

Internal Auditing and Corporate Governance Effectiveness: The Role of Audit Committees in Algeria

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Abstract

Internal auditing and audit committees constitute essential mechanisms for strengthening accountability, transparency, risk management, and internal control within contemporary corporate governance systems. This study examines the contribution of internal auditing to effective corporate governance, with particular emphasis on the oversight and coordination functions performed by audit committees in the Algerian context. It investigates whether internal auditors effectively communicate audit findings to relevant governance bodies, contribute to the assessment and improvement of governance practices, and provide boards of directors, audit committees, and other stakeholders with analyses and recommendations that support sound organizational decision-making.

The study adopted a descriptive and analytical research design and collected primary data through a structured questionnaire administered to a purposive sample of 36 academics and professionals specializing in accounting and auditing in Algeria. The collected data were processed and analysed using SPSS version 19 to assess respondents' perceptions of the relationship among internal auditing, audit committee effectiveness, and corporate governance. The study provides an integrated perspective on internal auditing as both an assurance and advisory function and highlights the importance of effective coordination between internal auditors and audit committees. It further emphasizes that the contribution of internal auditing to corporate governance depends on its organizational independence, professional competence, access to governance bodies, and capacity to communicate relevant findings and recommendations. The study offers practical implications for Algerian organizations seeking to improve internal control, risk oversight, transparency, and governance effectiveness.

Keywords: internal auditing; audit committees; corporate governance; internal control; risk management; Algeria.

JEL Classification: M42; G34.

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1-Introduction :

As a result of the many financial crises and economic collapses witnessed by the financial and business world in recent times, which were caused by the lack of full disclosure and transparency of financial and accounting information for a number of companies in the financial markets, due to misconduct and lack of proper management practice in control and supervision, lack of experience and skill, inability to generate internal cash flows, and the accompanying unethical behavior by management as an agent of the shareholders, in an effort to achieve personal interests at their expense, and therefore raised the crisis of trust between the top management of companies and their owners resulting from the lack of disclosure and transparency of financial and accounting information.

The urgent need for corporate governance emerged to ensure the proper application of its principles, whether inside the company such as the board of directors and the audit committee or from outside the company such as the external audit, in addition to the laws and regulations that regulate its work, and these laws have given great importance to internal audit because of the important role it plays in maintaining good corporate governance, so that if the information that has been disclosed has been audited in accordance with the quality of has been audited according to high quality, it will inevitably increase the reliability and credibility of the reports, which will enhance investors' confidence, making them able to make better investment decisions, this on the one hand, and as one of the main requirements for applying an effective and good corporate governance system that works to design and improve the internal control system in addition to contributing to the evaluation of risk management on the other hand.

Based on what has been addressed in the introduction, the **main question** can be formulated as follows: **To what extent does internal audit contribute to the activation of corporate governance in light of the audit committee?**

In order to answer the main question, the following **hypotheses** were proposed:

- Internal auditing contributes to reporting the findings to the relevant parties, including the audit committee.
- The internal auditor contributes to assessing and improving corporate governance practices when conducting audit activities and evaluating internal control systems.
- The internal auditor provides the board of directors, the audit committee, and stakeholders with essential analyses and recommendations to support the implementation of governance.

1.1 The research importance :

In this study, we distinguish between scientific and practical significance. The scientific significance lies in the topic of governance, as it forms the core of the study by contributing to the improvement of the company's financial and administrative performance. Given that internal auditing is an essential part of activating governance, it has attracted the interest of bodies, organizations, researchers, and academics.

As for the practical significance, it stems from the current necessity for companies to adopt an effective and integrated governance system, focusing on the mechanisms and tools that achieve it. This includes emphasizing internal auditing as a primary and essential tool within the company.

1.2 Objectives of the study:

The objectives of this study are as follows:

- Highlighting the importance of modern trends of internal auditing and corporate governance in all respects, whether in terms of the concept, or in terms of contributions that highlight the role and relationship between the study variables or based on the results of previous studies.

- To find out the opinions and views of accounting experts, auditors and university professors in the field of specialization in the subject matter of the study.
- To come up with conclusions and recommendations to further enhance the contribution of internal audit to corporate governance, according to the Audit Committee.

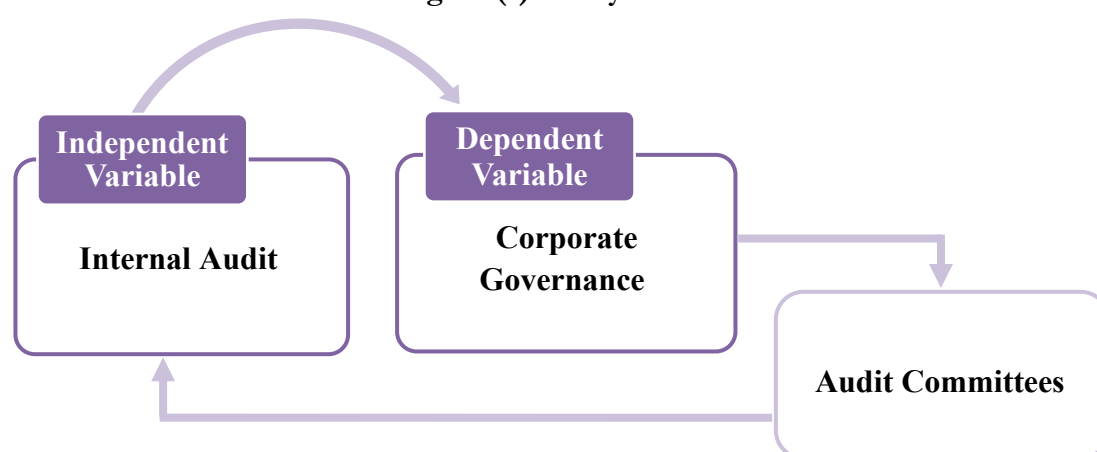
1.3 Study approach:

In order to carry out this study and to answer the question posed, we had to use the analytical descriptive method to establish its concepts and themes, in addition to providing analyses to test the relationships between the various variables of the study and draw the most important results obtained in the field study, as for the tools used, the questionnaire form was used as the main tool to test the study hypotheses as one of the most important types of data collection, which was processed and analyzed using the Statistical Package for Social Sciences (SPSS) program.

1.4 Study variables:

The study variables are summarized in the following figure :

Figure (1): Study model



Source: Made by the researchers.

1.5 Previous studies:

Many researchers reached a set of results that linked the variables of the study, the most important of which we mention below:

A study by researchers Amina Djoudi and Ibtisam Ben ghzel: They found that the proper implementation of corporate governance contributes to achieving economic sustainability, ensuring equality among investors, and attracting them, which encourages cooperation between the company, owners and shareholders (Djoudi & Ben ghzel, 2017).

A study by researchers Saib Abdallah and Sakri Ayoub: They concluded that the current Algerian auditing standards achieve the characteristics of corporate governance, according to the perspective of accounting experts and auditors, which aids and facilitates the stages of its implementation (Saib & Sakri, 2022).

A study by researchers Tedjania Hamza, Lebza Hicham and Difallah Mohammed Elhadi: They showed that the emergence of corporate governance led to several developments, including internal audit in both the consultative and objective assurance dimensions to increase the added value for the company, in addition to the responsibilities of non-executive audit committee members generally focusing on reviewing the financial statements before submitting them over to the board of directors (Tedjania, lebza, & DifAllah, 2020).

A study by researchers Berrani Mokhtaria and Hacini Ishaq: The study found that there is a significant impact on the financial performance of banks through the following dimensions (size and composition of the board of directors and its meetings, as well as audit committee meetings), as dimensions of corporate governance (Berrani & Hacini, 2021).

There are several elements that distinguish the location of our current study from the rest of the previous scientific studies: In terms of **variables**, most studies have shared the same objective that they seek and for which they were developed, some studies focused on one of the two variables under study and linked it to other variables, while the current study focused on linking the two variables of internal audit and corporate governance with each other according to the audit committee and trying to find the relationship between them, as for the **method of treatment**, this study will be treated analytically by reviewing a number of statistics **and various** data, and these theoretical concepts will be projected onto reality through a field study of a sample of accounting experts, auditors and **academics**.

2. Théorétique part:

In this section, we tried to give a brief conceptual background on the topic of the study, as the terms (study variables) were addressed according to the following points:

- Definition of the study terms.
- The contributions of internal audit according to the audit committee's commitment to corporate governance.
- The relationship between internal audit and corporate governance.

2.1 Procedural definitions of the study terms:

We will try to provide a comprehensive definition of the variables after a thorough review of all previous studies related to them.

2.1.1 Internal Audit

After reviewing most of the definitions of internal audit, it is clear that the internal auditor is responsible for providing assurances to relevant stakeholders that support the company's objectives. This process should follow a well-organized and structured approach, using methodologies that enable the auditor to perform their duties with diligence, independence, and complete ease.

2.1.2 Audit Committee

The concept of the audit committee has taken on great importance after the financial collapses of some companies, and in light of this trend, it has been pointed out that the basic essence and main pillar of the concept of the audit committee is: That they are members emanating from the board of directors of the company and not outside it, and their membership is limited to non-executive members.

2.1.3 Corporate Governance

There is no unified definition agreed upon by all economists and jurists, but the researcher concludes that it is a set of sound applications, practices and processes that those in charge of managing the company have in order to rationally and optimally exploit the resources in order to achieve the objectives efficiently and rationally.

2.2 Contributions of internal audit according to the audit committee's commitment to corporate governance:

The role of internal auditing has evolved within the framework of corporate governance, which has necessitated the activation of the internal auditor's work and independence to enable them to carry out their tasks efficiently and effectively in preventing and detecting fraud and errors in financial statements and reports (الشرع، 2008).

2.2.1 The role of audit committees in supporting internal audit:

The importance of the Audit Committee supervising the internal audit function is evident in that this will increase the independence of the management of this function as the relationship between the Audit Committee and the Internal Audit Department increases, and the relationship with senior management decreases as the likelihood of independence and objectivity in the examination and report increases (2013، شريقي).

2.2.2 The Audit Committee as one of the mechanisms in supporting and establishing the corporate governance system:

As a subcommittee of the board of directors with an unspecified number of members, the audit committee helps the company maintain objectivity in financial reporting and auditing of financial statements. Its responsibilities in corporate governance include strengthening the internal audit function by providing a higher level of independence, credibility, integrity, expertise, and scrutiny, in addition to evaluating financial disclosures, the committee also contributes to enhancing public (external stakeholders) confidence in the credibility and objectivity of financial information, while monitoring and assessing the effectiveness of the internal audit function within the company.

It also indicates a strong relationship between the Audit Committee and the concept of corporate governance and its implementation mechanisms in general. The concept of corporate governance primarily focuses on the oversight aspect within institutions, and the Audit Committee is considered one of the most important oversight mechanisms in organizations (Djeriou & Bouflih, 2019).

2.2.3 Internal audit's relationship with corporate governance:

Internal auditing is an essential and effective party in achieving good governance that ensures integrity, credibility, transparency and objective independence, which has made it an essential pillar of the profession, which is the same thing that prompted those who organize and develop this profession to integrate governance among the main objectives of the audit function.

Corporate governance is seen as a point of intersection and conflict among internal auditing, internal control, the board of directors, and audit committees. This illustrates that the relationship between internal auditing and governance is both strong and direct. Specifically, the greater the independence of internal auditing, the better the internal control that follows, leading to the preparation of financial reports that can enhance public trust in the credibility and objectivity of financial data. This, in turn, establishes effective corporate governance. Conversely, when auditing is flawed and lacks integrity and independence, discrepancies and deviations in the prepared financial statements naturally arise, rendering corporate governance ineffective (RENARD, 2009).

3. Field study - surveying a sample of academics and professionals in the field of accounting and auditing in Algeria.

The field study aims to identify the contributions of internal audit according to the audit committee's commitment approach in activating corporate governance.

3.1 First Subtitle :The method and tools used in the study:

3.1.1 Study tool and sample:

In order to carry out this study, a questionnaire was used, a paper version and an electronic version that contains, in the first part, the personal data of the study sample members, namely: Age, educational qualification, occupation, professional experience, while the second part is related to the respondents' answers regarding the topic of the study, which in turn is divided into two axes. The first axis is related to the contributions of internal audit according to the audit committee's commitment to corporate governance, which was divided into the role of audit committees in supporting internal audit work and

the audit committee as one of the mechanisms in supporting and establishing the corporate governance system. The second axis included the relationship between internal audit and corporate governance, where these two axes were based on the five-point Likert scale of: Strongly Disagree, Disagree, Neutral, Agree, Strongly Agree, which corresponds to the weights respectively: 1-2-3-4-5.

After determining the parts, axes and paragraphs of the questionnaire, the questionnaire was distributed to the study sample consisting of academic university professors specializing in the field of accounting and auditing in Algeria, and professionals represented by accounting experts, auditors and certified public accountants, the group concerned with internal audit, audit committee and corporate governance.

3.1.2 Description of the field study procedures:

Table (1): Statistics of the questionnaire form.

Statement	Number	Percentage
Distributed forms	50	%100
Returned forms	36	72%
Cancelled forms	00	00%
Valid forms	36	72%

Source: Made by the researchers.

3.1.3 Study Tools:

3.1.3.1 The validity and stability of the study tool:

In order to ascertain the validity and reliability of the study tool, the Cronbach's alpha coefficient was calculated to determine the internal consistency of the form's paragraphs, which was estimated at (0.896), which is a high and acceptable value, as it must be greater than (0.60) and the condition has been fulfilled, so it can be relied upon to generalize the results, while the reliability coefficient, which represents the square root of Cronbach's alpha, must be greater than (0.70), which was estimated in our study at (0.946), as shown in the following table:

Table (2): Cronbach's alpha.

Statement	Number	Percentage	Validity
The questionnaire as a	27	0.896	0.946

Source: Prepared by the researchers based on the outputs of SPSS V19.

3.1.3.2 methods of statistical analysis:

The methods of statistical analysis used in the study are:

- Frequency distribution and percentages: In order to know the responses of the sample members.
- The arithmetic mean and standard deviation, which in turn expresses the dispersion of the sample.
- Cronbach's alpha coefficient: It's used to measure the strength of the relationship between the statements and to ensure the stability of the study tool.
- One Sample T-Test: to test the validity of the hypotheses.

3.2 Results of the Field Study and Discussion:

3.2.1 Demographic characteristics of the study sample

The demographic characteristics of the study are as follows:

Table (3): Clarifies the demographic characteristics of the studied sample.

	Statement	Repetition	Percentage
Gender	Male	26	%72.2
	Female	10	%27.8
	Total	36	%100
Age	Less than 30 years	11	%30.6
	From 30 to 40 years	13	%36.1
	From 41 to 50 years	8	%22.2
	More than 50 years	4	%11.1
	Total	36	%100
Academic Qualification	DEUA/ Bachelor's	03	%8.3
	Master	09	%25
	Masters' degree	04	%11.1
	Doctorat	20	%55.6
	Total	36	%100
Function	University Professor	12	%33.3
	Internal Auditor	04	%11.1
	Accounting Expert	04	%11.1
	Account Manager	06	%16.7
	Certified Accountant	10	%27.8
	Total	36	%100
Years of experience	Less than 5	14	%38.9
	Between 5 and 10	07	%19.4
	Between 11 and 15	07	%19.4
	More than 15	08	%22.2
	Total	36	%100

Source: Prepared by the researchers based on the outputs of SPSS V19.

The previous table indicates that the educational level of the sample is high, where most of the sample members have a university level, especially doctoral students, which is a good and important indicator that all sample members capable of answering the questionnaire questions accurately, which enhances confidence in their responses and increases reliance on them in the analysis. It is also noticeable that all respondents are academics and professionals specialized in the field of accounting and auditing, and in terms of age, the predominant category was the 30 to 40 years category and its relative expression with 36.1%.

While 33.3% are university professors and 27.8% are certified accountants working as an accountant, which allows them to respond to the questionnaire as part of the sample.

3.2.1.1 Analysis the paragraphs of the first axis: Contributions of Internal Audit according to the Audit Committee's Commitment Approach to Corporate Governance.

Table (4): Analyzing the first axis' s questions

N°	Paragraph	Arithmetic mean	Standard deviation	Direction of answers	The relative importance
The role of audit committees in supporting internal audit activities					
01	The audit committee works to support the independence of the internal auditor in order to enhance the efficiency of the auditing process,	4.33	0.58	Strongly agree	03
02	Internal auditing contributes to reporting the findings to the relevant parties, including the audit committee.	4.11	0.66	Agree	09
03	The audit committee is keen on preparing financial reports that are free from errors and discrepancies, as it works to assist the board of	4.16	0.77	Agree	06
04	The audit committee monitors the financial reporting and disclosure processes for shareholders and	4.11	0.82	Agree	07
05	The audit committee is responsible for dismissing the internal auditor in the event that a violation of the	3.44	0.93	Agree	15
06	The audit committee plays a supervisory role in internal audit processes to resist pressures and	3.75	0.96	Agree	13
07	Members of the audit committee are selected and formed from the independent non-executive members	4.36	0.89	Strongly agree	02
08	The audit committee is responsible for selecting the internal auditor, providing all necessary resources, and maintaining ongoing meetings to address any issues that may arise in	3.83	0.97	Agree	12
The audit committee as one of the mechanisms to support and establish a corporate					
09	The necessity of establishing audit committees that work to implement and uphold governance principles through coordination among various	4.11	0.78	Agree	08
10	The importance of audit committees is reflected in the expected benefits they can provide to all relevant	4.38	0.72	Strongly agree	01
11	The assignment of the audit committee to internal review tasks leads to increased effectiveness in	4.16	0.84	Agree	05

12	The Audit Committee works to ensure and verify the company's commitment to implementing corporate governance principles	3.69	0.85	Agree	14
13	Audit committees strive to stay up-to-date with the internal auditing profession to add value to the company	3.91	0.87	Agree	11
14	Audit committees are considered one of the fundamental pillars of successful corporate governance, as they help in the achievement of the company's objectives	4.25	0.73	Strongly agree	04
15	One of the roles of audit committees is to review proposals related to the company's accounting policies	3.97	0.69	Agree	10
The First Axis		4.04	0.37	Agree	

Source: Prepared by the researchers based on the outputs of SPSS V19.

From the table above, we observe that the average scores for the items range between (3.44) and (4.16), indicating a tendency towards agreement, while the arithmetic mean of the axis as a whole is (4.04) with a general trend towards agreement, which proves the validity of the first sub-hypothesis. **Internal Audit contributes to reporting the findings to the concerned parties including the Audit Committee.**

3.2.1.2 Analysis the paragraphs of the second axis: Internal Audit's Relationship with Corporate Governance.

Table (5): Analyzing the second axis' s questions

Nº	Paragraph	Arithmetic mean	Standard deviation	Direction of answers	The relative importance
16	Internal auditing represents a fundamental and solid pillar of corporate governance, as it helps uphold the principles of accountability and integrity, improves operations, and enhances the company's performance	3.91	0.80	Agree	08
17	The internal auditor makes a significant effort to guide its members to specialize in the principles of corporate governance, enhancing and improving the company's performance	4.13	0.63	Agree	03
18	Internal auditing is one of the important mechanisms used in implementing governance, aiming to ensure alignment between risk management and the company's objectives	4.13	0.68	Agree	02
19	Internal Audit takes full responsibility for making suggestions and recommendations that allow for improved governance in the area of internal control	3.50	0.94	Agree	11

20	The internal auditor contributes to assessing and improving corporate governance processes and practices when carrying out audit activities and	3.91	0.76	Agree	09
21	The internal auditor seeks to ensure that the actions and decisions taken are in line with the legal provisions of the country in which it operates, and	3.97	0.65	Agree	06
22	The internal auditor supports and participates in risk management	4.00	0.63	Agree	05
23	The internal auditor verifies and evaluates the internal control structure, with the aim of identifying potential risks and assessing the	4.00	0.71	Agree	04
24	The internal auditor performs professional due diligence to ensure the appropriateness and effectiveness	3.86	0.59	Agree	10
25	Governance issues are addressed in all reports prepared by the Internal Audit Officer	3.50	0.87	Agree	12
26	The internal auditor seeks to achieve operational objectives by reviewing and monitoring various operational	3.94	0.89	Agree	07
27	The internal auditor provides the Board of Directors, Audit Committee, and stakeholders with the necessary analysis and recommendations in	4.19	0.70	Agree	01
The Second Axis		3.92	0.37	Agree	

Source: Prepared by the researchers based on the outputs of SPSS V19.

The table above indicates that the arithmetic means for all items ranged between (3.50) and (4.19), leaning towards agreement, while the arithmetic mean of the axis as a whole was (3.92) showing a general tendency towards agreement, which proves the validity of the second sub-hypothesis. **The internal auditor contributes to assessing and improving corporate governance practices when carrying out audit activities and evaluating internal control systems.**

3.2.2 Hypothesis testing of the study:

Table (6): Hypotheses Test Result.

	Arithmetic mean	Standard deviation	The tabulated t-value	The calculated value of t	Degree of Freedom	Level of Semantics Sig
01 axis	4.04	0.37	1.69	16.90	35	0.000
02 axis	3.92	0.37	1.69	14.79	35	0.000
complete questionnaire	3.98	0.33	1.69	18.24	35	0.000

Source: Prepared by the researchers based on the outputs of SPSS V19.

The table above clearly indicates that the means for each axis are concentrated in the range [3.40-4.19], which represents the area of agreement. It is also noted that the calculated T value reached (18.24) with (35) degrees of freedom, exceeding the tabulated T value of (1.69). Additionally, the significance level ($\text{sig}=0.000$) is less than (0.05). The overall mean of all survey statements is (3.98), which also falls within the previously mentioned range, with a standard deviation of (0.33), indicating that the general trend of the opinions of the sample individuals leans towards agreement. Based on the validity of the two sub-hypotheses and the outputs of the previous table, we confirm the validity of the third hypothesis.

The internal auditor provides the Board of Directors, Audit Committee, and stakeholders with the necessary analyses and recommendations to support the implementation of governance.

4-Conclusion:

Through our study, we came up with a number of findings that can be summarized as follows:

- Internal auditing plays an important and essential role in assisting boards and committees to fulfil their governance functions.
- Internal auditing is considered the fundamental and solid pillar of corporate governance as it helps achieve the principles of accountability and integrity, improves operations, and fosters trust among stakeholders and the community.
- The primary and essential role of the Audit Committee is to assist in achieving high quality financial reporting.
- The correct and proper implementation of corporate governance requires boards of directors to create and establish a range of committees, including the audit committee.
- The role of the audit committee is considered the main pillar of the roles in the implementation of corporate governance due to its supervisory and oversight functions.
- The Audit Committee is keen to prepare financial reports that are free from errors and deviations, and by overseeing these reports and accounting policies, the Audit Committee assists the Board of Directors in carrying out its responsibilities and tasks.
- The Audit Committee selects the Head of Internal Audit and provides the necessary resources for this department.

5.Recommendations:

Some recommendations were presented, which included the opinions of academic professors, accounting experts, and auditors regarding the reality of internal auditing in Algerian organizations:

- The internal auditor does not enjoy the prestige and attention of the governance actors, which negatively affects the quality of the suggestions it provides, which would further improve internal control and risk management of the company, in addition to improving corporate governance practices.
- Ensure that the weak independence of internal auditors is addressed, which does not ensure that they perform their duties with integrity and professionalism to enable them to achieve their objectives.
- Lack of expertise and knowledge in the field of auditing for internal auditors, due to the fact that many of them do not have the necessary training in the field, enabling them to perform their tasks professionally and thus achieve the desired objectives.
- The absence of audit committees in companies in general.

- Many companies have only one internal auditor, who is often among the accountants and ordinary employees of the organization, in order to avoid paying the costs of the latter.

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