

The Role of the Audit Committee in Activating the External Auditor's Opinion in Financial Institutions: A Field Study at Al Baraka Bank Algeria

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Abstract:

This research aims to highlight the role of the audit committee in activating the opinion of the external auditor in financial institutions through a field study at Al Baraka Bank Algeria. The descriptive and analytical methodologies were adopted by studying and analyzing the bank's governance and ethics charter, particularly the section related to the audit committee's responsibilities and powers of the audit committee. The study also explores the interactive and complementary relationship between the audit committee and the external audit and its impact on the external auditor's opinion. From our study of the topic with its theoretical and field dimensions, it was found that the audit committee of the bank under study holds significant powers in supervising the external audit, such as the prior approval of the audit and governance committee before agreeing with the external auditor to provide any other services outside the scope of the audit task, in line with the applicable laws and regulations and the instructions issued thereunder, provided that these services are disclosed, in addition to considering the regular rotation of the external audit among audit firms. This would help increase the credibility of the external auditor's report, aligning with the committee's objectives and effectively establishing governance principles.

Keywords: External Audit, Board of Directors, Audit Committee, Governance

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Introduction

Many financial institutions are concerned with audit committees, where their importance, composition, duties, and members' rights are determined within the governance charter and internal regulations, in addition to what researchers and writers in accounting and auditing thought have concluded recently, particularly studying their authorities and establishing criteria for their formation and performance of their role in internal and external auditing, their relationship with the institution's management, and the prospects they offer for rationalising institutional governance. With the existence of the audit committee and the provisions of its work, which is considered one of the most important requirements of governance, the most significant areas of the audit committee's contribution lie in supervising the preparation of financial reports, managing institutional risks, and auditing. Based on the foregoing, the research problem can be formulated as follows:

How does the audit committee contribute to enhancing the external auditor's opinion at Al Baraka Bank Algeria?

From this, we pose the following sub-questions:

- Is there independence for the audit committee at Al Baraka Bank Algeria?
- Do the authorities granted to the audit committee improve supervision over external auditing at Al Baraka Bank Algeria?
- Does the audit committee's performance affect the effectiveness of the external auditor's opinion?

Study Hypotheses

In an attempt to answer the sub-questions, the following hypotheses can be formulated:

First hypothesis: There is independence and competence for the audit committee at Al Baraka Bank Algeria.

Second hypothesis: The authorities granted to the audit committee help improve supervision over external auditing at Al Baraka Bank Algeria.

Third hypothesis: The audit committee's performance affects the effectiveness of the external auditor's opinion.

Study Objectives:

This study aims to determine the role of the audit committee in enhancing the external auditor's opinion, by addressing:

- The tasks of the audit committee in Algerian financial institutions.
- Revealing the effectiveness of the audit committee in influencing the external auditor's opinion.

Study Importance:

The importance of the study appears in that its subject addresses a vital sector, namely the economic sector, which involves analysing the role of the audit committee in enhancing the external auditor's opinion in Algerian financial institutions and benefiting

from it efficiently and effectively, whilst identifying deficiencies and obstacles and how to address them.

Previous Studies:

Many studies have been concerned with the subject of governance and financial performance, including:

1- Study by Abdelhamid Hessiani (2014-2015) : "The Importance of Having Audit Committees in Algerian Economic Institutions"

This study aimed to determine the role of audit committees within the governance system through the role they play within this system as well as from the legislative aspect of governance and audit committees within Algeria. The study concluded that the formation of audit committees in Algerian companies is not sufficiently regulated legally and does not conform to the necessary scientific frameworks regarding their composition and number of members.

However, their existence enhances the reliability and credibility of institutions' financial statements, ensures the quality of information contained therein, and increases the effectiveness of internal control, which supports the institution's competitive capability.

2- Study by Assam Baalache (2018-2019) : "Contribution of Audit Committees in Controlling the Quality of Financial Reports of Public Companies"

This study aimed to highlight the role of audit committees in controlling the quality of financial reports, by addressing all the tasks they perform in this framework that contribute to enhancing the content of financial reports and identifying the most important indicators that these committees rely on in controlling the quality of financial reports. The study concluded that the role of audit committees in supervising the preparation and examination of financial reports and promoting disclosure according to corporate governance requirements contributes to improving the quality of financial reports.

3- Study by Khasharmeh, H. & Ahmed, M. (2020): "The Impact of Audit Committee Characteristics on the Quality of External Audit: Evidence from Emerging Markets"

This study aimed to analyse the relationship between audit committee characteristics (such as independence, financial expertise, number of meetings, and committee size) and the quality of external auditor reports in emerging market environments. The researchers relied on a sample of companies listed on the Bahrain Stock Exchange during the period from 2015 to 2019, using a quantitative approach and multiple regression analysis. The results showed a statistically significant positive relationship between audit committee independence and financial expertise and the quality of external auditor reports. It was also found that increasing the number of committee meetings leads to greater interaction with the external auditor, which enhances the accuracy and objectivity of their reports.

4- Study by Ramadan, A. & Al-Khaddash, H., Al Nawas, R. (2013) :"Effectiveness of Audit Committees in Enhancing External Audit Quality: Evidence from the Banking Sector",

This study examined the effectiveness of audit committees in Jordanian banks in improving the quality of external auditor work. A questionnaire was used to collect data from a sample that included internal and external auditors as well as audit committee members. Statistical analysis was also used to interpret the results and test the hypotheses. The results showed that the presence of an independent audit committee with accounting and legal expertise contributes directly to supporting external auditor independence and improving the level of assessment they provide. Furthermore, the audit committee's cooperation with the external auditor in reviewing financial results before issuing reports enhances their credibility and objectivity.

Research Methodology: The descriptive and analytical approaches were adopted to study the research variables (audit committee and external audit) and their theoretical and practical dimensions, in addition to conducting an analytical study of both the auditor's report and the audit committee to understand the nature of the relationship between audit committee characteristics and external audit opinion.

Research Structure: The study was divided into three main sections as follows: (1) General framework of audit committees, (2) Contribution of audit committees to activating external audit and (3) Field study.

1. General Framework of Audit Committees

Audit committees are considered one of the essential elements in the corporate governance structure, due to their effective role in enhancing the credibility of financial information and ensuring compliance with accounting systems and standards. The importance of these committees increases when they enjoy a high degree of independence, making them a supervisory mechanism that contributes to raising the level of transparency and achieving effective oversight within the organisation.

1.1 Definition of Audit Committee:

An audit committee is formed as a subsidiary body within the board of directors, entrusted with the tasks of monitoring internal audit activities, facilitating external audit procedures, in addition to reviewing financial reports and ensuring their accuracy and compliance with professional standards. The committee usually includes non-executive members who possess competence, independence, and technical expertise, enabling them to perform their supervisory role effectively (Hossain, 2004, pp. 4-6).

According to Chris Mallin, the audit committee is made up of non-executive members who evaluate the board's performance, prevent individual executive choices, evaluate internal controls, and contribute to identifying tasks and responsibilities for internal and external audits" (Hamada, 2010, p. 101).

Most academic definitions agree that an audit committee:

- is composed of members independent from executive management.

- is linked to the board of directors and operates under its direct supervision.
- aims to enhance confidence in financial reports among users.
- ensures the integrity of published financial data and transparency of disclosure.
- verifies compliance with legislation and internal policies.
- contributes to coordination between internal and external audit work.

1.2 Composition of Audit Committee:

Through the definition of the audit committee, the controls for its formation and characteristics can be determined.

1.2.1 Regulations for Audit Committee Composition:

For the audit committee to perform its tasks efficiently, it must meet several conditions when formed, most notably (Shehata, 2007, p. 315):

- Clear definition of audit committee authorities and responsibilities.
- Availability of both expertise and skill within the audit committee.
- Determining the appropriate number of audit committee members.
- Organisational independence of the audit committee.
- Committee's understanding of its role in corporate governance.

1.2.2 Structure of the Audit Committee:

The board of directors is usually entrusted with selecting audit committee members from among independent non-executive members. Their number generally ranges between three to seven members, who enjoy independence from management and have no direct or indirect interests with it. They should preferably have diverse professional backgrounds, such as financial experts, chartered accountants, academics, or former officials in the public or financial sectors.

Each member is required to have a minimum level of knowledge and experience in financial and audit fields, in addition to the necessary time commitment to perform their duties. Members should preferably hold professional certificates in auditing or accounting to ensure the quality of supervisory outputs.

Among the main objectives of forming the committee:

- Raising the efficiency of financial procedures and enhancing their credibility.
- Monitoring potential risks and alerting to supervisory weaknesses.
- Supporting management in making sound decisions based on accurate and clear reports.
- Enhancing transparency in dealing with stakeholders.

The membership term is usually set at two years, renewable by board decision, with the possibility of member rotation to enhance renewal and benefit from new competencies, whilst ensuring no accumulation of influence within the committee (Al-Doudi, 2008, p. 124).

Any committee member must also have knowledge, understanding, and professional experience in financial, accounting, and audit aspects, possess competence,

allocate sufficient time for work, and hold academic qualifications and professional certificates in accounting and auditing (Tahlawi, 2018, p. 34).

We conclude that forming audit committees has several objectives, the most important of which are:

- Enhancing transparency and integrity, and ensuring proper conduct of financial operations and procedures.
- Audit committees must inform the board of directors of expected risks facing the institution.
- Stimulating work and following appropriate work procedures.
- Making appropriate and correct decisions based on clarity, transparency, and integrity in financial reports.

The audit committee membership term is two years, renewable based on board decision, and members are changed to ensure independence, obtain new experiences, competencies, and ideas. No committee member can have control over the economic institution's shares or any of their relatives.

1.2.3 Characteristics of the Audit Committee

The audit committee is characterised by the following features:

1.2.3.1 Independence:

Independence is considered one of the fundamental pillars of audit committee effectiveness. Members must be independent from executive management, with no employment relationship or financial benefit with the institution, except their compensation as board members. It is also prohibited for any of the members' relatives to be employed in executive management, or for the member to be connected to a commercial institution having a financial relationship with the institution.

Independence plays an important role in reducing the likelihood of accounting manipulation and is considered an indicator of governance quality (Al-Sous, 2012, p. 55).

Klein's (2002) study found that audit committee independence minimizes the possibility of management manipulating earnings. Research suggests that audit committee independence correlates with higher audit fees, indicating improved quality financial reporting. Additionally, Ali et al. (2009) discovered that organizations with independent audit committees have superior corporate governance (Abu Al-Haija & Ahmed Faisal, 2012, p. 446-447). According to Al-Sous (2012, p. 55), the first recommendation in the BRC (1999) report required the following to ensure independence:

- Audit committee members must not be employees of the institution or its subsidiaries.
- No relatives of committee members should be executive employees or directors in institutions with commercial ties to the institution or its subsidiaries.

- Committee members should not receive financial compensation from the institution beyond their board remuneration.
- Consultants may not serve on an institution's audit committee.

1.2.3.2 Qualifications and Experience of Audit Committee Members:

Due to rapid developments in financial instruments and the complexity of accounting standards, it has become necessary for the committee to include members with high competence, both academically and professionally. Experience in dealing with auditors and understanding supervisory responsibilities are among the basic skills that enable members to perform their duties effectively. Therefore, the board of directors must set precise criteria for member selection, including familiarity with accounting, auditing, legislation, and the nature of the institution's activity. Dezoort et al. (2003) emphasized the importance of experience among audit committee members in effectively engaging with external auditors, highlighting that those members with the requisite background play a crucial role. Certificates in the field provide a deeper understanding of the responsibilities and duties of auditors compared to others (Abu Al-Haija & Ahmed Faisal 2012, pp. 446-447).

Al-Momani asserts that all boards of directors within institutions should establish a defined set of qualifications and competencies required for committee members. This includes possessing expertise in accounting, finance, and auditing, as well as experience in the institution's legal affairs. Committee members must have a high degree of knowledge of the institution's business or the field in which it operates. This is because many accounting and legal problems depend on their personal judgement (Al-Momani, 2010, p. 251).

1.2.3.3 Audit Committee Size and Meetings:

The number of committee members depends on the institution's size and the complexity of its operations, preferably ranging between three to five members to ensure work efficiency without complicating decision-making. It is essential to hold regular meetings according to a specific schedule, allowing for monitoring emerging issues and providing recommendations to the board at the appropriate time. The frequency of meetings also enhances oversight and contributes to achieving the committee's objectives (Smith, 2003, p. 6).

Ismail et al. (2008) noted that audit committee meetings are considered an important tool to verify that committee members accomplish the tasks assigned to them towards the institution. Bedard et al. (2004) believe that audit committees should execute their tasks efficiently by increasing meeting frequency because their primary function lies in oversight.

1.2.3.4 Evaluation of Audit Committee Performance and Member Compensation:

To ensure performance efficiency, it is advisable to conduct periodic evaluation of the committee and its members' performance, whether annually or in special cases

requiring review. This considers the extent of members' commitment to their tasks and the committee's effectiveness in achieving its supervisory objectives. Members should also receive appropriate compensation reflecting the effort expended and responsibilities assigned to them, without reaching levels that affect their independence or create conflicts of interest (Egyptian Directors Centre, 2001, p. 11).

Assessing the effectiveness of the committee's performance, as well as evaluating the members and the committee chair, is crucial. Members of the audit committee should receive suitable compensation for their services. In the majority of publicly traded companies, the duty of recommending the compensation and the determination of the amount is the responsibility of the compensation committee of the board of directors and is subsequently submitted to the general assembly for approval. It is essential to recognize the commitment of members in dedicating the necessary time and embracing responsibilities to achieve competencies effectively. However, compensation must remain reasonable to prevent any potential disputes.

2. Audit Committee's Contribution to Activating External Audit

Audit committees serve as a pivotal link between the institution and the external auditor, playing a strategic role in ensuring their independence and effectiveness and enhancing the quality of their work. To understand their contribution in this context, it is necessary to review the concept of external audit and the factors affecting its performance and quality.

2.1 Concept of External Audit:

External audit is a systematic professional process aimed at reviewing financial statements and control systems in the institution by an independent person or entity. This process is based on critical analysis of accounting data and financial statement content, with the aim of issuing an impartial professional report reflecting the credibility of this data and its ability to represent the institution's real situation and financial performance (Rifaat Salama et al., 2011, p. 19).

It is also defined as: an activity carried out by external parties to the institution that conducts mandatory professional examination leading to expressing an opinion on the credibility of the information under examination and review (Akacem, 2016, p. 08).

From the previous definitions of external audit, we can formulate a definition of external audit as follows: External audit is an organised and purposeful process by an independent professional person to conduct critical examination of the institution's financial statements and reports to express an independent technical opinion on the extent of applying standards and specific objectives through the plan set by senior management within a clear scope.

2.2 The Role of External Auditing in Enabling Governance

The external auditor plays a fundamental role in enhancing the environment of sound governance, which is manifested through a set of supervisory functions:

A. Detection of fraud and material errors: International Standard on Auditing No. 240 (Saudi Organisation for Certified Public Accountants, 2017, p. 03) states that it is the auditor's responsibility to verify that financial statements are free from errors and irregularities that may materially affect users of the information. This includes testing sufficient evidence to determine whether there are fraudulent acts or material errors, and then taking appropriate measures to document such cases, either through additional procedures or by communicating with senior management when serious suspicions exist. The importance of this aspect is particularly evident in institutions subject to stringent regulatory requirements, where objectivity and impartiality in detecting manipulations are fundamental elements in audit reports. The auditor's duties regarding error and fraud include the following:

- The auditor is required to test adequate and relevant audit evidence to confirm that no errors or fraud have taken place in the financial statements and must take appropriate action if any issues are identified.
- The auditor is required to adjust their performance or implement suitable procedures upon identifying instances of errors or fraud, or upon learning that such issues have been previously identified.
- The auditor's assessment is influenced by the characteristics of the error or fraud, the likelihood of its reoccurrence, and its significance regarding its effect on the financial statements.
- The auditor must determine the impact of significant fraud and error whilst comparing it with internal audit management reports and inform management of the actual results.
- The auditor should assess the suitable management level to be notified, considering the potential involvement of senior management in the identified error or fraud. In every instance, it is advisable to submit a written report to senior management detailing the identified error, its implications, and the proposed solutions.

B. Monitoring unlawful behaviour: Compliance with laws and regulations is one of the indicators of sound governance, and the external auditor is expected to assess the extent of the institution's adherence to the legal framework governing its activities. This task includes monitoring any practices that may conflict with regulations, whether in financial records or administrative operations, and analysing their impact on the overall financial position. The auditor is also expected to report violations that may materially affect the credibility of financial reporting, especially in highly regulated sectors such as banks and major industrial institutions. The International Standard on Auditing No. 250 outlines the criteria and guidance for auditors regarding their responsibility to assess the compliance

of the audited institution with applicable laws and regulations during the audit process, as well as in the evaluation and reporting of audit findings.

The auditor must recognise that the institution's non-compliance with regulations may fundamentally affect the financial statements, particularly for institutions operating in sectors governed by numerous laws, such as banks and chemical companies.

C. Examination of future financial estimates (Meziani, 2021, pp. 160-161): One of the modern roles of external auditing is to assess the credibility of future financial information provided by the institution, especially given the increasing reliance on financial forecasts in strategic decision-making. This role requires examining the assumptions upon which expectations are built, analysing the reasonableness of the models used, and assessing the realism of input data. It is also essential to ensure that the institution follows effective internal control mechanisms for preparing this information, and that disclosure is made transparently whilst adhering to temporal foundations and professional standards.

D. Assessment of the going concern assumption: It falls within the scope of the auditor's duties to assess the institution's ability to continue operating within a reasonable time horizon. This is accomplished by analysing a set of indicators that include financial aspects, such as the institution's ability to meet its obligations and repay its debts, as well as operational aspects, such as management team stability and the availability of vital markets and licences. Legal factors, such as pending lawsuits that may threaten the institution's existence, are also considered. This assessment helps provide a realistic picture of the institution's medium- and long-term stability, thereby enhancing the quality of financial reports. International Standard on Auditing 570 "**Going Concern**" aims to establish standards and provide guidance on the auditor's responsibility when performing his duties, primarily represented in the following:

- **Financial indicators:** Auditing the institution's financial position through key financial ratios that demonstrate the institution's ability to repay debts and finance necessary or new product development projects (Khenfri & Bournissa, p. 65).

- **Operational indicators:** Loss of key executives without replacement, loss of a major market, franchise, licence, or key supplier.

- **Other indicators:** Non-compliance with legal requirements and capital requirements, pending lawsuits against the institution which, if successful, the institution cannot meet, and changes in legislation or government policies.

2.3 Audit Committee's Contribution to Supporting External Audit

The audit committee plays a pivotal role in ensuring the effectiveness of external audit through the following aspects:

- **Establishing the regulatory environment:** By monitoring the internal control system and providing accurate information to the external auditor, which contributes to improving the scope and quality of the audit.

- **Ensuring independence:** The committee safeguards the independence of the external auditor by reviewing their appointment, determining their fees, and discussing their findings without interference from executive management.
- **Analysing audit outcomes:** The committee follows up on the auditor's reports and recommendations, and evaluates executive management's responses to them, thereby enhancing the value of audit recommendations and strengthening implementation effectiveness.
- **Coordination between internal and external audit:** The committee contributes to ensuring integration between internal and external audit activities to avoid duplication and achieve comprehensive risk coverage.

3. Field Study:

This study was prepared after identifying the fundamental aspects of the subject and its components, with an understanding of the nature of the role that the audit committee plays in activating the external auditor's opinion. This was accomplished through studying Al Baraka Bank's operational system and analysing its adopted charter, which enabled clarification of the tasks undertaken by the committee in this context.

3.1 Analysis of the Audit Committee Report in Al Baraka Banking Group:

According to Al Baraka Bank's governance charter, the Board of Directors oversees the formation of several sub-committees with the aim of supporting it in managing various tasks, evaluating their performance, identifying deficiencies, and taking necessary measures to address them. These committees include the following:

- The Board Executive Committee;
- The Remuneration and Members' Affairs Committee;
- The Audit and Governance Committee;
- The Risk Management Committee;
- The Social Responsibility Committee.

The formation of these committees was approved by the Board of Directors at its meeting number 7/2017 held on 24th December 2017.

3.2 The Audit Committee at Al Baraka Bank:

The audit committee is one of the fundamental pillars within the governance structure of Al Baraka Banking Group, given the vital role it plays in internal and external audit areas, as well as in accounting matters, which contributes to establishing principles of transparency and disclosure of financial information.

I. Audit Committee Regulatory Charter:

The regulatory charter of the audit committee was amended with the approval of the Board of Directors during its meeting number 1/2019 on 20th February 2019. This committee is considered one of the pivotal pillars in the governance system, as it focuses on monitoring accounting matters and audit work that represents the core of the Group's financial operations. Together with internal control systems, it constitutes an essential

element for ensuring institutional success. The regulations stipulate that this committee must be composed of independent members affiliated with the Board of Directors, and that it should hold meetings as necessary. Members are required to possess academic qualifications or practical experience in financial management fields, and their names are disclosed in the Group's annual report.

II. Objectives of the Audit Committee:

The audit committee primarily aims to ensure that management provides an appropriate and effective control environment within the Group, and works to support a culture of compliance with internal control systems at all levels. The committee is keen to strengthen the internal audit function and enable it to perform its duties responsibly. It also acts as a liaison between the Board of Directors, executive management, internal auditors, and external auditors, contributing to coordination and effective exchange of control information.

III. Core Tasks of the Audit Committee :

a) Supporting the Board of Directors' Functions:

The audit committee contributes effectively to enabling the Board of Directors to perform its responsibilities by achieving the following objectives:

- Ensuring the protection and preservation of the institution's assets.
- Ensuring the existence of an organised and appropriate accounting system.
- Supervising the presence of a robust internal control environment and continuously working on its development.

b) Areas Covered Within Its Scope of Responsibilities:

The audit committee's authorities include a number of control and financial aspects, most notably:

- Evaluating the internal control structure in general, including financial aspects, accounting systems, reporting mechanisms, and regulatory procedures.
- Reviewing internal audit work and following up on its results periodically.
- Conducting a comprehensive annual review of the control system's efficiency level, based partly on reports submitted by the internal audit department.
- Coordinating efforts with the external auditor to ensure harmony in executing audit tasks.
- Monitoring the institution's compliance with applicable legal and regulatory controls.
- Verifying senior management's commitment to implementing the Group's policies relating to external agreements and contracts.
- Ensuring the implementation of the institution's risk disclosure policy in a systematic and organised manner.

c) Achieving Multiple Control and Regulatory Benefits:

The audit committee seeks to achieve a set of qualitative objectives that enhance governance efficiency, including:

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- Strengthening effective communication channels between the Board of Directors, auditors, and executive management.
- Improving the quality of accounting work and internal control activities.
- Enabling Board members to perform their legal duties effectively by providing professional and supervisory support.
- Strengthening the credibility and professionalism of financial reports issued by the institution.
- Ensuring the independence of the external auditor, thereby enhancing the objectivity of audit results.
- Establishing the independence of the internal audit department and enabling it to perform its duties without influence from units subject to audit, in line with clause **HC -8.5.6** of the guidance manual issued by the Central Bank of Bahrain (Volume Two), which emphasises the necessity of separating internal audit from functions such as risk management, compliance, and finance.
- Creating a regulatory environment characterised by discipline that reduces the likelihood of violations or circumvention.
- Providing a platform for interaction between the Chief Financial Officer and the external auditor, allowing transparent discussion of matters related to their duties and exchange of viewpoints regarding them.

Accordingly, the role of the audit committee can be illustrated through the following figure:

Figure1: Core Tasks of the Audit Committee



Source: Designed by the researchers.

3.3 Analysis of the Audit Committee Report for 2023

The 2023 Audit Committee Report reveals that the committee is chaired by an independent individual and comprises members with diverse qualifications (independent and non-executive), reflecting a balanced composition that enhances its integrity and

independence. The frequency of committee meetings has been established at no fewer than four times annually, according to a written and organised internal framework. It is noted that the external auditor maintains open communication channels with the committee chairman throughout the year, ensuring continuous information exchange.

The committee is tasked with ensuring the existence of an effective internal control system that aligns with accounting and supervisory standards. This is achieved through periodic review of internal audit reports, observations from regulatory authorities, and external auditor correspondence, alongside evaluating accounting and financial control systems and disclosure policies. The committee's responsibilities also include reviewing the efficiency of procedures followed at both branch and head office levels, focusing on aspects related to risk management, compliance, and financial reporting.

The committee is also responsible for reviewing and approving annual audit plans, ensuring coordination between internal and external auditors, and evaluating the external auditor's performance in terms of independence and competence. Reports indicate its role in recommending the appointment or termination of external auditor services, determining their remuneration, and appointing the head of the internal audit department.

The committee also reviews the group's interim and annual financial statements before presenting them to the Board of Directors, and evaluates the adequacy of provisions and advisory reports when required. It ensures the effectiveness of control systems, risk management, and regulatory compliance, following up on any reports issued by regulatory bodies or auditors concerning potential violations or deficiencies, and recommending appropriate corrective measures.

Furthermore, a dedicated whistleblowing system exists that enables employees to raise complaints confidentially, fostering transparency and self-monitoring within the bank. The Audit Committee's charter is subject to periodic review by the Board of Directors to ensure its continued relevance.

The External Auditor and Their Supervisory Role:

The report demonstrates that the external auditor plays a pivotal role in enhancing transparency, deriving their authority from legislation that requires appointment by the general assembly of shareholders to maintain independence. The auditor bears responsibility for preparing a report that fairly reflects the group's financial position, based on professional auditing that complies with international standards and standards specific to Islamic financial institutions.

The auditor's scope of work encompasses several aspects, including evaluating the effectiveness of accounting and control systems, verifying financial statements, and reporting any legal or regulatory violations. The auditor also possesses broad powers, including access to documents and records, convening the general assembly if the Board of Directors fails to cooperate, and submitting reports to relevant regulatory authorities.

Regulatory controls emphasise the necessity of strict conditions for the external auditor to ensure independence, such as having no personal interests in the bank,

refraining from providing consultancy services except with committee approval, and imposing restrictions on the relationship between audit firm staff and the bank. The auditor is also required to hold an annual meeting with the Audit Committee without the presence of executive management to ensure integrity in their work.

Summary of the External Auditor's Professional Opinion (2023)

The external auditor's report, issued on 20 February 2024, stated that the consolidated financial statements as at 31 December 2023 fairly present the group's financial position, including its financial performance, cash flows, and changes in equity. This opinion was based on an audit conducted in accordance with international standards and Sharia standards applicable to Islamic financial institutions.

The report showed that the institution maintains appropriate financial records and that the information contained in the Board of Directors' report is consistent with that adopted in the financial statements. The auditor also confirmed compliance with applicable legal and regulatory requirements. The availability of necessary information was confirmed, and no material violations affecting the group's financial position were observed.

General Conclusions from the Analysis of Al Baraka Bank Algeria's 2023 Report

The analysis reveals that the Audit Committee plays a strategic role in supporting the external auditor's opinion through direct supervision of audit activities and ensuring their independence and professionalism. The committee's authority to appoint or terminate external auditor services, alongside evaluating their performance, represents fundamental factors that enhance the effectiveness of final financial reports and the quality of corporate governance.

I. Key Findings:

Through analysing the Audit Committee and external auditor reports issued by Al Baraka Bank Algeria for 2023, the following conclusions can be drawn:

Relative Effectiveness of the Audit Committee:

The report content demonstrates that the Audit Committee held regular meetings with both executive management and the external auditor, indicating a degree of effectiveness in monitoring and supervision.

Focus on Accounting Quality::

Clear emphasis by the Audit Committee was evident in reviewing financial statements and ensuring their compliance with accounting standards, particularly regarding risk provisions and Islamic financing.

Partial Response to External Auditor Recommendations:

It was observed that some external auditor recommendations were adopted by the committee, especially those related to transparency and disclosure, whilst some recommendations remained without clear follow-up, reflecting the need to strengthen oversight mechanisms.

Limited Independence:

Despite formal reference to the committee's independence, the absence of key indicators, such as strict separation of roles or inclusion of members from outside the institution, may negatively affect the credibility of the committee's work.

Weak Analytical Documentation:

The committee did not provide in-depth analytical explanations for decisions taken or observations recorded, limiting the ability for external parties to accurately assess the effectiveness of its work.

II. Implications of the Results for Governance and Audit Practices in Algerian Banks

- The field study results demonstrate a relative gap between the theoretical framework of corporate governance, particularly concerning the Audit Committee's role, and applied practices in the Algerian banking sector.

- The culture of financial disclosure and independent analysis remains limited, hindering the external auditor's ability to issue a professional opinion based on a comprehensive supervisory foundation.

- Weak independence and overlapping roles within some audit committees may pose a challenge to achieving effective governance and the principle of accountability within financial institutions.

III. Proposals to Enhance the Role of the Audit Committee:

- • Strengthen the committee's independence by involving independent members from outside the institution who possess professional competence in accounting and finance.

- • Establish a clear annual work plan for the committee, including detailed audit programmes and specific dates for meetings and reports.

- • Develop self-assessment tools for the committee's performance, incorporating quantitative and qualitative indicators to measure the degree of impact on financial reporting quality.

- • Enhance continuous training for committee members on contemporary topics such as banking risks, Sharia auditing, and financial analysis techniques.

IV. Recommendations for Decision-Makers in the Financial Sector :

- Update the legal and regulatory frameworks governing audit committee operations in banks, ensuring greater powers and independence.

- Mandate disclosure of Audit Committee reports as public documents within the annual reports of financial institutions to enhance transparency and accountability.

- Ensure effective supervision by the Bank of Algeria regarding the formation and operations of audit committees within banks, with the adoption of binding performance standards.

- Strengthen cooperation between external auditors and audit committees through establishing formal communication channels and joint follow-up reports.

V. Conclusion

To strengthen economic activity and the resulting financial flows, attention to corporate governance principles has been essential for improving financial performance processes and the quality of financial information, thereby reducing financial risks and institutional financial weakness that leads to discontinuation and bankruptcy. Therefore, national and international professional organisations work to establish standards that enhance the evaluation, recording, and disclosure of financial data, whilst activating the relationship between governance implementation mechanisms and the efficient financial performance of economic institutions.

Within the framework of this study, which addressed "The Role of the Audit Committee in Activating the External Auditor's Opinion at Al Baraka Bank Algeria," documentary analysis of reports from both the audit committee and external auditor during 2023 was employed. This analysis revealed several important indicators regarding the committee's level of independence, the nature of the relationship between it and the external auditor, and the impact of that relationship on the credibility of financial reports.

Hypothesis Testing:

Based on the findings of the study, the hypotheses can be tested as follows:

First Hypothesis: The audit committee at Al Baraka Bank enjoys independence and competence.

The hypothesis is correct. The data extracted from the annual report confirm that the committee enjoys a good level of independence in performing its duties, both in terms of its composition and through the external auditor's independence from executive management. Furthermore, the regularity of committee meetings and the diversity of its competencies enhance its efficiency, which supports the validity of this hypothesis.

Second Hypothesis: The powers granted to the audit committee help improve supervision of external auditing at Al Baraka Bank Algeria.

The hypothesis is correct. Analysis of the committee's tasks shows that its powers include reviewing internal and external reports and coordinating with different departments, which reflects its role in directing the institution's supervisory work, thereby confirming the effectiveness of these powers in supporting the external auditor's tasks.

Third Hypothesis: The audit committee's performance affects the effectiveness of the external auditor's opinion.

The hypothesis is correct because the annual report highlights the existence of cooperation and information exchange between the committee and the external auditor, particularly regarding observations of material significance. Some responsiveness to the recommendations made has been recorded, indicating that the committee's positive performance is directly reflected in the quality and credibility of the opinion issued by the external auditor.

Results:

Through our study of the role of the audit committee in activating the external auditor's opinion at Al Baraka Bank, the following results were reached:

- The regulatory framework of Al Baraka Bank showed that the Audit and Governance Committee represents one of the fundamental pillars of the internal control system, having been established within the board of directors' committees since 2011, with expanded powers and areas of intervention.
- The committee undertakes pivotal responsibilities related to reviewing the internal audit system, analysing external auditors' reports, following up on inspection visit results issued by regulatory authorities, and assessing the effectiveness of disclosure and accounting control systems.
- Regular meetings are held between the committee and executive management at least four times per year, reflecting a form of continuity in supervision and coordination.
- Reports from 2023 show that the external auditor identified a violation with material impact, related to non-compliance with commercial law provisions, indicating that gaps still exist in full compliance with legal and accounting controls.
- The committee observes the principle of external auditor rotation or, at minimum, rotation of the lead partner when this is not feasible, as part of efforts to enhance audit independence.
- The bank's internal policy records the prohibition of external audit firm employees from moving to work in executive management or on the board of directors except after a cooling-off period, which supports ethical governance and professional independence.

VI. Suggestions and Recommendations:

Through the study results, the following can be suggested:

- **Activating governance principles in practice Algerian financial institutions**, including Al Baraka Bank, should move beyond formal aspects towards effective implementation of governance principles, by linking regulatory texts with practical application within the organisational structure and daily operations.
- **Enhancing cooperation with the academic sector.** It is recommended that financial institutions engage with universities and research centres to adopt best practices and modern experiences in the fields of control and auditing, which contributes to improving performance efficiency and achieving sustainable development.
- **Supporting continuous training for audit committee members.** Investment in continuous training for committee members, especially in areas related to Sharia auditing, banking supervision, and modern governance, will enable raising the level of technical competence and enhancing independence in issuing judgements.
- **Benefiting from comparative experiences.** It is advisable to draw inspiration from successful models in countries that have achieved integration between audit committees and external auditors, particularly regarding information exchange, follow-up mechanisms, and institutional performance evaluation.

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