

Study of the Extent of the Impact of Internal Audit on Disclosure and Transparency in the Economic Institution: Analysis of the opinions of a sample of internal auditors in Algeria

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Abstract

This study aims to determine the extent to which internal audit principles contribute to enhancing disclosure and transparency of financial information and data. In order to address the basic problem of the study, a questionnaire was prepared and distributed to the study sample with the aim of measuring the extent of internal auditors' commitment and respect for internal audit principles and the availability of disclosure and transparency elements. The relationship between the pillars of internal audit as an independent variable and the principles of disclosure and transparency was also determined, as the study found a statistically significant relationship between the various variables.

Keywords: Internal Audit; Disclosure; Transparency; Economic Institution; Internal Auditors; Algeria.

1. Introduction

Internal auditing occupies an important position in the organizational pyramid of the economic institution, due to the role it plays as a completely independent interest, which has contributed to increasing demand for the various services it provides, especially with the emergence of joint-stock companies and the separation of ownership from management, as internal auditing is considered an evaluation activity for the various operations within the institution, which required organizing the internal auditing profession and paying attention to it, similar to the American Institute of Internal Auditors, which paid attention to the auditing profession.

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Internal audit contributes to enhancing control over the extent of policy implementation within the economic institution, as independence and objectivity are among the most important pillars that contribute to achieving integrity in the internal audit process, especially with regard to the efficiency of preparing and evaluating the internal control system and collecting evidence and indications related to the various activities carried out by the institution. The internal audit function also contributes to reducing the spread of scandals and financial corruption through a set of mechanisms on which it is based in order to contribute to performing the control function within the institution. Given the basic functions of management in the institution, which are planning, organizing, and directing, it is necessary to have people who have the quality of independence and objectivity in judging the various operations carried out by the institution, as it is necessary to assign an independent and qualified person to carry out the examination and data analysis processes. Through the above, the following problem can be raised:

Main Research Problem.

In order to simplify the main problem of the research, it was divided into a set of sub-questions as follows:

- How do independence and objectivity contribute to the implementation of the audit mission?
- To what extent does the internal auditor adhere to internal audit standards?
- How do the pillars of internal audit affect disclosure and transparency?

1.1 Study Hypotheses

- There is a statistically significant relationship between skill and necessary professional care and transparency and disclosure at a significance level of 0.05.
- There is a statistically significant relationship between the independence and objectivity of the internal audit function and transparency and disclosure at a significance level of 0.05.
- There is a statistically significant relationship between the internal audit charter and transparency and disclosure at a significance level of 0.05.

1.2 Study Objectives

This research mainly seeks to achieve a set of objectives:

- Determine the role of internal audit as a basic function in the economic institution and its role in activating corporate governance.
- Study the extent of the impact of corporate governance on the performance of the economic institution.
- Studying the extent of adoption of corporate governance by Algerian institutions by studying the opinions of a sample of internal auditors and analyzing the impact of adopting governance principles on the institution's performance by attempting to build a balanced scorecard that combines various performance measurement criteria.

2. Theoretical Framework

Auditing is an organized and systematic process of collecting and evaluating evidence and clues, objectively, related to the results of economic activities and events, in order to determine the extent of compatibility and conformity between these results and the established standards, and to inform the concerned parties of the results of the audit. This is according to the American Accounting Association (AAA), where it is clear from this that the audit process is on an organized basis and according to specific foundations and frameworks with the aim of verifying the integrity of the internal

control system, and expressing a technical and neutral opinion on the fairness of the financial statements and the information they provide about the institution's activity. (Walid Naji Al-Hayali 2017)

It is an examination of the financial statements, and includes an analytical research and evaluation of records, procedures and aspects of control with a critical analysis of the evidence used to summarize the various operations to come up with a neutral technical opinion on the significance of the financial statements for the financial position and results of operations during a specific period. (Ahmed Nour El-Din 2015)

The continuity of the institution, improving its financial position and maintaining its reputation required the audit to expand its scope to include examining internal control systems in addition to discovering errors and fraud and working to reduce their occurrence.

Disclosure and Transparency

Most thinkers differed in giving a comprehensive definition of disclosure. Disclosure is defined as the process of showing financial information, whether quantitative or descriptive, in the financial statements or in the margins, notes, and supplementary tables at the appropriate time, which makes the financial statements not misleading and appropriate for users of financial statements from external parties who have the authority to view the books and records. In general, disclosure is considered the process of transferring financial information to others (shareholders, regulatory bodies, potential investors, etc.) to avoid fraud, deception, and illegal practices.

Definition of Transparency: Transparency is defined as a phenomenon that refers to sharing information and dealing with it in an open manner. It allows those who have an interest in a matter to collect information about this matter that may have a decisive role in revealing disadvantages and protecting their interests. Transparency is based on the free flow of information, providing stakeholders with sufficient data to understand, monitor, and access info. Transparency in financial markets means not withholding information and delivering accurate, timely, and adequate information to all stakeholders. (Mohammed Diab 2020)

3. Field Study

Through this study, we will try to analyze the extent of the internal auditor's commitment in Algeria to international standards for internal auditing. A questionnaire was prepared relying on international standards issued by the Institute of Internal Auditors (IIA) to measure the relationship between independent and dependent variables.

1- The Target Sample and Data Collection Methods

The questionnaire was directed to a group of internal auditors and employees related to internal auditing in Algeria. To determine relative weights, a 5-point Likert scale was used (range = 5 - 1 = 4; cell length = 4 / 5 = 0.8).

Table No. (1): The five-point Likert scale scores adopted in the study

Level / Response Category	Relative Weight	Approval Rating Order
Totally disagree	1.00 - 1.80	01
Disagree	1.80 - 2.60	02
Neutral	2.60 - 3.40	03

Agree (OK)	3.40 - 4.20	04
Totally agree	4.20 - 5.00	05

Data was processed using SPSS. Key statistical tools included frequencies, percentages, arithmetic means, standard deviations, Cronbach's alpha, simple linear regression (R^2), and sample t-tests.

2. Content Analysis & Descriptive Analysis

A total of 118 forms were distributed via personal interviews and email. 93 forms were retrieved, and 82 were valid for analysis.

Table No. (2): Relative distribution of distributed questionnaires

Form Status	n	%
Distributed forms	118	100.00%
Retrieved forms	93	78.81%
Valid forms for analysis	82	88.17%

Demographic Characteristics of the Sample

Table No. (3): Distribution of the study sample by gender

Gender	n	%
Male	53	64.64%
Female	29	35.36%
Total	82	100.00%

Table No. (4): Distribution of the study sample according to professional experience

Years of Professional Experience	n	%
Less than 10 years	17	20.74%
11 to 20 years	28	34.15%
21 to 30 years	32	39.02%
Over 30 years	5	6.09%
Total	82	100.00%

2-2 Validity and Reliability of Questionnaire Items

Cronbach's alpha coefficient reached 0.817 for the overall tool, exceeding the standard threshold of 0.70. This indicates a high level of internal consistency and stability across response items.

Table No. (6): Cronbach's alpha coefficient for the study questionnaire

Axis No.	Axis Title	Items (n)	Cronbach's Alpha
01	Internal Audit Charter	05	0.813
02	Independence and Objectivity	11	0.808
03	Skill and Professional Care Required	11	0.613
Overall	Overall Coefficient for All Items	27	0.817

Correlation Matrix Analysis & Item Validity

Table No. (7): Correlation matrix for the First Axis (Internal Audit Charter)

Paragraph Description	Correlation (R)	Sig. (p)
The purpose, authority and responsibility of the internal audit activity should be formally defined in the charter.	0.362**	0.001
The Chief Audit Executive shall periodically review the Internal Audit Charter and present it to senior management and Board.	0.782**	0.000
The nature of assurance services provided to the organization must be clearly defined in the charter. (Excluded)	0.117	0.295
The nature of consulting services should be specified in the internal audit charter.	0.604**	0.000
The mandatory nature of Core Principles for Professional Practice of Internal Auditing should be recognized.	-0.269*	0.015

Table No. (8): Correlation matrix for the Second Axis (Independence & Objectivity)

Paragraph Description	Correlation (R)	Sig. (p)
The internal audit activity must be independent, and auditors must perform work objectively. (Excluded)	0.080	0.477
Chief Audit Executive has direct and unrestricted access to senior management and Board.	0.434**	0.000
Matters threatening independence are managed at individual, engagement, and organizational levels.	0.252**	0.000
Objectivity requires internal auditors' judgments not be subject to opinions of others.	0.792**	0.000
Matters threatening objectivity are managed at individual, engagement, and organizational levels.	0.356**	0.001
Chief Internal Auditor reports to an organizational level ensuring full responsibility fulfillment. (Excluded)	0.108	0.335

Internal audit activity must be free from interference in determining scope, performing work, & communicating results.	0.624**	0.000
Internal auditors must be honest, impartial, and avoid conflicts of interest.	0.314**	0.004
Internal auditors should refrain from evaluating operations they previously supervised.	0.376**	0.000
Potential threats to independence/objectivity in consulting engagements must be disclosed prior to acceptance.	0.380**	0.000
Internal audit activity must maintain functional independence and objectivity across engagements.	0.337**	0.000

One-Sample T-Test Analysis of Axes

Table No. (9): T-test for the paragraphs of the First Axis (Charter)

Item	Arithmetic Mean	Std. Deviation	t-value	Sig.	Result
01	4.20	0.405	17.074	0.000	OK
02	3.78	0.814	7.850	0.000	OK
03	3.95	1.129	8.061	0.000	OK
04	4.04	0.938	9.698	0.000	OK

Table No. (10): T-test for the paragraphs of the Second Axis (Independence & Objectivity)

Item	Arithmetic Mean	Std. Deviation	t-value	Sig.	Result
01	3.82	1.108	7.054	0.000	OK
02	4.07	0.503	13.634	0.000	OK
03	4.01	0.443	13.681	0.000	OK
04	3.66	0.776	6.769	0.000	OK
05	4.02	0.471	13.458	0.000	OK
06	1.77	1.201	10.194	0.000	Not OK
07	3.65	0.744	6.801	0.000	OK
08	3.96	0.565	11.615	0.000	OK
09	3.83	0.738	8.742	0.000	OK
10	3.86	0.670	9.403	0.000	OK
11	3.88	0.903	8.354	0.000	OK

Table No. (11): T-test for the paragraphs of the Third Axis (Skill & Professional Care)

Item	Arithmetic Mean	Std. Deviation	t-value	Sig.	Result
01	3.78	0.836	7.694	0.000	OK
02	3.70	0.684	7.620	0.000	OK
03	3.98	0.435	13.389	0.000	OK
04	4.02	1.180	10.837	0.000	OK
05	3.99	0.596	12.323	0.000	OK
06	4.04	0.559	13.315	0.000	OK
07	4.17	0.658	17.191	0.000	OK
08	3.94	0.335	12.015	0.000	OK
09	4.60	0.526	20.542	0.000	OK
10	3.95	0.448	10.781	0.000	OK
11	3.80	0.368	6.882	0.000	OK

3-1 Testing the Hypotheses

H0: First Hypothesis Test:

There is a statistically significant relationship between the internal audit charter, transparency and disclosure at a significance level of 0.05.

There is no statistically significant relationship...H1:

Table No. (12): Correlation Analysis - Internal Audit Charter vs Transparency & Disclosure

Dep. Variable	Indep. Variable	R	R ²	Constant	t-value	Sig. (p)
Transparency & Disclosure	Internal Audit Charter	0.419	0.175	1.457	4.133	0.000

H0: Second Hypothesis Test:

There is a statistically significant relationship between independence & objectivity and transparency & disclosure at a significance level of 0.05.

Table No. (13): Correlation Analysis - Independence & Objectivity vs Transparency & Disclosure

Dep. Variable	Indep. Variable	R	R ²	Constant	t-value	Sig. (p)
Transparency & Disclosure	Independence & Objectivity	0.254	0.064	2.796	2.344	0.022

H0: Third Hypothesis Test:

There is a statistically significant relationship between skill & professional care and transparency & disclosure at a significance level of 0.05.

Table No. (14): Correlation Analysis - Skill & Professional Care vs Transparency & Disclosure

Dep. Variable	Indep. Variable	R	R ²	Constant	t-value	Sig. (p)
Transparency & Disclosure	Skill & Care	0.266	0.070	2.722	2.468	0.016

4. Conclusion

Internal audit is considered one of the mechanisms for activating corporate governance, as it is an independent oversight activity affiliated with the board of directors. Independence is considered one of the features that distinguish internal audit from other functions in the economic institution, providing protection for shareholders and stakeholders through rigorous control procedures. This enhances financial credibility and transparency. The Audit Committee, formed according to standard regulations, acts as a pivotal pillar in facilitating internal and external audit integration under Standard No. 2110.

- The internal audit activity is characterized by independence and objectivity; threats to independence are managed effectively.
- Internal auditors exhibit integrity and impartiality, with mandatory disclosure of potential conflicts or violations.
- In case of skill/knowledge gaps, chief audit executives obtain assistance from qualified independent external experts.
- Internal auditing in modern organizations requires sufficient knowledge of information technology and digital operational risks.
- Empirical evidence demonstrates a statistically significant positive impact of internal audit pillars on corporate disclosure and transparency in Algerian economic institutions.

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