



The Internal Audit as a Value Creation Tool:

The Case of Algerian Companies

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Abstract;

The decentralization of public and private affairs underscores the growing importance of internal audit in evaluating, enhancing, and managing risk management, internal control, and corporate governance processes. Internal audit aims to provide assurance on operational mastery, targeting efficiency, asset protection, legal compliance, and information reliability. Its key characteristics include independence, objectivity, universality, continuity, and added value. However, its limitations lie in cost and occasionally unrealistic expectations. Four Algerian companies were studied to highlight the challenges of creating added value through internal audit.

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1. Introduction

Internal audit, the cornerstone of modern governance, proves essential in the face of increasing decentralization and organizational complexity. This strategic tool provides decision-makers with a rigorous assessment of processes, internal control, and governance, ensuring risk management and legal compliance. By promoting information reliability and goal achievement, internal audit creates indispensable added value for organizations. Its independence, objectivity, and universality make it an essential pillar of organizational performance. This leads us to pose the following question: **Does internal audit create added value for Algerian companies?**

To answer this question, we have chosen the following approach: first, we will examine the definition of internal audit, its objectives, characteristics, and limitations. Then, based on the analysis of data collected during our survey of four Algerian public companies, we will identify the challenges and opportunities for internal audit to generate added value for these companies.

2. The definition of internal audit

According to the Institute of Internal Auditors (IIA) (IFACI,2017): *"Internal audit is an independent and objective activity that provides an organization with assurance on the degree of control of its operations, offers advice to improve them, and helps create added value. It assists this organization in achieving its objectives by evaluating, through a systematic and methodical approach, its risk management, control, and governance processes, and by making recommendations to enhance their effectiveness."*

3. The objectives of internal audit (Boudriga, 2012)

Internal audit aims to assist the members of the organization in effectively and efficiently fulfilling their responsibilities. In this context, internal audit provides them with analyses, assessments, recommendations, opinions, and information regarding the activities, processes, and operations under review.

The primary objective of internal audit is to help organizations achieve their goals. To do so, internal auditors should focus on:

- Operational effectiveness and the efficiency of business processes and activities.
- Safeguarding assets against losses and misappropriations that may result from management and employee fraud.
- Compliance with laws, regulations, and adherence to the directives, instructions, and policies of organizations.
- The reliability and quality of information and information systems that feed into the decision-making and management systems of these organizations.
- Risk management, the quality of internal control, and corporate governance.

4. Characteristics of internal audit

Given the definition provided, we can infer that internal audit is an activity characterized by the following:

- **Independence:** Internal audit must be independent to ensure impartiality and objectivity in its work. This independence is based on its reporting structure, scope of work, and access to adequate resources. Direct reporting to top management, access to all areas and processes within the organization, and having competent staff and sufficient

resources are crucial for maintaining independence. This independence ensures an objective evaluation of activities and strengthens the organization's governance and internal control.

- **Objectivity:** Objectivity in internal audit is essential for maintaining the credibility of internal auditors. It requires an impartial attitude and a commitment to the quality of work. Professionalism in internal audit is based on applying international standards, comprehensive coverage of activities, and proper resource management. Beyond regulatory compliance, the competence and leadership of the internal audit manager, as well as ethics and common sense, are crucial for ensuring the relevance of audit work.
- **Universality:** Internal audit is universal, covering all types of organizations, processes, functions, and operations. It has expanded horizontally to all types of organizations and vertically into various areas such as finance, operations, taxation, IT, legal, and quality. Internal audit now encompasses all levels of decision-making. Its scope is defined in the internal audit charter of each organization.
- **Continuous and Ongoing:** Internal audit is a continuous and ongoing activity within an organization. Auditors conduct audit missions over defined periods and then move on to other missions. Internal audit is independent and planned over several years. Auditors must act diligently and professionally, adhering to standards and codes of ethics. Types of internal audit missions include compliance audits, efficiency audits, management audits, and strategic audits.
- **Value-Adding:** Internal audit evolves to meet governance and risk management expectations. It provides assurance on information reliability and process efficiency while advising the company on exploring new opportunities. Internal audit enhances goal achievement opportunities and reduces exposure to potential risks. It operates at various levels, provides clear decision-making information, and enhances investor confidence. By being ambitious, credible, legitimate, coordinated, well-known, and independent, internal audit adds real value, contributing to the growth and continuous improvement of the company. Internal audit adds value through its missions, training future managers, and contributing to value creation. Audit results provide sufficient, reliable, relevant, and useful information. Internal auditors conduct appropriate analyses and provide professional opinions to help the organization achieve its goals. Internal audit identifies and evaluates risks, thereby improving risk management processes. It also identifies opportunities that can positively impact the organization's objectives. Internal auditors make recommendations to address weaknesses, solve problems, control risks, or improve operations and processes. Recommendations should be responsive to findings, feasible, clearly and precisely formulated, and discussed with auditees for mutual enrichment.

5. The limitations of internal audit:

Internal audit has two main limitations: its cost and the gap between expressed expectations and its achievements. Establishing and maintaining an internal audit system requires significant material, human, and financial resources, which can be challenging for some companies. Additionally, there are misunderstandings surrounding internal audit.

Internal audit is often expected to solve all problems, even those outside its competence. However, internal audit cannot guarantee the resolution of all issues and can only provide reasonable assurance regarding the achievement of set objectives.

Considering internal audit as a cure-all solution at any cost is one of the main causes of misunderstandings between internal audit and its clients. Even though it contributes to achieving set goals, this does not always guarantee better results for the company. It is important to continually evaluate internal audit and evolve it based on the organization's development.

6. Presentation of the companies in the survey:

In the context of our investigation, we closely examined four Algerian public companies that have chosen to remain anonymous. These companies, each with its specific area of expertise, play a crucial role in Algeria's economic landscape.

- **Company 1** - Urban Planning and Industrial Zone Development Consulting Firm: This company is a consulting firm specializing in urban planning and industrial zone development studies. Their expertise primarily focuses on the planning and design of urban planning and territorial development projects.
- **Company 2** - Transport Infrastructure Engineering Firm: This company is an engineering firm specializing in studies and works supervision in the field of transport infrastructure. Their services encompass the planning, design, engineering, and supervision of transport infrastructure projects such as roads, highways, bridges, airports, railways, as well as urban roads and various networks.
- **Company 3** - Public Publishing and Advertising Company specializing in Communication: This public publishing and advertising company specializes in communication, advertising, printing, publishing, information, and express messaging.
- **Company 4** - Geotechnical Engineering Firm specializing in Quality Control of Construction Materials: This company is an engineering firm specializing in geotechnical studies, expertise, and quality control of construction materials in the fields of Building, Public Works, and Hydraulics (BTPH). Their main mission is to conduct in-depth geotechnical studies to assess soil and rock characteristics and ensure infrastructure stability.

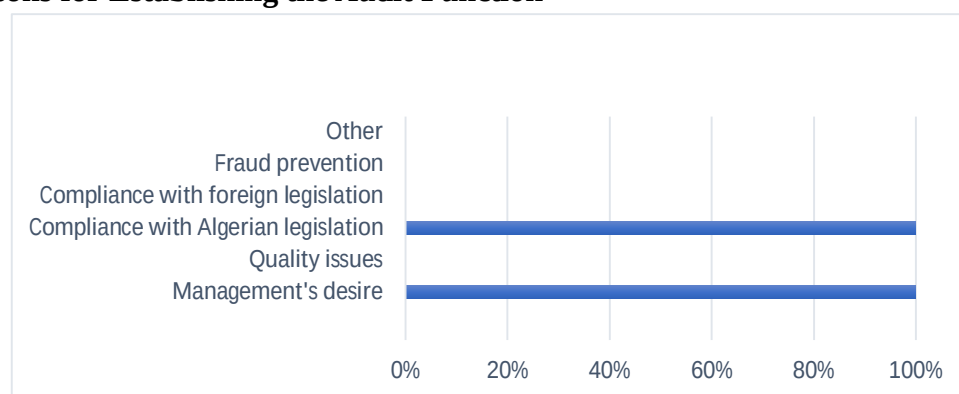
7. Survey Results:

The on-site survey conducted enabled a close examination of the four Algerian public companies, each specialized in distinct domains and playing essential roles within Algeria's economic landscape. Through this in-depth study, key elements have been highlighted, shedding light on the challenges and opportunities these companies face in their pursuit of efficiency, compliance, and value creation.

7.1. Reasons for Establishing the Audit Function:

The establishment of the audit function in the surveyed companies can be motivated by two main reasons: management's desire and compliance with Algerian legislation.

Fig.1. Reasons for Establishing the Audit Function



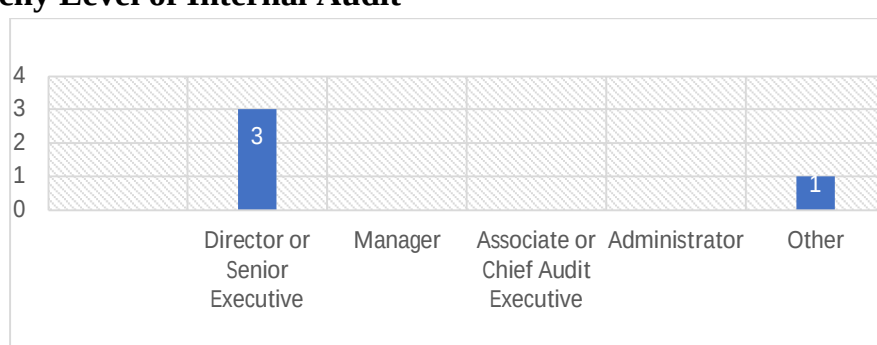
Source: Prepared by researchers based on the survey results

Some companies have established this function in response to management's expressed desire to strengthen internal control, enhance corporate governance, and protect the company's interests. Other companies have implemented the audit function to comply with legal and regulatory obligations in Algeria, ensure transparency and accountability, and meet the specific requirements of their sector.

7.2. Hierarchy Level of Internal Audit:

The surveyed companies provided varied responses regarding the hierarchical level of their internal auditors. Three of them hold positions as directors or senior executives, while one is situated at different hierarchical levels.

Fig.2. Hierarchy Level of Internal Audit



Source: Prepared by researchers based on the survey results

7.3. Internal Audit and Other Activities:

According to the questionnaire, the relationship between internal audit and various activities is as follows:

Table 1. Relations between Internal Audit and Other Activities

Activities	Collaborative Work	Distinct Work
Management Control	2	1
Methods Services	1	1
Quality	3	1
Internal Control	2	1
Risk Management		2

Source: Prepared by researchers based on the survey results

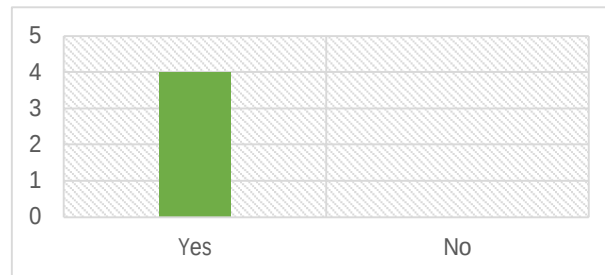
- **With Management Control:** Close collaboration and coordination with internal audit, as well as independent missions in certain cases.

- **With Methods Services:** Collaboration and working synergistically, along with autonomous analyses and evaluations.
- **With Quality:** Active collaboration in quality-related processes, with specific independent missions.
- **With Internal Control:** Collaboration in the assessment and enhancement of internal control, along with independent reviews.
- **With Risk Management:** Autonomous role in identifying, evaluating, and monitoring the company's risks.

7.4. Coordination with External Audit:

The coordination between internal audit and external audit within the surveyed organizations is effective and essential. It allows for maximizing the benefits of each type of audit, thus enhancing the overall efficiency of audit processes. This coordination facilitates communication, alignment of audit plans, and implementation of recommendations. It generates a holistic view of governance, risks, and controls, fostering a comprehensive evaluation of organizational performance.

Fig.3. Coordination between Internal Audit and External Audit

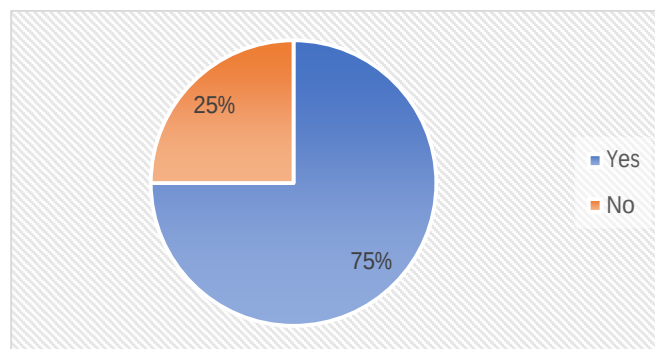


Source: Prepared by researchers based on the survey results

7.5. Independence of Internal Audit:

The responses from the surveyed companies regarding pressures to alter the results of internal audit were varied. Three companies stated they had never faced such requests, demonstrating their integrity and independence. However, one company admitted to experiencing these pressures multiple times, raising concerns about the independence of its internal audit.

Fig.4. Independence of Internal Auditors

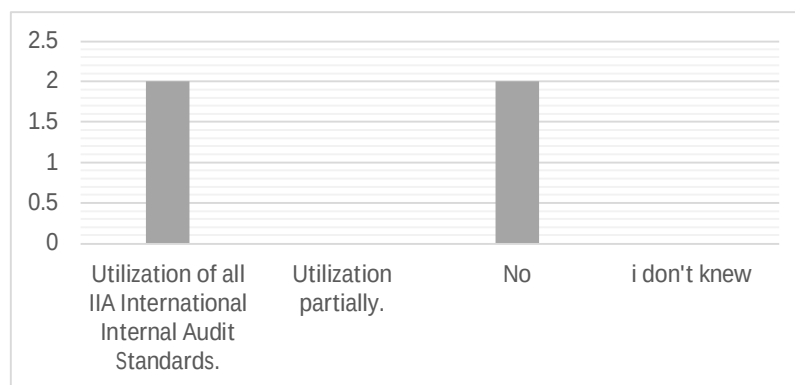


Source: Prepared by researchers based on the survey results

7.6. Internal Audit Standards:

The surveyed companies provided diverse responses regarding the implementation of the International Standards for the Professional Practice of Internal Auditing from the IIA.

Fig.5. Utilization of the IIA's International Internal Audit Standards



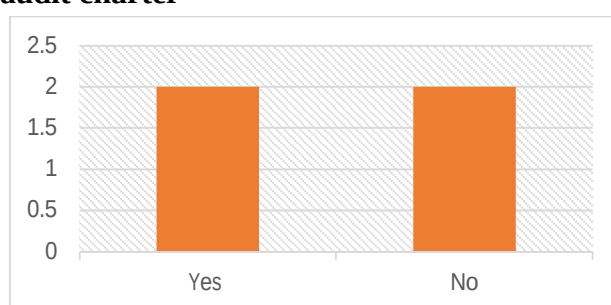
Source: Prepared by researchers based on the survey results

Two companies use them, while two others do not. Those that do demonstrate their commitment to global best practices, thereby enhancing the credibility and comparability of results. However, non-compliance with these standards can pose risks, such as a lack of credibility for stakeholders. It is important for each company to assess the adoption of these standards based on its needs and internal regulations. The IIA standards provide a quality reference for enhancing internal audit practices.

7.7. The internal audit charter

According to the responses provided, two companies have an internal audit charter, while the other two do not.

Fig.6. Disposition of an audit charter

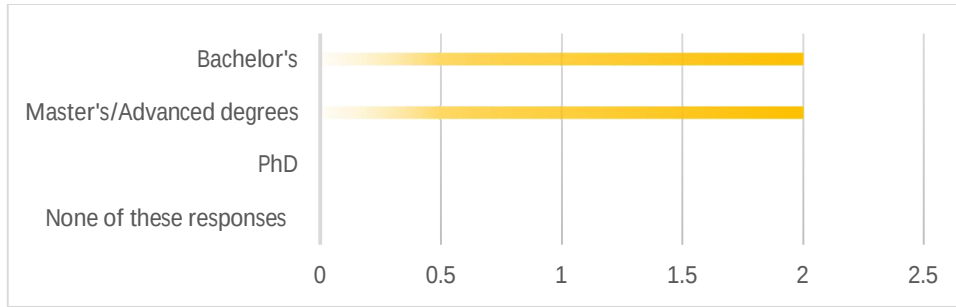


Source: Prepared by researchers based on the survey results

An internal audit charter defines the purpose, authority, and responsibilities of the internal audit function within an organization. It provides a clear framework for internal audit activities, including reporting lines, independence, and objectivity. The absence of such a charter can lead to a less structured approach to internal audit, with potential challenges in terms of consistency, independence, and accountability.

7.8. Background of internal auditors

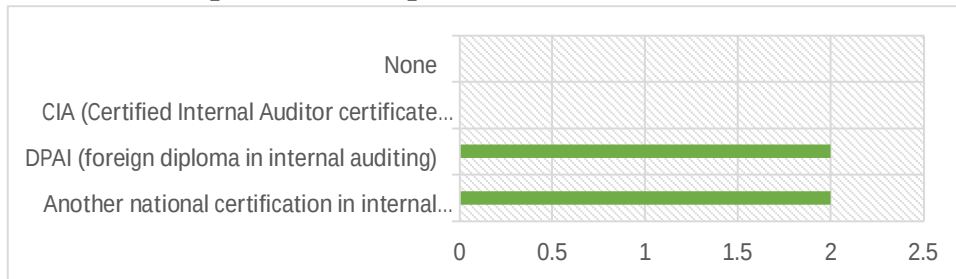
According to the responses provided by the companies, one of them stated that they have internal auditors with a bachelor's degree, while the other three companies indicated that their internal auditors hold a master's degree or higher.

Fig.7. Academic Background of Internal Auditors

Source: Prepared by researchers based on the survey results

7.9. Certifications and/or professional qualifications of internal auditors

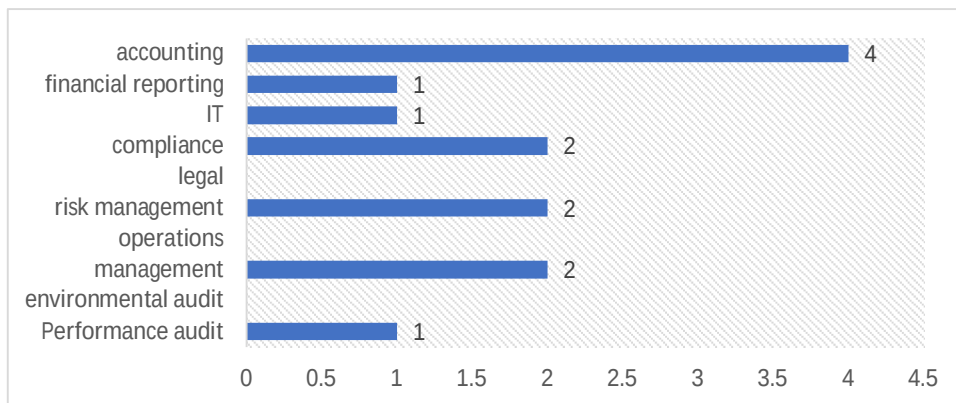
The responses from the surveyed companies regarding the certifications and qualifications of internal auditors varied. Two companies stated that their internal auditors hold a national certification in internal auditing, while the other two companies indicated that their internal auditors possess the DPAI (Professional Diploma in Internal Audit), a foreign diploma in internal auditing.

Fig.8. Certifications and professional qualifications of internal auditors

Source: Prepared by researchers based on the survey results

7.10. Specialisation

The internal auditors in different companies have varied technical specializations, including areas such as accounting, financial reporting, compliance, risk management, and information technology. These specializations reflect the importance placed on specific skills required to successfully carry out internal audit missions in particular domains.

Fig.9. Specialties of internal auditors

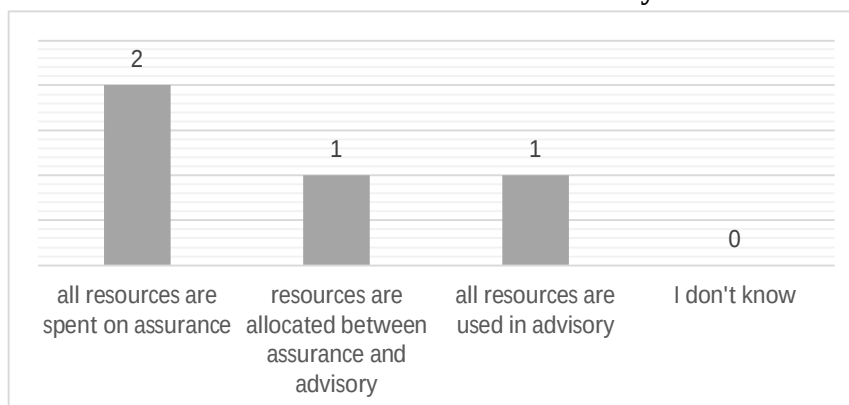
Source: Prepared by researchers based on the survey results

Specializations may evolve based on the organization's needs and regulatory changes, and auditors can acquire additional expertise through continuous training and professional experience.

7.11. Maturity of the internal audit department

The responses from companies regarding the allocation of internal audit resources between assurance and advisory services vary. Some prioritize assurance with limited resources for advisory, others distribute resources evenly, while one company focuses solely on advisory.

Fig.10. Allocation of resources between assurance and advisory missions



Source: Prepared by researchers based on the survey results

Namely, assurance refers to evaluations of governance, risk management, and control processes, while advisory refers to guidance, advice, facilitation, and training at the request of the auditee.

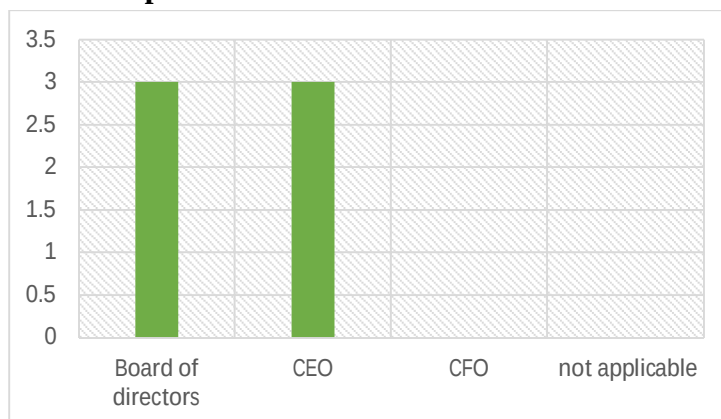
7.12. Work program

The responses from companies indicating effective cooperation between internal auditors and auditees reflect good collaboration and communication between the two parties. This enables open communication, knowledge sharing, collaboration for continuous improvement, and acceptance of recommendations. Cooperation between internal auditors and auditees is an ongoing process that requires mutual commitment and an environment conducive to collaboration.

7.13. Planification

The responses from companies indicate that the internal audit plan is validated either by the board of directors or by the CEO.

Fig.11. Validation of the audit plan



Source: Prepared by researchers based on the survey results

This validation reflects the importance placed on internal audit within these organizations. When the plan is validated by the board of directors, it reflects their role in

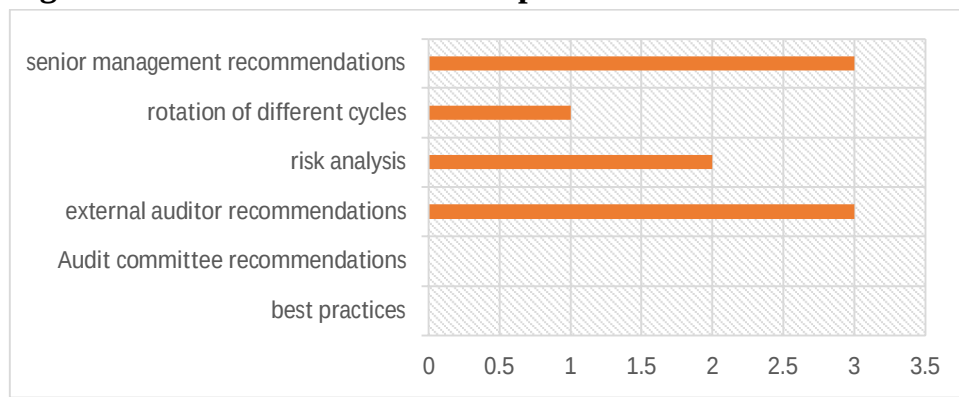
overseeing and directing the audit function. When validated by the CEO, it underscores their role in the strategic direction of the audit. This validation ensures the independence and objectivity of internal audit while ensuring its alignment with the organization's objectives.

7.14. Basic elements of the audit plan:

The key elements of the internal audit plan are as follows:

1. External auditors' recommendations: Integration of recommendations from external auditors to enhance financial reporting.
2. Management recommendations: Consideration of the priorities and expectations of senior management.
3. Risk analysis: Identification of critical areas and appropriate resource allocation.
4. Audit cycle rotation: Regular review of different audit cycles to ensure comprehensive coverage.

Fig.12. Basic elements of the audit plan



Source: Prepared by researchers based on the survey results

7.15. Key audit working tools

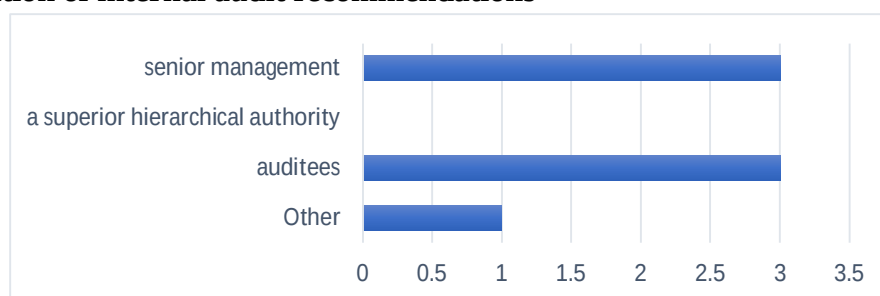
Companies employ various approaches and tools for internal audit. Some use questionnaires to gather relevant information, while others follow a work program defined by the audit manager. These tools help assess compliance, gather data, and identify gaps within the organization.

7.16. Validation of recommendations

Companies employ various approaches to validate internal audit recommendations:

1. Senior Management: In three companies, senior management is responsible for validating recommendations, reinforcing their authority and implementation.
2. Auditees: In three companies, process owners of the audited processes are involved in validation, fostering commitment to recommended corrective actions.
3. Other: In one company, another entity or party is involved in validation, without further specification.

Fig.13. Validation of internal audit recommendations



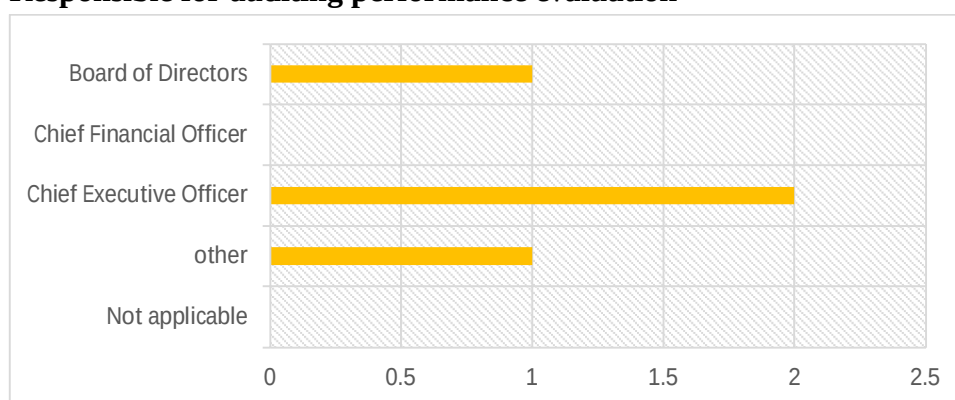
Source: Prepared by researchers based on the survey results

7.17. Internal audit performance:

Companies employ various approaches to assess the performance of internal audit:

1. Chief Executive Officer: In two companies, the CEO is responsible for the evaluation, highlighting their key role in this function.
2. Board of Directors: In one company, the board of directors is responsible for the evaluation, emphasizing its oversight and governance role.
3. Other: One company mentioned another structure responsible for evaluation, without further specification.

Fig.14. Responsible for auditing performance evaluation



Source: Prepared by researchers based on the survey results

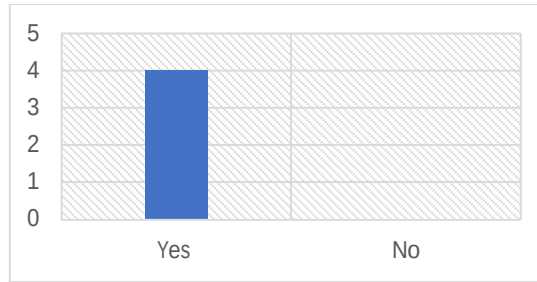
7.18. Performance measures used

Companies employ various approaches to measure the performance of internal audit:

1. Percentage of audit plan completed: One company uses 'Percentage of audit plan completed' as a performance measure, allowing quantification of progress made in executing planned audits.
2. Lack of specific measures: Three companies have not established specific performance measures for internal audit, which can make assessing its contribution more challenging.

7.19. Added value of internal audit:

Internal audit provides significant added value to the surveyed companies by enhancing governance, risk management, and internal control processes.

Fig.15. Creation of added value by internal audit

Source: Prepared by researchers based on the survey results

It provides independent assurance, identifies and manages risks, enhances organizational performance, advises management, and promotes a culture of internal control. Companies acknowledge the importance of internal audit and must continue to invest in this function to fully leverage its benefits.

7.20. Ways to add value through internal audit

Internal audit adds value to organizations by identifying deficiencies, establishing action plans, managing risks, promoting internal collaboration, and encouraging the implementation of appropriate procedures. It enhances governance, improves operational efficiency, and contributes to achieving strategic objectives.

7.21. The main challenges of the recent audits:

The identified challenges in the recent audits are as follows:

1. Raising awareness among operational staff about internal control
2. Professionalizing the approach of the internal audit department
3. Recruiting a competent team
4. Emphasizing the evaluation of key operational processes
5. These challenges reflect the desire to enhance the internal control culture, the quality of audit activities, internal audit resources, and the efficiency of operational processes. Each company may have specific challenges based on its objectives and context, but identifying and addressing these challenges are essential to maximize the added value of internal audit.

7.22. The key future challenges of the internal audit function: Digital transformation and cybersecurity: Internal audit must adapt to technological advancements and associated risks.

1. Managing emerging risks: Internal audit plays a crucial role in identifying and managing new risks.
2. Agility and collaboration: Internal audit needs to be flexible and work closely with other functions within the company.
3. Strategic influence: Internal audit must broaden its role to become a strategic advisor.
4. Skills and training: Internal audit must continuously develop its skills to remain relevant.

These challenges require a proactive internal audit function focused on value addition and capable of supporting the success of the company.

8. Conclusion:

In conclusion, internal audit proves to be a fundamental tool for organizations seeking to optimize their management and achieve their objectives. By scrutinizing processes, risks, and control mechanisms, internal audit identifies areas for improvement and strengthens governance and risk management. Companies that integrate internal audit into their daily practices can expect to enhance their performance, reduce costs and risks, and increase their added value.

The study conducted among four Algerian public enterprises underscores the importance of internal audit in their management. The results highlight the value-creating role of internal audit for these enterprises. However, significant challenges are identified, requiring special attention, such as the independence of internal audit, compliance with international standards, the development of an audit charter, and the evaluation of audit performance. Furthermore, it is noteworthy that these companies are investing in the training of their internal auditors to ensure their alignment with current requirements.

In closing, this article encourages further research involving in-depth investigations into the implementation of internal audit in public and private organizations. Such studies would help better understand the challenges and opportunities associated with the integration of internal audit, thereby promoting the improvement of transparency, accountability, management, and performance within organizations.

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