Tax:

Within the financial accounting system, profit tax is classified as an expense and is recorded under expense accounts. It is calculated based on the ordinary result, and after deducting the tax amount, the exceptional result is added to determine the net result. By contrast, the tax system does not treat profit tax as a burden but rather as a form of profit distribution. Consequently, it is recorded under result accounts and calculated based on the gross result. As a result, profit tax is not deductible for tax purposes.[18]

b. Conversion of Profits and Debts in Foreign Currency:

In the financial accounting system, profits and losses arising from the conversion of receivables and payables denominated in foreign currency are recorded as expenses or revenues at the end of the fiscal year. Conversely, under the tax system, only conversion losses are permitted to be recorded by the institution.[19]

c. Provisions:

According to the financial accounting system, it is impermissible to establish provisions for expected future expenses, as this would not accurately reflect the institution's actual financial position at the end of the fiscal year. Only those provisions that represent current obligations existing at the end of the fiscal period are permitted. In contrast, the tax system allows for the creation of provisions to account for anticipated future expenses.[20]

d. Loan Costs:

Under the financial accounting system, interest incurred on loans taken for the purpose of acquiring, constructing, or producing an asset that is expected to yield future economic benefits is capitalized and included in the cost of that asset. In contrast, the tax system treats such interest as a financial expense. This distinction creates a discrepancy in the depreciation calculation: the depreciation related to the portion of the loan interest that is capitalized into the asset's value is rejected by the tax authority.[21]

e. Deferred Tax:

Deferred tax refers to the amount of profit tax that is either payable or recoverable in future fiscal periods.[22] It is recorded on both the balance sheet and the income statement under deferred taxes[23]. Deferred tax reflects the discrepancies between the financial accounting system and the tax system, aiming to present a comprehensive and accurate view of the institution's financial activities, beyond the notion that tax authorities are the principal or exclusive users of outputs from the accounting information system.

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[18] *Official Gazette*, No. 78, dated December 31, 2009, containing the 2010 Finance Law.

[19] *Official Gazette*, No. 44, dated July 26, 2009, containing the Supplementary Finance Law of 2009.

[20] *Official Gazette*, No. 19, issued on March 25, 2009, including the decree defining the rules for evaluation, content, and presentation of financial statements, as well as the chart of accounts and rules for their operation.

[21] Nasser Mourad, *The Reality of the Algerian Tax System Under the Financial Accounting System*, *Tax Studies Journal*, Vol. 05, No. 1, p. 59.

[22] *Official Gazette*, No. 19, dated March 25, 2009, *Ibid.*, p. 8.

[23] Nasser Mourad, *Ibid.*, p. 58.

These discrepancies are addressed through deferred tax accounting, which comprises deferred tax assets for deductible temporary differences and deferred tax liabilities for taxable temporary differences. Thus, deferred tax is categorized into two types: deferred tax assets and deferred tax liabilities.[24]

f. Depreciation:

In the financial accounting system, depreciation is defined as the systematic allocation of the cost of tangible and intangible assets over their useful life, based on methods such as straight-line, declining balance, or units of production. This process accounts for the asset's residual value and allows for revisions to the depreciation schedule when appropriate. By contrast, in the tax system, depreciation is understood as the reduction in the value of an asset intended to recover its acquisition cost over the asset's useful life, as established by the tax administration. The tax system employs methods such as straight-line, declining balance, and accelerated depreciation, calculated on the basis of acquisition cost, and does not permit any revision of the depreciation schedule.[25]

2.5 Tax Measures Introduced to Accompany the Financial Accounting System:

Following the Algerian state's adoption of the financial accounting system in 2010, it became necessary for the tax administration to adapt to these structural changes and to respond by designing a program that aligned with them. These measures were conceived as an initial attempt to synchronize with the international accounting standards embedded within the financial accounting system.

In this context, the tax administration began implementing certain preparatory actions before the system came into force. The legislature addressed the transition through the enactment of the Finance Law of 2008, the Finance Law of 2009, the Supplementary Finance Law of 2009, and the Finance Law of 2010. However, for the purposes of this study, the analysis will be confined to the measures adopted following the official implementation of the system.

a. New Tax Measures Introduced in the Annual and Supplementary Finance Law of [26]2010

b. New Tax Measures Introduced in the Annual Finance Law of 2010

5.2.1 Operating Subsidies:

Article 9 of the 2010 Finance Law provides:[27]

"Operating and balancing subsidies collected are included in the net result of the fiscal year in which they are received." The tax administration ties the recognition of operating subsidies to the date of their actual receipt, which creates a point of divergence from the financial accounting system. Regarding equipment subsidies, these are recovered using the same depreciation method applied to the original investment. Consequently, it is concluded that subsidies related to operations and financial balance are fully incorporated into the taxable profit of the fiscal year in which they are received.

2.5.2 Financial Deficit:

Article 10 of the 2010 Finance Law stipulates the following: In the event of a financial deficit incurred during a given fiscal year, the surplus deficit may be carried forward sequentially to the following fiscal years, up to the fourth year subsequent to the year in which the deficit was recorded. The carry-forward period was reduced from five to four years to enable tighter control over the determination of taxable income.

Article 10 of the 2010 Finance Law states: "Preliminary expenses shall be deducted according to the preliminary absorption plan; the absorption process shall be carried out through the accompanying annual tax declaration." Accordingly, preliminary expenses are to be amortized in a quasi-accounting manner, thereby avoiding the overburdening of the first fiscal year with the entirety of such expenses at once.[28]

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[24] Ben Touta Kandaz and Hakim Bradia, *An Analytical Study on the Extent to Which the Algerian Tax System Aligns with the Financial Accounting System*, *Journal of Economic and Administrative Research*, No. 18, December 2015, University Center of Tissemsilt, Algeria, p. 339.

[25]Nasser Mourad, *Ibid.*, p. 57.

[26] Ben Touta Kandaz and Hakim Bradia, *Ibid.*, p. 334.

[27] Nasser Mourad, *Ibid.*, pp. 63–64.

[28] *Ibid.*, p. 64.

2.5.3 Provisions Related to Credit Risk:
Article 8 of the 2010 Finance Law establishes that reserves set aside to cover risks specifically associated with medium- or long-term credit operations may not be combined with other types of reserves. This implies that a double tax benefit for the same risk is not permissible. For instance, it is prohibited to simultaneously create reserves for doubtful receivables and establish reserves for customer risk pertaining to the same exposure. Consequently, the accumulation of multiple reserves addressing a single risk is disallowed.

2.5.4 Revaluation of Assets:
Article 13 of the 2010 Finance Law states that capital gains or losses resulting from the free revaluation of fixed assets recorded in the balance sheet impact the tax result as follows:

- Capital gains arising from the revaluation of fixed assets are integrated into the fiscal result of the year in which the revaluation occurs.
- Capital losses resulting from the revaluation of fixed assets are deductible, except in cases where the revaluation is deemed artificially inflated and not legally justifiable. In such instances, it must be clarified that determining whether the revaluation is excessively overstated does not fall within the scope of the tax auditor's responsibilities.

2.6 New Tax Measures Introduced in the 2010 Supplementary Finance Law
2.6.1 Depreciation Related to Leasing:
Article 27 of the Supplementary Finance Law provides that depreciation rules applicable to leasing contracts shall remain in effect on a transitional basis until 31/12/2012. Therefore, these rules continue to apply on an exceptional basis within the scope of leasing transactions. Under this provision, the lessee is authorized to recognize the leased asset in their financial records in place of the legal owner of the asset.
Regarding depreciation, the asset is amortized over the duration of the lease term. This measure is considered a qualitative development introduced by the tax administration in view of its implications for the tax base and in response to the requirement to harmonize with the new accounting standards incorporated in the financial accounting system.

2.6.2 Tax Schedules Introduced at the Beginning of 2011:
In accordance with the rules related to the preparation and presentation of financial statements adopted in the financial accounting system, the tax administration was required to keep pace with these changes. A working group consisting of executives from the General Directorate of Taxes was appointed to complete this project. This objective was achieved with the issuance of the new tax schedules, which include two main tables, namely, the balance sheet and the income statement, and thirteen supplementary tables.[29]

2.6.3 Proposed Solutions to Harmonize the Two Systems:
− Adapt current tax rules to align with the content of the financial accounting system.
− Maintain existing tax rules while modifying the accounting treatment.
− Maintain dual accounting systems, one in accordance with the financial accounting system and another following the tax system.

3. The Financial Accounting System as a Mechanism for Activating Corporate Governance

The relationship between governance and the financial accounting system applied in any country is reciprocal. A well-structured accounting system, in both its content and implementation, which adheres to a set of commonly accepted accounting standards and principles, supports governance. Governance, in turn, through its principles, works to improve the effectiveness of the accounting system and its

[29] Ben Touta Kandaz and Kamel Bradia, *Ibid.*, p. 345.

capacity to clarify all events taking place within a company, thereby enhancing trust in the entity. In Algeria, the relationship between governance and the accounting system is reinforced by Article 10 of Law 07-11, which concerns the financial accounting system.[30]

Multinational corporations play a fundamental role in developing and stimulating financial markets. These corporations depend on the availability of economic information about economic units, with the goal of assisting investors in making informed investment decisions. This information comes from various sources, with accounting information, provided through the financial statements and reports of economic units, being among the most important. Accounting information plays a crucial role in energizing capital markets.

The quality of this information and its disclosure are key factors in ensuring the vitality of financial markets. If Algeria seeks to achieve economic development and enhance the local financial market, it must attract foreign investors. To accomplish this, it is necessary to create a suitable environment for foreign investment and help build a transparent financial market. This aligns with the principles of governance.

Through all the above, the financial accounting system plays a role in embedding governance principles within Algerian institutions, particularly through its emphasis on fair treatment of shareholders, protection of their rights, and the principles of disclosure and transparency. This is precisely the aim of the financial accounting system. Algeria, by adopting the SCF (Système Comptable Financier), which is derived from international accounting standards (IAS-IFRS), seeks to achieve several objectives. One of the most important among these is attracting foreign investment, which depends on honest and transparent financial statements and reports that provide suitable accounting information for investment decision-making, an objective shared with governance. It also aims to build trust in financial markets and establish rules of transparency and credibility regarding institutional accounts presented to shareholders.

The adoption of the financial accounting system is considered a significant and effective step toward revitalizing the Algiers Stock Exchange, given its role in stimulating the national economy and encouraging companies to enter and rely on it for financing. This is the goal behind aligning with international accounting standards, which emerged as a result of the global integration of stock exchanges and financial markets, especially considering Algeria's adoption of a market economy system, the signing of the partnership agreement with the European Union, and the country's anticipated accession to the World Trade Organization.

There are also shortcomings in addressing the needs of all users of financial and accounting information, such as lenders, investors, and others, due to the limitations of the former National Accounting Plan.

The relationship between governance and the accounting system applied in any country is mutual. The new accounting system, in both its content and application, adheres to a set of commonly accepted accounting principles and standards that reinforce governance. Governance, in turn, through its own principles, works to enhance the effectiveness of the accounting system and its capacity to clarify everything that occurs within the company, thereby increasing trust. In Algeria, this relationship is reinforced by Article 10 of Law 07-11 concerning the SCF, which states that accounting must fulfill the obligations of regularity and reliability.

The reinforcement of governance in Algeria through the adoption of the *Système Comptable Financier* (SCF) is driven by several factors, including:

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[30] Souad El Agha and Kamel Ben Moussa, *The Importance of the Financial Accounting System in Activating Corporate Governance: A Case Study of the Road Maintenance and Works Company*, *Revue des réformes économiques et intégration en économie mondiale*, Vol. 14, No. 3, p. 9.

- Addressing the limitations and deficiencies inherent in the previous accounting system, which had been aligned with a socialist economic model but was no longer appropriate for a modern economic framework.
- Ensuring access to accurate financial and accounting information that facilitates proper analysis and evaluation of corporate performance.
- Attempting to attract foreign investors by internationalizing financial and accounting practices and aligning them with global standards. This serves to mitigate complications resulting from discrepancies between national accounting procedures and those of foreign investors, whether in terms of transaction processing or financial statement preparation. Such harmonization enables easier interpretation of financial data produced by Algerian institutions and promotes consistency between Algeria's accounting regulations and those of the investor's home country.
- Clearly articulating the principles and rules governing the recording, valuation, and preparation of financial statements. This clarity helps reduce the risk of administrative and non-administrative manipulation and enhances the efficiency of auditing procedures. Ultimately, this leads to the generation of accurate accounting and financial data that reflect the actual financial condition of economic institutions, thereby promoting transparency.[31]

Conclusion

Like many other countries, Algeria is steadily progressing in its efforts to institutionalize corporate governance frameworks. This research has demonstrated that corporate governance has been formally introduced as a preventive strategy against financial and economic instability. It represents a contemporary and transparent framework designed to reveal the true financial condition of corporations.

It is further concluded that the new financial accounting system in Algeria enables companies to activate governance mechanisms effectively. This is achieved by enhancing the credibility and transparency of financial statement disclosures, and by strengthening financial communication processes, specifically, the classification and reporting of financial transactions to users, and the correct allocation of these transactions under assets, liabilities, revenues, and expenses.

The following key findings were reached:

- The study revealed that the Algerian financial accounting system possesses the potential to uphold governance principles, particularly through its integration with national legislative instruments, including commercial and accounting laws. However, the effective implementation of these principles requires the development of more robust monitoring and oversight mechanisms.
- The financial accounting system is designed to present a faithful representation of a company's financial position. Accurate and reliable information enhances users' ability to make well-informed decisions, although continual technical and legal updates are needed to address evolving local economic challenges.
- Despite efforts made, financial transparency in the Algerian accounting system still faces challenges in implementation. These shortcomings undermine the confidence of both domestic and international investors.

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[31] Malika Zeghib and Soussan Zireg, *The Role of the Financial Accounting System in Supporting Governance in Algeria*, Paper presented at the National Conference on Corporate Governance as a Mechanism to Combat Financial and Administrative Corruption, Biskra, Algeria, May 6–7, 2012, p. 14.

Recommendations:

- Develop a digital monitoring system that enables real-time tracking of financial and administrative operations, thereby enhancing transparency and limiting opportunities for manipulation.
- Establish targeted training programs for administrators and accountants, aimed at equipping them with the competencies required to implement governance practices in line with international standards.
- Encourage legislative reforms that provide incentives, such as tax relief or improved access to financing, for companies that adopt and maintain effective governance structures.
- Promote public-private collaboration by fostering partnerships between governmental bodies and private enterprises to raise awareness of the significance of governance and financial accounting practices within the Algerian context.

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