

The role of internal auditing according to the risk management approach in embodying corporate governance-(A case study of a sample of banks in the states of Bechar, Ain Temouchent and Algiers)

دور التدقيق الداخلي وفقا لمدخل إدارة المخاطر في تجسيد حوكمة الشركات

(دراسة حالة عينة من البنوك بولاية بشار، عين تموشنت والجزائر العاصمة)

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Abstract:

This study aims to highlight the essential role played by internal auditing in supporting and assisting risk management in the context of corporate governance requirements, by presenting the concept of each study variable in the theoretical framework and conducting a field study on banks in the states of Bechar, Ain Temouchent and Algiers, where we adopted a descriptive-analytical approach, using the Statistical Package for the Social Sciences (SPSS) software.

This study concluded that internal auditing contributes to risk management through examining and evaluating operations, providing advisory services and solutions to problems, and measuring and reviewing risk management.

Keys words: Internal Audit, Risk Management, Corporate governance, Bank.

JEL classification codes : M42 ; G34.

ملخص:

تهدف هذه الدراسة إلى إبراز الدور الجوهرى الذي يلعبه التدقيق الداخلى في دعم ومساندة إدارة المخاطر في ظل تجسيد متطلبات حوكمة الشركات، من خلال عرض لمفهوم كل من متغيرات الدراسة في الإطار النظرى، بالإضافة إلى دراسة ميدانية قمنا بها على مستوى البنوك التابعة لولاية بشار، عين تموشنت والجزائر العاصمة، حيث اعتمدنا على المنهج الوصفى التحليلي، مستخدمين في ذلك برنامج الحزمة الإحصائية للعلوم الاجتماعية (SPSS).

خلصت الدراسة إلى أن التدقيق الداخلى يساهم في إدارة المخاطر من خلال: فحص الأعمال وتقييمها وتقديم الخدمات الاستشارية والحلول للمشاكلات وقياس ومراجعة إدارة المخاطر.

الكلمات المفتاحية: التدقيق الداخلى، إدارة المخاطر، حوكمة الشركات، بنك.

تصنيف JEL: M42، G34.

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1-Introduction

The scandals and financial collapses that have hit many economic and financial units as a result of the successive developments that have occurred in the business world in recent years have led to many investors, shareholders, and stakeholders in banks incurring financial losses, in addition to the emergence of many negative practices such as the exacerbation of fraud, administrative and financial corruption, the matter that led to the necessity of taking all necessary measures and means to confront it, by implementing strategies capable of managing risks and establishing effective control systems that take their role seriously and work efficiently to achieve the set goals, by providing a suitable economic and legal environment to overcome those risks and difficulties, this cannot be achieved except by relying on experienced and highly competent individuals, through continuous monitoring and observation of all aspects of the bank's activities, and providing necessary suggestions and recommendations.

The role of the internal auditor has emerged as particularly important at the financial center of the bank, in addition, the auditor provides the institution with reports that confirm that the risks it faces have been understood and managed appropriately within the dynamic changes of the institution and its surroundings, with the trend towards implementing sound corporate governance rules, given the significant role they also play in supervising the bank's implementation of policies and regulatory procedures, and their commitment to establishing transparency in all transactions, as a quick and effective solution to overcome those practices mentioned above and their serious consequences, the problem of the study can be summarized as follows:

What is the contribution extent of internal auditing to corporate governance through risk management?

The sub-questions: through the main problem, we ask these sub-questions:

- To what extent does internal auditing contribute to enhancing the effectiveness of risk management?
- To what extent does internal auditing contribute to implementing an effective framework for corporate governance?

Study hypotheses:

- Activating the role of internal auditing in banks contributes to reducing errors and deficiencies in internal control and practices that may affect the rights of stakeholders, thus enhancing the evaluation of risk management effectiveness.
- The proper application of corporate governance helps assess and improve risk management control systems, which preserves the bank's reputation.

The research importance:

The importance of the study lies in shedding light on the perception of internal auditors regarding the importance of auditing in reducing risks in banks, as one of the pillars of the economic system in the country. Therefore, those banks must have a high degree of financial and administrative stability to ensure optimal continuity in development and progress for the better. It is essential to understand the role and importance of the internal auditor's work, which is not limited to auditing internal control procedures and assessing their effectiveness only, and it is only beyond that the internal auditor is required to express his opinion on the potential risks resulting from incorrect administrative practices or inappropriate control policies that could threaten the bank's continuity on the one hand, and contribute to finding appropriate solutions to these problems and risks to avoid their occurrence in the future on the other hand.

Aims of the study:

The study seeks to achieve a fundamental and essential goal, which is to demonstrate the importance of adopting internal auditing by risk management and its reflection in achieving and embodying the requirements of corporate governance in banks. It branches out into subsidiary and complementary objectives that can be summarized in objectives related to the scientific aspect of the subject and others related to the practical aspect, which we summarize in the following main points:

- Clarifying the basic concepts related to internal auditing, risk management, and corporate governance.
- Knowing the role that the internal auditor contributes to improving financial performance, and thus increasing competitiveness among banks.
- Identifying the nature of the relationship between study variables;
- To reach the study results.

Study approach:

This study relied on the descriptive-analytical method as it is compatible with the theoretical research topic. In the applied aspect, tools such as interviews, especially questionnaires, were used to facilitate this process. These questionnaires were directed to internal auditors in banks in the states of Bechar, Ain Temouchent and Algiers. All of this was done using the Statistical Package for the Social Sciences (SPSS V21) software.

To complete this study and answer the research question, the study was divided into two parts :

- Part One: Familiarity with the theoretical aspect of the study and an introduction to research variables.
- Part Two: Was dedicated to studying a sample of banks in the state of Bechar, by preparing a questionnaire directed to internal auditors and bank officials and employees, in an attempt to find the role played by internal auditing in embodying corporate governance based on risk

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management and highlighting the relationship between the study variables.

Study model: The study model is represented in the following form.

Figure.1. Study model



Source: Made by the researchers.

2-Previous studies:

- 2.1 The study: (Maria, 2012)** The study focused on listed companies on the Bucharest Stock Exchange (BSE) and found that there is a strong relationship between internal auditing and corporate governance. This was examined through the causal relationship between turnover, asset investments, and employee attraction. It revealed that companies that apply lower levels of general transparency recommendations in the field of governance tend to have poor performance and lower profitability, unlike those that apply higher levels.
- 2.2 The study of: (2018 بن ثابت و عامري،)** Through it, it was concluded that the impact of corporate governance on bank risk management differs between public and private banks. Despite the numerous reforms initiated by the monetary authorities, there has been a recent decline in the implementation of governance principles and a noticeable decrease in their actual embodiment in the banking system. This is evident through the lack of transparency and accounting disclosure, as well as the tightening of legal penalties combating financial and administrative corruption in the banking sector.
- 2.3 The study of: (2019 معارف، شيخي، و زناقي،)** Risk management is considered the essential valve and core axis for banks. Therefore, managing risks, analyzing them, and predicting them are extremely difficult in a complex banking environment. This requires a lot of transparency in the financial statements of banks. It also encourages compliance with governance principles and mechanisms, which would enhance the role of banking risk

management in line with the objectives of shareholders, depositors, and stakeholders, and increase their confidence.

The current study attempted to determine the relationship between internal auditing and corporate governance according to risk management in banks. Considering that risk management is a cornerstone of governance, therefore the study aimed to clarify the role of the latter in supporting and enhancing corporate governance, which previous studies lacked. Partial benefit was also derived from previous studies in various areas, contributing to the formulation of the current study's problem, as well as the formulation and testing of hypotheses.

3-Théorétique part:

The thoretical background of the study variables.

3-1-Definition:

Internal auditing: "is an independent and objective activity aimed at improving and adding value to the organization through taking care of and conveying confirmations to the relevant parties that serve its objectives. The work should be carried out in an organized and controlled workflow with methodologies that assist in performing its tasks with care, independence, and complete ease, helping to enhance the effectiveness of risk management, control, and governance". (Auditors, 2004)

Corporate Governance: There is no unified definition agreed upon by all economists and legal experts. According to the Organisation for Economic Co-operation and Development (OECD), it is defined as: "The system used by the company in supervising and controlling its operations, where the rights and duties of the various parties involved, such as the board of directors, managers, shareholders, and other relevant parties, are described and distributed". And establish the necessary rules, processes, and practices for making their decisions and taking their actions, thus creating the overall framework that defines the means used to achieve those objectives efficiently and rationally, and control them to exploit resources wisely and optimally. (OECD, 1999)

Risk management: You know that it is the sum of procedures, measures, and strategies through which the institution confronts and addresses future risks that are unknown and clear, that is" attempting to deal with the uncertainties arising from financial markets". (Karen, 2005)

Risk management can be achieved by following the stages outlined below.

Figure.2. Stages of Risk Management.

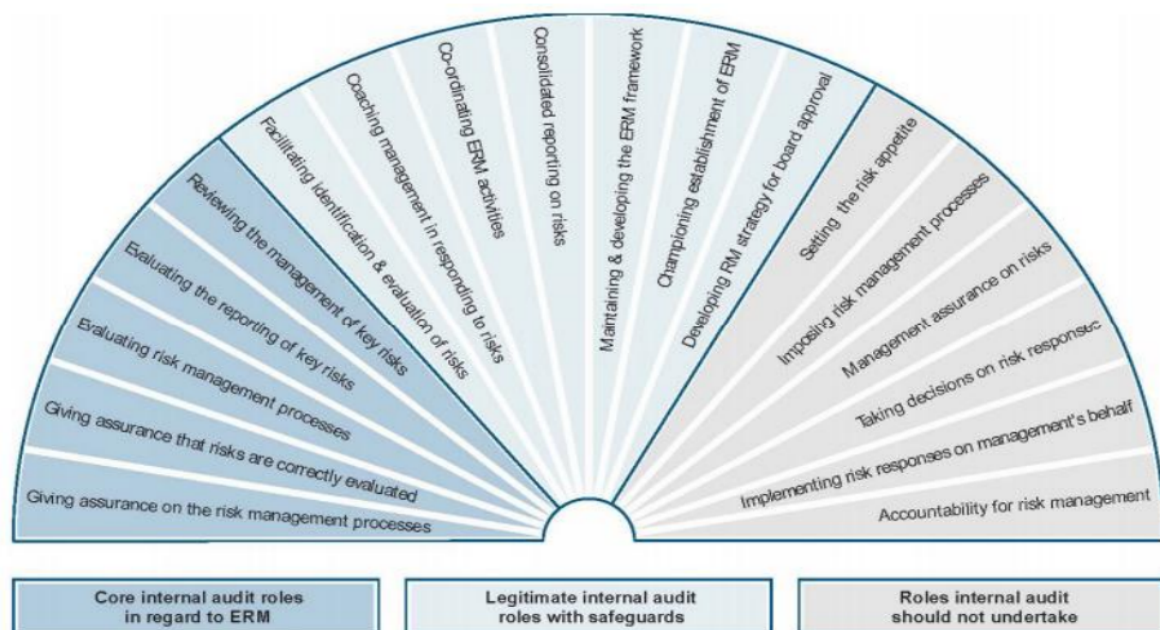


Source: (Belabed & Ghafouri, 2022, p. 175)

We conclude from the above figure that risk management involves sequential stages of utmost importance. It begins with planning for risks by mapping out the scope of work, followed by identifying, diagnosing, and exploring the risks through recognition. Then the stage of measurement and evaluation comes, it determines how to deal with them by developing a solid plan and implementing it according to the procedures that allow for mitigating the severity of these risks and making deliberate decisions and adjustments that would help avoid or reduce them.

Where the internal auditor cannot perform the audit towards risk management according to the scope of work, the Institute of Internal Auditors (IIA) has defined this scope in the form of a fan called "Risk Management Fan". Which we include in Figure 03.

Figure.3. Internal auditing's role in ERM



Source: (<https://www.theiia.org/en/internal-audit-foundation/>, 2024)

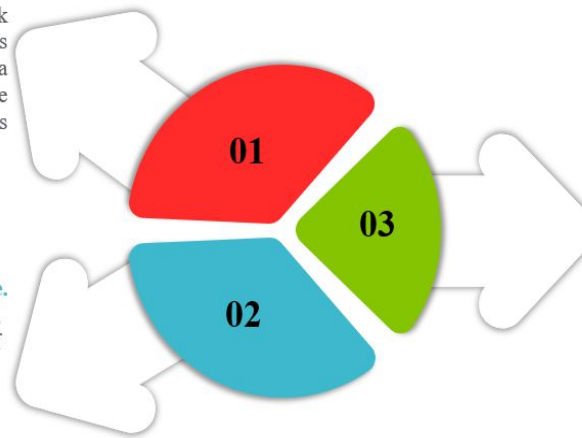
Through the above figure, it becomes clear to us that the internal auditor has three main roles, which we summarize in the following figure:

Figure.4. The main roles of internal audit activity in Risk management.**The main and general role.**

The internal auditor evaluates the effectiveness and efficiency of risk management by identifying its strengths and weaknesses. Then, a detailed report is provided on the findings and the main risks associated with it.

The functional and specialized role.

Contributing to providing assistance, advice, and guidance with the aim of developing the methodology and strategy of risk management.

**The rejected role.**

The internal auditor should not interfere in the affairs of the board of directors and executive managers or assume responsibility for the risk management process.

Source: Made by the researchers.

3-2-The role of internal audit according to the risk management approach and its reflection on embodying corporate governance requirements.

This element is divided into two main parts:

3-2-1-The role of internal auditing in risk management.

The role of the internal auditor has evolved in recent times with the development of events, financial collapses, and crises, as well as the expansion of banks and institutions, which has significantly increased the occurrence of risks. It has become necessary for the internal auditor to provide assistance that effectively contributes to reducing these risks. This has led to a transition from the traditional role to the more emphasized advisory role by applying internationally recognized professional practice standards, such as Standard **2120** Risk Management and Standard **2120.T.2**, which defines the activity of internal auditing as assessing the likelihood of fraudulent activities occurring.

The main role of internal auditing in risk management includes: (IIA. UK)

- Allowing internal auditors to use the latest techniques and control tools to analyze and detect potential risks;
- Ensuring alignment between internal auditing and risk management in the bank, to ensure both parties work towards achieving desired objectives, which is the activation of risk management at the bank level;
- Involving the internal auditor in board meetings when developing a risk management strategy to gain the necessary professional and technical expertise;
- Supervising the managers and employees by the internal auditor in terms of coordination and rationalization during the self-assessment phase of

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risk management operations, provided that they do not have the final decision and judgment in the implementation.

Thus, it is concluded that there must be a strong relationship and compatibility between both internal auditing and risk management in the bank, allowing for the standardization of their operational models and controlled activities in a way that ensures mutual integration and communication in an atmosphere of complete transparency, while considering the independence of each, which reflects the fundamental and essential role of internal auditors in the risk management process.

3-2-2-The role of internal auditing in activating corporate governance practices.

Internal auditing is considered one of the most important internal mechanisms that work to activate corporate governance, due to the many benefits it provides to management and its board members through its independent evaluation of various control measures and risk analysis. In addition, it contributes to the evaluation and improvement of the governance process, as emphasized by the Organization for Economic Cooperation and Development (OECD) in standard **2120.T.1**, which requires internal auditing to assess the risks related to governance within the organization, through: (Lebrague, Chelil, & Meziane, 2019, p. 08)

- Provide appropriate recommendations to improve and develop the company's operations.
- Monitor the progress of planned goals.
- Protect the company's assets by verifying the preservation of their value through identifying areas or processes and programs that need to be reviewed and evaluated during auditing.
- Ensure the effective and proper functioning of organizational performance by adhering to laws, regulations, and contractual procedures.

4-Empirical part:

4-1-The results of the personal interview:

Most banks have confirmed the following points:

- Lack of internal auditors at the level of banking agencies, as they are present at the central level in the capital city of Algiers;
- There is a difference between inspectors and internal auditors in banks, the former's role is to monitor errors, manipulations, and embezzlements, and punish the perpetrators, unlike internal auditors who provide advice, guidance, and solutions to problems and errors to avoid them in the future;
- Most banks have a financial controller whose main role is to monitor errors in bank accounts and money transfers in and out.

4-2-Study population and sample:

To carry out this study, we used a questionnaire form: a paper version and an electronic one, which contains, the personal data of the members of the study sample, which are: academic qualification, job, and professional experience in the first part, and concerns the answers of the sample members regarding the subject of the study in the second one, which was divided into two axes, where we relied on a tripartite Likert scale which is: disagree, neutral, and agree, corresponding to the following weights: **1-2-3**.

The study community included the main banks located in the capital city of Algiers, in addition to a group of bank branches in the provinces of Bechar and Aïn Temouchent. The study sample also included internal auditors and financial controllers in the banks due to their extensive knowledge and close relationship with the study subject.

Table 1. Distribution of the stratified sample by banks for the states: Bechar, Aïn Temouchent and Algires.

N°	Bank Name	State	Distributed questionnaires	Received questionnaires	Valid questionnaires
01	Bank of Algeria	Ain Temouchent	04	01	01
		Bechar	05	03	03
02	National Bank of Algeria	Ain Temouchent	03	01	01
		Bechar	05	04	04
		Algires	03	01	01
03	Algerian Popular Credit	Algires	07	06	05
04	Agricultural and Rural Development Bank	Ain Temouchent	04	03	02
05	Local Development Bank	Ain Temouchent	06	05	03
		Algires	04	04	02
06	Gulf Bank Algeria	Ain Temouchent	03	02	01
		Bechar	03	01	01
		Algires	03	03	03
07	The Algerian	Bechar	04	04	02

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	Foreign Bank	Algires	05	02	02
08	The National Savings and Reserve Fund	Ain Temouchent	02	01	01
		Bechar	02	01	01
		Algires	02	02	02
Total			65	44	35
Percentage			100%	67.69%	53.85%

Source: Made by the researchers.

The table above, shows that the majority of banks in the states under study returned the questionnaire forms, which was estimated at **67.69%**, which is a good percentage. **53.85%** of the forms are valid, which represents a reasonable percentage, which indicates that the internal auditors' awareness the importance of studies and research conducted academically.

4-3-The method and tools used in the study:

4-3-1-Study tool:

To verify the validity and reliability of the study tool, the Cronbach's alpha coefficient was calculated to measure the reliability to determine the internal consistency of the questionnaire items, which was estimated at **0.746**, a high and acceptable value, as it should be greater than **0.60**, a condition that has been met. Therefore, it can be relied upon to generalize the results. As for the validity coefficient, which represents the square root of the Cronbach's alpha for measuring validity, it should be greater than **0.70**, and in our study, it was estimated at **0.863**.

4-3-2-Statistical analysis methods:

- **The repetitive distribution and percentage ratios:** To know the responses of the sample obtained.
- **The arithmetic mean and standard deviation,** which in turn express the dispersion of the sample vocabulary.
- **Alpha Cronbach coefficient:** Used to measure the strength of the relationship between items and to ensure the reliability of the study tool.
- **One Sample T-Test:** to test hypotheses validity.

4-4-Results of the field study and their discussion

Table 2. The demographic characteristics of the studied sample.

	The statement	Repetition	Percentage
Academic Qualification	DEUA/ Bachelor's degree	10	28.6
	Master	14	40
	Masters degree	08	22.9
	Doctorat	03	08.5
	Total	35	100
Function	Bank manager	06	17.1
	Internal Auditor	17	48.7
	Audit officer	06	17.1
	Financial Controller	06	17.1
	Total	35	100
Years of experience	Less than 05	03	08.6
	Between 05 and 15	14	40
	More than 15	18	51.4
	Total	35	100

Source: Prepared by the researchers based on the outputs of SPSS V21.

The previous table indicates that the educational level of the sample members is high, most of them having a university degree, which is a good and important indicator shows that all sample members have the ability to answer the questionnaire questions well, which enhances confidence in their responses and reliance on them in the analysis. It is also noteworthy that all respondents are internal auditors, while the variable of years of experience shows that **51.4%** of sample members have more than **15** years of experience. All of these results support the opinions of the sample members regarding the questionnaire items.

✓ **Analysais of the first axis paragraphs :**

- **The null hypothesis (H0):** Activating the role of internal auditing in banks, does not contribute to reducing errors and deficiencies in administrative control and practices that may affect the rights of stakeholders.
- **The alternative hypothesis (H1):** Activating the role of internal auditing in banks contributes to reducing errors and deficiencies in administrative control and practices that may affect the rights of stakeholders, thus enhancing the evaluation of risk management effectiveness.

Table 3. Analyzing the first axis' s questions

N°	Paragraph	Arithmeti c mean	Standard deviation	Direction of	The relative
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				answers	importance
01	The internal auditor identifies the sources of risks that the bank may be exposed to.	2.82	0.45	Agreed	01
02	The internal auditor conducts an initial assessment of the inherent risks that the bank may be exposed to.	2.57	0.69	Agreed	11
03	The internal auditor discusses the effectiveness of risk management with management and officials regularly.	2.68	0.63	Agreed	05
04	The internal auditor provides support and participation in risk management processes.	2.71	0.57	Agreed	04
05	The internal auditor contributes to reducing errors and deficiencies in an internal control and practices that may affect the rights of stakeholders.	2.57	0.73	Agreed	10
06	Internal audit contributes to identifying an acceptable level of risk that aligns with the bank's objectives.	2.65	0.63	Agreed	07
07	The internal auditor provides accurate and precise information to decision makers in the bank so that they can find solutions and alternatives.	2.74	0.56	Agreed	03
08	The internal auditor contributes to protecting the bank's assets and properties from any manipulations, thefts, and embezzlements.	2.80	0.47	Agreed	02

09	The internal auditor works on continuously improving his knowledge and skills through on-going professional development.	2.68	0.58	Agreed	06
10	The internal auditor takes the necessary professional care to improve the path and processes of risk management and control.	2.60	0.65	Agreed	09
11	Important audit conclusions and results are based on appropriate analysis and evaluation work.	2.57	0.69	Agreed	12
12	The recommendations or corrective actions proposed in the internal audit report are implemented.	2.65	0.63	Agreed	08
The first axis		2.67	0.24	Agreed	

Source: Prepared by the researchers based on the outputs of SPSS V21.

Through the results obtained from the One-Sample T test in a single sample for all items of this axis, and through the results obtained within Table No. 03, we notice that the arithmetic means of the items range between **2.57-2.82**. As for the overall arithmetic mean of the axis, it reached **2.67** towards a general direction of approval, which it can be realized that the study sample individuals agreed on the content of all items of this axis. It also confirms the presented results of the computed T value for axis B of **16.358**, which is greater than the tabular T value of **1.69**. Also, the significance level is **0.00**, which is less than the significance level of **0.05**, Thus we can reject the null hypothesis H0 and accept the alternative hypothesis H1, which states that: Activating the role of internal auditing in banks contributes to reducing errors and deficiencies in internal control and practices that may affect the rights of stakeholders, thus enhancing the evaluation of risk management effectiveness.

✓ **Analysais the paragraphs of the second axis :**

- **The null hypothesis (H0):** The proper application of corporate governance does not help assess and improve risk management control systems, which preserves the bank's reputation.
- **The alternative hypothesis (H1):** The proper application of corporate governance helps assess and improve risk management control systems, which preserves the bank's reputation.

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Table 4. Analyzing the second axis' s questions

Nº	Paragraph	Arithmetic mean	Standard deviation	Direction of answers	The relative importance
01	The internal auditor works to provide the necessary professional care by laws and internal work procedures to ensure the suitability and effectiveness of corporate governance.	2.62	0.64	Agreed	06
02	Corporate governance ensures that the internal auditor possesses the necessary capability, efficiency, and full knowledge, which achieves an appropriate level of trust between the relevant parties.	2.71	0.51	Agreed	03
03	Internal auditing contributes to enhancing the effectiveness of the internal control system in the bank.	2.68	0.63	Agreed	04
04	Internal audit contributes to risk management at the bank.	2.82	0.45	Agreed	01
05	Internal auditing contributes to enhancing transparency in the bank.	2.65	0.59	Agreed	05
06	Internal auditing contributes to activating accountability in the bank.	2.45	0.74	Agreed	08
07	The internal auditor aims to ensure the right to access all necessary information to perform his duties.	2.77	0.49	Agreed	02
08	The internal auditor contributes to enhancing the quality and reliability of financial statements, which	2.54	0.74	Agreed	07

adds value to the bank.

The second axis	2.66	0.25	Agreed
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Source: Prepared by the researchers based on the outputs of SPSS V21.

Through the results obtained from the One-Sample T test for all items in this axis, and based on the results obtained within Table No. **04**, we notice that the arithmetic means of the items range between **2.45-2.82**, As for the overall arithmetic mean of the axis, it reached **2.66** towards a general direction of approval, from this, it can be understood that the study sample members participants agreed with the content of all paragraphs of this axis. The results presented also confirm the calculated T value for the axis at **15.348**, which is greater than the tabular T value of **1.69**, Also, the significance level is **0.000**, less than the significance level of **0.05**. Therefore, we can reject the null hypothesis **H0** and accept the alternative hypothesis **H1**, which states that: The proper application of corporate governance helps assess and improve risk management control systems, which preserves the bank's reputation.

4-5-Hypothesis testing of the study:

Table 5. Hypotheses Test Result

	Arith metic mean	Standard deviation	The tabulate d t- value	The calculate d value of t	Degree of Freedom ddl	Level of Semantics Sig
01 axis	2.67	0.24	1.69	16.358	34	0.000
02 axis	2.66	0.25	1.69	15.348	34	0.000
complete questionnaire	2.66	0.22	1.69	17.898	34	0.000

Source: Prepared by the researchers based on the outputs of SPSS V21.

The table above shows that the calculated value of T reached **17.898** with **34** degrees of freedom, which is higher than the tabulated T value of **1.69**, It shows also that a significance level of **0.000** less than the significance level of **0.05**. And the mean of the total questionnaire responses was **2.66**, with a standard deviation of **0.22**, indicating a general trend towards approval among the sample population. Based on the outputs of the previous table, we confirm the validity of the two sub-hypotheses.

5-Conclusion:

Internal auditing is considered a key support of the efficient implementation of the governance framework, designed to add value and

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enhance the level and performance of banks in achieving their objectives. This is a result of the essential roles it performs, which serve the interests of stakeholders, shareholders, bondholders, banks, and lenders. Through the field and practical aspects discussed in the study, several findings have been reached, including the following:

Applied Results:

- ✓ Most of the Banking agencies located in my two states Ain Temouchent and Bechar do not have a dedicated risk management department, unlike the capital Algiers which is considered one of the branches and organizational structures of the bank;
- ✓ The lack of banks of modern electronic methods and means that would help the internal auditor in detecting any manipulations and embezzlements within the bank;
- ✓ It appears that there is consensus among respondents regarding the role of internal auditing according to the risk management approach and its reflection in embodying corporate governance requirements, attributed to the following characteristics of banks in the states of Bechar, Ain Temouchent and Algiers : Academic Qualification, Function, and years of experience.

The theoretical results:

- ✓ The contribution of internal auditing to risk management is to examine and evaluate operations, measure and review risk management, and provide advisory services and solutions to problems, to contribute the establishment, development, and preservation of the bank's reputation at the study location ;
- ✓ Banks, which were the subject of the study, are keen on the internal auditor's commitment to exercising the necessary professional care in the proper implementation of corporate governance rules, to enhance and improve the bank's effectiveness ;
- ✓ The effectiveness of internal auditing enhances the bank's competitiveness through the functions, laws, and regulations which operates under, which reflect good corporate governance performance ;
- ✓ The internal auditor works to contribute the protection and preservation of the rights of the owners and stakeholders in the bank, with full commitment to transparency, independence, accountability, and disclosure in their interaction with risk management.

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