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**The Influence of Corporate Governance on Investment Decisions: An Analysis of the Moderating Role of the Quality of the External Audit of BRVM-listed Companies**

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**Abstract**

This study aims to examine how the quality of the external audit acts as a moderating factor in the relationship between corporate governance and investment decisions of companies listed on the BRVM. Our quantitative study was conducted using a questionnaire with 210 key people (managers, auditors, investors, accountants, directors) in 41 non-financial companies listed on the BRVM, covering five sectors: industry, agriculture, distribution, transport and utilities. The data was collected and analysed using SPSS 20 software.

Our results revealed that, on the one hand, effective corporate governance has a positive impact on investment decisions. In addition, we observed a positive effect of external audit quality on investment decisions. On the other hand, the interaction between corporate governance and external audit quality has a positive influence on investment decisions. Ultimately, external audit quality plays a moderating role in the relationship between corporate governance and investment decisions.

**Keywords:** corporate governance, external audit, investment decisions.

**Introduction**

The last decade has been marked by the emergence of financial scandals in a large number of organisations, highlighting massive accounting manipulations in which companies deliberately misrepresented their situation to the financial markets. These scandals have raised questions about the quality of the accounting information published and the reprehensible actions of the executives involved in these fraudulent accounting manoeuvres. They have also revealed the crucial importance of effective corporate governance practices and audit quality.

Corporate governance is defined as all the decision-making, information and monitoring bodies and rules which enable the rights holders and partners of an institution to safeguard their interests

and be heard in the operation of the company (Nathalie GARDE, 2005). This definition highlights the fact that the conception of corporate governance differs depending on whether one adopts a shareholder-centred approach or a partnership approach.

The shareholder approach considers that corporate governance focuses on the way in which capital providers, who finance companies, ensure the profitability of their financial investment. On the other hand, the partnership approach suggests that corporate governance is based on all the mechanisms which delimit the powers and influence the decisions of managers, i.e. which guide their behaviour and define their room for manoeuvre (Charreaux, G, 1997, P 421). In general, corporate governance mechanisms, both internal and external, are based on the accounting and financial data published by the company (Missonier-Pierra, 2009). However, managers can manipulate this data and deliberately present a misleading financial picture in order to deceive the company's stakeholders and serve their own interests to the detriment of shareholders. These practices thus lead to a deterioration in the quality of the accounting and financial information conveyed by the financial statements.

Investment decisions are largely based on the accounting information published in companies' financial statements. Therefore, the higher the confidence in these financial statements, the more investors rely on them to make their investment decisions (Dashtbayaz & Mohammadi, 2016).

The problem of our study therefore lies in the lack of investor confidence in published financial statements, in the system of corporate governance, and in the quality of auditing within companies. This situation is leading to a flight of capital from our African stock exchanges. Khaled A. et al (2022) believe that governance consists of a set of procedures and rules necessary to ensure that company managers seek to achieve the objectives of the company's owners and maximise shareholder wealth. According to Francis (2021), it consists of a set of tools, including the audit committee, the external auditor, the characteristics of the board of directors and internal control. Improving this tool, in particular by strengthening oversight through the appointment of an audit committee with financial and accounting expertise, and by ensuring the independence, experience and effectiveness of the external auditor, will help to improve the quality of the audit and thus make it possible to provide reliable and complete financial statements that reflect the reality of the company's economic operations. This strengthens investor confidence in the published financial statements (Widani & Bernawati, 2020).

The implementation of effective corporate governance mechanisms is therefore a determining factor in the effectiveness of the investment. They confirm the credibility of the company's management and ensure the transparency, accuracy and confidence of the financial statements, thereby facilitating the auditors' role in the quality of the audit. Conversely, poor corporate governance mechanisms risk tarnishing the company's reputation and encouraging fraud and unethical practices within the company.

Despite the plethora of previous studies on corporate governance practices, audit quality and the effectiveness of investment decisions in developed economies, very few studies have been conducted in Africa, particularly in West Africa, which faces various economic, social, political and institutional challenges. Rethinking the influence of corporate governance on investment decisions through the moderating role of external audit quality in companies listed on the BRVM is the main objective of this study.

To achieve this, our study is structured into four sections. The first deals with a review of the literature on the subject, the second presents the methodology adopted, the third is devoted to the presentation and analysis of the results, and finally the fourth presents a discussion of the results in relation to the previous literature.

## **1. Literature review**

Corporate governance, audit quality and investment decisions have been widely explored in scientific research. The compilation of these studies will enable us to develop our research hypotheses.

### *1.1. Corporate governance and investment decisions*

The effectiveness of investment decisions depends largely on the quality of the accounting information presented in company reports. To ensure the reliability, transparency and quality of this accounting information, it is essential to have an effective control system, which can only be ensured by the adoption of good corporate governance practices.

Most studies on corporate governance have focused primarily on its impact on companies' overall performance. However, few have examined the relationship between corporate governance practices and investment decisions.

Some studies have identified interesting trends. For example, Lipton and Lorsh (1993) examined board size and its relationship to decision effectiveness. They found that a lack of harmony between board members could increase the manager's room for manoeuvre and negatively affect the allocation of resources to projects deemed important. This dynamic could influence companies' investment policies.

Similarly, Novihana and Cynthia (2020) studied the presence of directors in the relationship between family ownership and overinvestment, noting that independent directors could reduce this relationship.

Nazar (2021) examined the influence of corporate governance on the investment decision, based on a study of 198 non-financial firms listed on the Colombo Stock Exchange in Sri Lanka over a period from 2009 to 2016. Its results showed that managerial ownership had a positive and significant influence on the investment decision, while board size had a positive but insignificant influence.

Houewou (2022) examined the moderating effect of board characteristics on the relationship between the quality of accounting information and the effectiveness of investment policies. He found that the separation of powers between the chief executive and the chairman of the board positively moderated this relationship, allowing board members to have access to reliable information and to better control the actions of the executive.

Other research, such as that conducted by Gill & Sharma (2012) in India and Du et al. (2018) on the integration of corporate governance and investment effectiveness, has also highlighted the importance of corporate governance in investment decisions.

Similarly, Shazly, M. A., AbdElAlim, K., Mortaky, A. N. & Sayed, M. N. (2022), in their study on the impact of corporate governance and audit quality in the public works sector in Egypt, found a positive and significant relationship between corporate governance and investment decision. They concluded that investors rely on corporate governance when making investment decisions.

Overall, good corporate governance practices play a crucial role in the transparency and effectiveness of investment decisions. Accordingly, we formulate the following hypothesis:

H<sub>1</sub>: Corporate governance has a significant and positive influence on the investment decisions of BRVM-listed companies

### *1.2. Quality of the external audit and the investment decision*

The quality of the audit depends on two distinct aspects of the auditor, as emphasised by Shazly, M. A., AbdElAlim, K., Mortaky, A. N. & Sayed, M. N. (2022). The first dimension concerns the auditor's technical ability, i.e. his ability to identify material errors and misstatements in the financial statements. The second dimension is the auditor's independence, which relates to the auditor's ability to report such errors and misstatements. The auditor's task is to monitor compliance with accounting rules and issue a reasoned opinion on the company's accounts. Auditors play a crucial role as an external control mechanism that can reduce earnings management practices and accounting manipulation. However, not all auditors have the same degree of competence and independence, which can lead to variability in the quality of their audit.

Previous research has generally regarded the auditor as a key player in disciplining opportunistic managers. According to Jensen and Meckling (1976), the external auditor is an integral part of the management control process, helping to align management interests with those of shareholders.

Empirical studies on the impact of audit quality on investment efficiency fall into two groups. The first group confirms the positive relationship between audit quality and investment effectiveness. For example, Saghafi and Motamedi (2011) found that companies with strong investment opportunities seek better audit quality. Dashtbayaz and Mohammadi (2016)

illustrated a positive relationship between audit quality and investment effectiveness in a sample of Iranian firms. Other studies have also confirmed this relationship, showing that audit quality contributes to enhancing investment efficiency.

The second group of studies found conflicting results regarding the association between audit quality and investment effectiveness. Some studies found an inverse relationship, while others found no significant relationship. For example, Khameghah and Mazraehno (2013) confirmed an inverse relationship between auditor specialisation and underinvestment, but no significant relationship between auditor mandate and underinvestment in the Iranian market. Islami (2017) found that firms' investment with specialised auditors had no effect on investment efficiency in an Indonesian sample. Boubakar, Houcine, Ftiti and Masri (2018) showed that auditor competence reduced investment in the case of overinvestment.

Overall, it is expected that a quality audit will increase companies' confidence in growth opportunities and improve investment decision-making, which leads to our second hypothesis.

H<sub>2</sub>: The quality of the external audit is positively and significantly linked to the investment decision of companies listed on the BRVM

### *1.3. Moderating effect of external audit quality on the relationship between corporate governance and investment decisions*

Previous studies of the moderating effect of external audit quality on the relationship between corporate governance and the investment decision have produced mixed results. Several authors have examined the moderating role that external audit can play.

Fan and Wong (2005) found that auditors are effectively involved in monitoring and control to mitigate agency conflicts between owners and managers. This reduces information asymmetry and agency costs through increased and reliable disclosure of financial information, which is useful for investment decisions (Husnin et al. 2016).

Zaini and Seyed (2018) found a moderating influence of audit quality in the relationship between financial reporting quality and investment effectiveness. They concluded that users of financial information trust the information coming from major auditors and perceive it as the most credible. Walid and Mohamed (2020) also explored the moderating role of audit quality in the relationship between corporate governance and investment efficiency. The results of their study indicated that corporate governance and audit quality have a significant influence on investment effectiveness, and that audit quality plays a moderating role in this relationship.

Soliman (2020) showed that companies with good corporate governance mechanisms create an environment conducive to the preparation of transparent financial information, which strengthens the role of the auditor and improves audit quality. It concluded that there is a significant and positive effect of the integration between corporate governance and audit quality on investment effectiveness.

Ravishankar & Sathishkumar (2018) examined the impact of corporate governance and audit quality on investor psychology, showing that investors' investment decision is influenced by psychology.

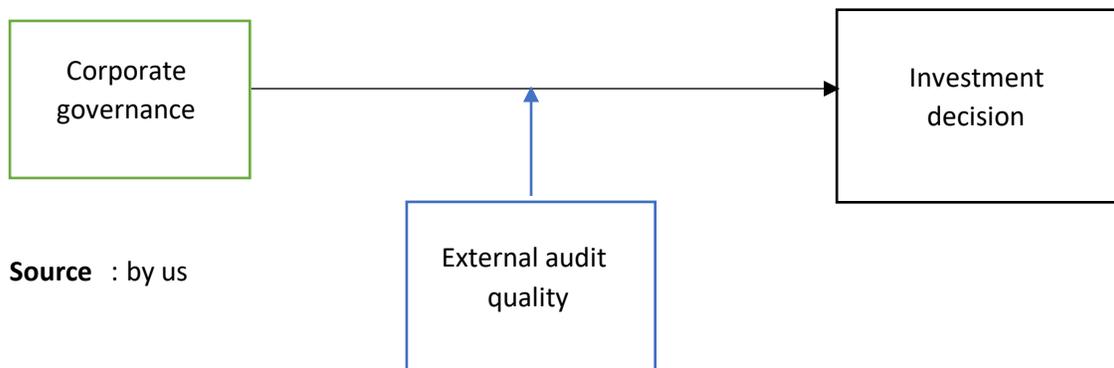
However, Nor and Salin (2018) found that audit committee independence does not affect investment effectiveness, while auditor selection has a direct impact on investment effectiveness. Nedal and Muhammad (2020) found no positive, direct or moderate effect of audit quality on investment effectiveness, although the relationship between audit quality and effectiveness is obvious due to the multitude of its measurement variables. These results are consistent with studies conducted by Samuel Mohamad and Mohammed (2017) in the Nigerian context, which found a non-significant relationship between the moderating effect of the auditor's Big4 membership and financial reporting quality.

According to Mehdi (2009), the auditor can play a very important economic role in terms of the credibility of the company's accounting results and help to curb the manipulation of accounting accruals. It is therefore relevant to consider the influence of the quality of the external audit on the relationship between corporate governance and the investment decision. Hence the following hypothesis:

H<sub>3</sub>: The quality of the external audit moderates the relationship between corporate governance and the investment decision of companies listed on the BRVM.

On the basis of these assumptions, the conceptual model of our study is as follows:

**Figure 1: The conceptual research model**



## 2. Research methodology

Our study, aimed at analysing the moderating effect of audit quality on the relationship between corporate governance and investment decisions in companies listed on the BRVM, collected data using a structured questionnaire administered to accountants, auditors, managers, directors and investors. The data collected was summarised and analysed in order to give meaning to the objective of the study. They were processed and presented using statistical tools such as

percentages, correlation coefficient tables and regression analysis, using SPSS software. We used a 7-point Likert scale to complete the questionnaire, which was divided into four sections.

The first section included the characteristics of the sample, such as education, position held, experience and age of respondents. The second section covered corporate governance (CG) issues with eight questions. The third section covered audit quality (AQ) with nine questions, while the fourth section included questions on the dependent variable, investment decision (ID) with eight questions.

We used a corporate governance (CG) measurement scale developed by Shazly, M & Sayed M (2022), consisting of eight items assessing the impact of board and audit committee characteristics on investment decision-making within companies. This corporate governance scale comprised eight questions, assessed on a 7-point Likert scale, from 1 = strongly disagree to 7 = strongly agree.

Audit quality (AQ) is crucial for the certification of financial statements of listed companies. We used an audit quality measurement scale developed by Shazly, M & Sayed M (2022), which included nine items such as auditor expertise, Big 4 membership, audit committee, length of time working with the auditor, procedures and ethics compliance, external auditor communication with the audit committee, and external audit contribution to governance. These questions were evaluated on a Likert scale ranging from 1 = strongly disagree to 7 = strongly agree.

The investor's investment decision (ID) depends on the risk he is prepared to take and the degree of confidence he places in the information he uses to analyse the various investment options. In our study, the investment decision was assessed across eight elements relating to audit independence in decision-making, internal control and the auditor's experience in the company's field. This variable was also assessed on a Likert scale ranging from 1 = strongly disagree to 7 = strongly agree.

Our sample focused on non-financial companies, as financial companies are subject to different accounting regulations. The survey targeted chief executive officers (CEOs), accountants, auditors, directors and investors. To improve the content validity and ensure consistency of the questionnaire, we interviewed an accounting professor, a chartered accountant and a chief accountant. A total of 246 questionnaires were distributed via Google Forms, of which 210 were completed in full.

The analysis was carried out using SPSS 20 and Amos version 20. The two-stage approach involved validating the measures using exploratory factor analysis (EFA) and confirmatory factor analysis (CFA), and testing the significance of the coefficients using path model analysis (Anderson & Gerbing, 1988).

### **3. Search results**

The research first examined the demographic characteristics of the respondents, then conducted reliability tests, and finally carried out structural equation modelling.

*3.1. Presentation of the demographic characteristics of respondents.*

Table 1 below shows the demographics of the study participants. We interviewed professionals from five (05) different business sectors, namely Industry (37%), Agriculture (23%), Retail (29%), Transport (7%), and Public Services (4%). Participants occupy a variety of positions, including General Managers (11%), Accountants (39%), Auditors (21%), Directors (17%), and Investors (12%). The majority of participants (34%) have less than 3 years' experience, followed by those with 5 to 10 years' experience (29%), then those with 3 to 5 years' experience (21%), while the remainder have more than 10 years' experience (16%).

Table 1: Demographic characteristics of respondents

	Workforce	Frequency (%)
<b>Sectors of activity</b>		
Industrial	77	37
Agriculture	48	23
Distribution	61	29
Transport	15	7
Public services	9	4
<b>Function</b>		
Director	23	11
Accountant	82	39
Auditor	45	21
Directors	35	17
Investors	25	12
<b>Experience</b>		
More than 10 years	34	16
5-10 years	60	29
3-5 years	45	21
Less than 3 years <b>Total</b>	71	34
	<b>210</b>	

Source: authors' processing data and SPSS 20.0

*3.2. Presentation of reliability test results*

The authors presented the results of the reliability tests for the evaluation of the influence of corporate governance and the quality of the external audit on the investment decision of companies listed on the BRVM. Table 2 shows that among the twenty-five (25) variables studied, divided into three components, the Cronbach's Alpha for each of these variables exceeds 0.6. For corporate governance (0.950), the quality of the external audit (0.947) and the investment decision (0.960), all these figures are higher. Cronbach's Alpha is calculated to assess the internal consistency of the construct and its reliability, which depends on the number of elements in each construct. According to the recommendations of Hair et al. (2014), a Cronbach's Alpha value above 0.60 and 0.70 is considered appropriate in exploratory research. The maximum recommended value of Cronbach's Alpha is 0.90 to ensure the absence of item redundancy (Tavakol & Dennick, 2011; Ursachi et al., 2015). The reliability results meet these

standards, as the Cronbach's Alpha of all three components (corporate governance, audit quality, investment decision) exceeds 0.6.

Composite reliability (CR) values of 0.70 to 0.90 are considered appropriate for confirmation. In our study, as shown in Table 2, CR values are above 0.9, with 0.905 for corporate governance, 0.942 for audit quality and 0.951 for investment decision. The exploratory factor analysis (EFA) used the KMO (Kaiser, 1974) and Bartlett's sphericity test, the principal axis method and Promax rotation. The KMO value in our study was 0.905, which corresponds to the "excellent" category, indicating that the sample size was adequate for factor analysis.

Table 2: Reliability tests on factors influencing the investment decision of companies listed on the BRVM.

Articles	Content	Cronbach's Alpha
GE 1	Application of corporate governance in BRVM-listed companies	0,871
GE 2	The audit committee is the part where corporate governance is most pronounced	0,940
GE 3	The Board of Directors is the cornerstone of corporate governance	0,960
GE 4	The most relevant element of corporate governance is the separation of power	0,889
GE 5	The presence of independent directors on the Board improves governance	0,801
GE 6	The Board adequately monitors financial indicators throughout the year	0,952
GE 7	The presence of an independent audit committee improves corporate governance	0,900
GE 8	The existence of an internal control system helps to strengthen governance	0,867
<b>Cronbach Alpha for Corporate Governance is 0.950; CR is 0.905</b>		
QA 1	A company's external auditor belongs to the big4	0,852
QA 2	The Audit Committee approves the terms of appointment and remuneration of the auditor	0,867
QA 3	The external auditor has audit experience in the company's business sector	0,954
QA 4	The firm responsible for the external audit must not have more than five consecutive years	0,932
QA 5	The audit firm should develop procedures to ensure that auditors do not receive any benefits other than those of their audit service.	0,978
QA 6	the Audit Committee has procedures in place to guarantee the independence and objectivity of the auditors and their compliance with the ethical standards of audit practice	0,813
QA7	The external auditor communicates identified or potential problems in good time to enable you to resolve them appropriately.	0,967
QA 8	The statutory auditor must ensure the quality of his audit	0,865
QA 9	The presence of an external auditor from the big 4 improves corporate governance	0,980
<b>Cronbach Alpha for External Audit Quality is 0.947; CR is 0.942</b>		
DI 1	Independent audit reports are taken into account when making investment decisions	0,937
DI 2	Independent audit reports are useful for assessing the company's performance	0,951
DI 3	An independent audit report may contain important information about a company's ability to continue as a going concern	0,926
DI 4	The audit report is sufficiently useful and comprehensible to enable informed decisions to be taken.	0,942

DI 5	I only invest in companies audited by an auditor belonging to the big 4.	0,938
DI 6	the presence of an independent board of directors strengthens investor confidence in the company's governance procedures.	0,800
DI 7	The characteristics of the Board (number of meetings; experience of Board members) are taken into account in the investment decision.	0,960
DI 8	The presence of effective internal control increases investor confidence in the company's governance procedures.	0,832

**Cronbach Alpha for Investment Decision is 0.960; CR is 0.951**

**The KMO coefficient is 0.905 and the significance level is 0.000**

**The coefficient of variation is 90.502%.**

Source: authors' processing data and SPSS 20.0

### 3.3. Presentation of results relating to structural equation modelling

Table 3 shows that the "P" column is less than 0.01, with a significance level of 0.01, and in the "conclusion" column, all the hypotheses were confirmed. These results show that the decision to invest in companies listed on the BRVM is indeed influenced by good corporate governance and the quality of the external audit. Furthermore, the quality of the external audit exerts a positive and highly significant influence on the investment decision, with a significance level of 0.000. These results have important implications from a management perspective, aimed at improving the effectiveness of the investment policies of companies listed on the BRVM through audit quality and the adoption of good corporate governance practices.

Table 3: Structural equation modelling coefficients

Relationship	Coefficient	Standardised coefficient	SE	R	P	Conclusion
← GE	0,057	0,085	0,025	2,676	0,005	H1: supported
DI ← QA	0,041	0,095	0,013	3,127	0,002	H2: Supported
DI ← GE *QA	0,471	0,536	0,029	16,432	***	H3: Supported

**ID: Investment Decision; CG: Corporate Governance; QA: Audit Quality**

Note: Significant at 1.0 per cent (All t-tests are one-tailed)

Source: Authors' processing data and SPSS 20.0

### 4. Research discussions

Companies listed on African stock exchanges play an essential role in the continent's development and emergence, mobilising capital to finance investment and create jobs. To foster their growth, the financial markets regulator must improve their corporate governance and the effectiveness of their investment policies.

The practice of good corporate governance has a positive impact ( $\beta=0.085$ ) on the investment decision, with a significance of 0.01. The presence of independent directors and an audit committee on the board of directors, as well as the separation of powers between the CEO and the MD, strengthens the corporate governance of listed companies and lends greater credibility to investment decisions. These results corroborate previous work by Houewou (2022), Walid (2020), Davoodi et al. (2018) and Gill & Sharma (2012), who point out that the separation of powers allows the board of directors to access reliable information and better monitor the actions of the executive. This reduces its power of influence and opportunistic behaviour, favouring in-depth analysis of investment decisions and thus contributing to the effectiveness of these policies.

On African stock markets, the separation of powers, incorporated into the codes of good governance of listed companies, seems to be of paramount importance.

External audit quality is crucial for all listed companies, and it is mandatory for the regulator to require listed companies to certify their financial statements by an external auditor. The results of our study show that audit quality has a positive impact ( $\beta=0.095$ ) on the investment decision, with a significance of 0.01. Thus, factors such as the auditor's membership of the Big4, experience, independence and specialisation in the audited company's sector of activity, as well as compliance with good auditing practice ethics, improve audit quality and strengthen decision-making within the company. Independent auditors act as a mechanism which, by improving the quality of accounting information, can reduce the problems associated with investment efficiency. Therefore, better audit quality translates into better quality accounting information, helping investors to make more informed decisions and improve the effectiveness of their investments. These results align with previous work by Park I. Kim and W. Kim (2017), Masrouki and Houcine (2019), Dashtbayaz & Mohammadi (2016), which highlight the crucial importance of external audit quality for financial decisions within companies.

The moderating effect of external audit in the relationship between corporate governance and the investment decision is analysed in this study. Thus, the inclusion of the Corporate Governance and Audit Quality variable (CG \* AQ) with a coefficient ( $\beta=0.471$ ) exerts the most substantial influence on the investment decision within companies listed on the BRVM, with a significance of 0.01. The result is that external audit, particularly membership of the Big4, acts as a moderating variable between corporate governance and the investment decision. This means that when a company adopts good corporate governance practices and is audited by firms belonging to international networks, its investment decision is more effective. Consequently, the relationship between corporate governance and the effectiveness of investment policies is stronger for listed companies with an auditor belonging to the Big4. The experience of external auditors who are members of these international networks enables the board of directors to obtain precise information about the company and the investment project proposed by the executive. This encourages in-depth discussions and rigorous assessments of the project's profitability and risks, thereby improving the quality of decisions and reducing information asymmetry, which prevents under- or over-investment. In addition, Shroff (2007) points out that

improving the credibility of reports increases the company's ability to raise external finance for its investments.

In conclusion, corporate governance mechanisms limit deviant managerial behaviour and inefficient investment decisions. They must guarantee effective management of the company's assets. Strengthening audit quality, by improving the quality of accounting information, can reduce information asymmetry and increase management's confidence and responsibility in making informed decisions, leading to improved investment efficiency. This study aligns with previous work by Zaini and Seyed (2018), Walid and Mohamed (2020), Soliman (2020) and Houewou (2022).

### **Conclusion and managerial implications**

The aim of this research is to analyse the impact of the quality of the external audit on the relationship between corporate governance and the investment decision. To achieve this objective, a survey was conducted among certain non-financial companies listed on the BRVM in order to gather data relevant to our research topic. It is essential to specify that this study is part of a positivist epistemological perspective. Based on the results presented, corporate governance, through elements such as the presence of independent directors, the establishment of an audit committee, and the separation of powers, strengthens the quality of governance and improves investment decisions. Furthermore, the quality of the external audit significantly and positively moderates the relationship between corporate governance and the investment decision.

In the light of the results obtained in this research, a number of suggestions can be made:

- The Bourse Régionale des Valeurs Mobilières, as the supervisory body for the financial market in West Africa, should put in place practical solutions to promote market efficiency, in order to further reduce information asymmetry between active and less active market parties.
- It is recommended that investors, shareholders and managers better understand the concept of investment efficiency and integrate it more fully into their decision-making process.
- Standard setters should steer standards in a direction to improve audit quality, which would help to reduce information asymmetry and increase investment efficiency. Investors are encouraged to opt for shares in companies where audit quality is high, and where the proportion of short-term investments in total debt is significant in order to minimise risk.
- The Bourse Régionale des Valeurs Mobilières, as the legislative body responsible for drafting laws and regulations relating to corporate governance and for performing supervisory functions, should pay particular attention to companies with weak corporate governance.

However, it is important to note that all research has limitations, and ours is no exception. The most obvious limitation of our study is the bias associated with human perception. However, our research differs from other empirical work in several respects. It fills a gap in empirical research on African stock exchanges and contributes to a better understanding of corporate governance in companies listed on the BRVM.

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