REPUBLIC OF TURKEY
ISTANBUL GELISIM UNIVERSITY
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Department of Economics and Finance

THE ROLE OF THE INTERNAL AUDIT IN IMPROVING CORPORATE GOVERNANCE IN MOROCCO CASE STUDY: MOROCCAN PUBLIC COMPANIES

Master Thesis

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DECLARATION

I hereby declare that scientific and ethical rules were followed in the preparation of this thesis, that the works of other people were referenced in accordance with scientific norms if they were used, that the data used was not falsified, and that no part of this thesis was submitted to the university.

SARA EL GOUMRI

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THE DIRECTORATE OF SOCIAL SCIENCES INSTITUTE

The thesis study of Sara EL GOUMRI titled as The Role of the Internal Audit in Improving Corporate Governance in Morocco Case Study: Moroccan Public Companies has been accepted as MASTER THESIS in the department of Economics and Finance by out jury.

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SUMMARY

In consideration of the progress of internal auditing, a new notion called IA effectiveness has begun to gain traction in the auditing literature. Therefore, the objective of IA must face the difficult task of being useful in order to become a vital component of effective governance. Especially in public sector institutions that are in direct contact with the citizens that they are liable to, and therefore obliged to set up an effective internal audit service in order to improve their management, achieve their objectives and guarantee the efficiency of public services.

The goal of this paper is to present and summarize the factors affecting the effectiveness of the internal audit function in Moroccan organizations, as well as to identify the main issues that this function faces in Moroccan public sector organizations. It also aims to provide useful information on other factors that have not been addressed in previous research but may have an impact on the effectiveness of the internal audit department in Moroccan institutions.

Keywords: Audit, internal audit, risk management, development, organization, public institutions.

ÖZET

İç denetimin ilerlemesi göz önüne alındığında, denetim literatüründe iç denetim etkinliği adı verilen yeni bir kavram ilgi görmeye başlamiştir. Bu nedenle, iç denetimin amacı, etkili yönetişimin hayati bir bileşeni olmak için faydalı olma gibi zor bir görevle yüzleşmek zorundadir. Özellikle halka açık şirket, amaçlarina ulaşmak ve kamu hizmetlerinin etkinliğini garanti altina almak için yükümlü olduklari vatandaşlarla doğrudan temas halinde olan ve dolayısıyla etkin bir iç denetim hizmeti kurmak zorunda olan kamu kurumlarinda.

Bu belgenin amacı, Fas kuruluşlarında iç denetim fonksiyonunun etkinliğini etkileyen faktörleri sunmak ve özetlemek ve ayrıca bu fonksiyonun Fas kamu sektörü kuruluşlarında karşılaştığı ana sorunları belirlemektir.

Bu çalışma aynı zamanda daha önceki bilimsel çalışmalarda gündeme getirilmeyen ancak Fas kurumlarında iç denetim departmaninin etkinliği üzerinde etkisi olabilecek diğer faktörler hakkında faydalı bilgiler sağlamayı da amaçlamaktadır.

Anahtar Kelimeler: Denetim, iç denetim, risk yönetimi, geliştirme, organizasyon, kamu kurumları.

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INTRODUCTION

In an increasingly turbulent and ever-changing environment, with the rapid development of new technologies, globalization, increasingly demanding customers, growing uncertainties and risks, ethical issues, and many other factors, managers increasingly need an effective internal control system that enables them to better manage their businesses and provides reasonable insurance on the achievement of objectives.

The internal audit function, which is a tool for steering the internal control system, offers reasonable insurance that the activities performed and decisions made are "under control" and so contribute to the company's objectives, based on the processes, laws, and norms of the profession. And to make suggestions about how the activity could be improved.

It should be mentioned that in developed countries, the internal audit function has demonstrated its ability to contribute to the enhancement of internal control systems by acting on effectiveness and efficiency. This is supported by the international internal auditing reference, Standard 2120 on control, which asserts: "The internal auditor should assist the organization in maintaining an appropriate internal control system by evaluating its effectiveness and efficiency and by promoting its continuous improvement."

Internal audit and company governance have only recently developed a link. Indeed, there was a time when external auditing was done by "statutory auditors, audit firms, etc." which According to the agency theory, the internal audit appears to be a mechanism for controlling and monitoring the behavior of the agent (manager), i.e., to verify that the managers have met all of their contractual obligations. This means that the internal audit is not considered a monitoring mechanism within the agency relationship by this theory, but with the development that governance has undergone in recent years, internal audit has also become an important has also become an important tool in the latter.

The role that the internal audit function must undertake is at the center of our problematic, and for which we choose to carry out this work which will relate to the utility of the internal audit and the detection of risks related to the company's activity. These companies are obliged not only to create an internal audit function but also to strengthen its role in the improvement of the internal control system, this mechanism can lead these companies to create added value.

To this end, our topic is presented as follows: "The contribution of internal audit to the performance of the company".

The function of internal audit does not exist in all companies, whether public or private, contrary to what is believed, it is a function that every company should accountable. Indeed, it plays a fundamental role in the application of the policies and directives of the management, as well as the insurance of the existence of a good system of internal control.

The objective is therefore to know how the internal audit can contribute to the proper functioning of the company, and the problematic would be: Does the internal audit function ensure the improvement of the company's internal control system by acting on its performance?

CHAPTER ONE

THEORETICAL APPROACHES TO INTERNAL AUDITING

Introduction

Internal auditing is a critical component of today's business, as well as the country's economy. Indeed, the environment is becoming increasingly objective, forcing organizations to establish and strengthen internal audit functions, knowing the worth of the latter.

The first section's aim is to look at the internal audit function, which is a key mechanism for bettering corporate governance. We'll start by going over the basics of the audit function, the history and as well to present the definition of the audit. Then, in the second half, we'll look at internal auditing, including its definition, organization, and goals, as well as the profession of internal auditing. Then there's external audit, internal control, management control, inspection, risk management, and external consultation, which are all related to internal audit. In the third section we will discuss the different forms of internal auditing, including the audit of the accounting function by auditors, operational auditing, management auditing, strategic auditing and social auditing. In the fourth section, we will try to define the mission of the internal audit, through the following stages: preparation, verification and conclusion phase. Finally, and in the fifth section, we will present the different tools of the internal audit, which are the questioning tools and the description tools.

SECTION 1: GENERAL AUDIT AND INTERNAL AUDIT BACKGROUND

History of Internal Auditing

To begin, it's important to understand that auditing is a very old notion that was created in the 17th century by a chartered accountant. Many industries were financed by shareholders after the industrial revolution in England, requiring corporations to employ this structure in order to safeguard the public. For the same reason, British auditors were dispatched to American corporations, such as Waterhouse, a few years following the industrial revolution in the United States, therefore it was the British who invented this notion in the United States.

The year 1941 was a special year for internal auditing. The first was the publication of the first book on internal auditing by Z.Victor. The second was the creation of the Institute of Internal Auditors (IIA), an institute whose mission is to defend and promote the values that auditors bring to their organizations. A decade later the IIA began to describe the role of internal auditors by stating that they should be concerned with all phases of the company's activities. The first version of the IIA definition was focused on the accounting and financial function, while the new version set out the responsibilities of internal audit.

In the course of the following years, auditing experienced new evolutions concerning these objectives and new studies were created. In 1963 a study was carried out by the national conference board of industry on the internal auditing program, it was concluded by showing five necessary objectives for the internal audit:

- Define the appropriate control system,
- Investigate for adherence to organizational policies and functions,
- Verify the existence of assets and ensure that appropriate safeguards for assets are maintained to prevent or uncover fraud,
- Check the effectiveness of the accounting and reporting system,
- Report findings to management and recommend corrective action if necessary.

As mentioned above, internal auditing has always recognized changes or novelties, again in 1987 auditing recognized a radical change with the report of the Treadway committee (a committee was formed to study the cause of fraud in financial reports). The committee concluded that the concept of internal auditing should be implemented in all public companies and there should be an audit committee composed of non-management directors of the company. Thus, these functions not only helped to improve the internal audit function but also pointed out the role of internal audit in fraud.

It was in 1985 that auditing began to be established in Morocco after the creation of the IIA Morocco and by becoming a member of the IIA global in 1991, the institute currently has more than 600 Moroccan members belonging to both the public and private sectors. Auditing in Morocco today is as important as in any other country, it facilitates governance, risk management, and permanent control (IIA MAROC Ed: 2019).

In conclusion, the internal audit function has undergone significant changes over the centuries, as the main objective of the internal audit function has shifted from detecting fraud to helping people make decisions, starting with a risk assessment.

Definition of the audit

As mentioned earlier, the concept of auditing is an old one, aimed at verifying and protecting financial statements and according to the IIA: internal auditing is now a management assistance function. From the accounting and financial control, the internal audit function nowadays covers an even richer and more latent concept that meets the requirements of management.

In general, auditing is defined as "a systematic process of objectively evaluating evidence about the current condition of an entity, area, process, financial account or control and comparing it to predetermined, accepted criteria and communicating the results to the intended users. The criteria against which the current condition is compared may be a legal or regulatory standard. "

Becour and Bouquin (ED: 2008 Audit Opérationnel: Entrepreneuriat, Gouvernance et Performance P:18), defines auditing as ' the activity of applying independently consistent procedures and standards of review to evaluate the adequacy, appropriateness, safety and functioning of all or part of the actions of an organization by reference to standards. ‘It is also defined by the same authors as a management tool that applies to strategic management as well as to control and monitoring processes and systems.’(BECOUR, ED: 2008 Audit Opérationnel: Entrepreneuriat, Gouvernance et Performance P: 18),

The American Accounting Association (A.A.A) considers that auditing is a process that consists of collecting and evaluating economic events in an objective way in order to guarantee the correspondence and then communicating the results of these investigations to the interested users.

According to all the references cited above the definition of auditing always converge on the same point, the audit is therefore an independent function that aims to improve the smooth running of the company by a systematic approach.

Definition of internal Audit

As far as the internal audit is concerned, several definitions have been contributed to it, we will choose the most recurrent ones: The IIA in 1989 has defined internal audit as an independent appraisal function performed within an organization by one of its departments to examine and evaluate the activities of that organization. The purpose of internal auditing, according to the IIA, is to assist the organization's members in carrying out their responsibilities effectively by providing them with analysis, advice, recommendations, or information about their activities.

One of the roles of the IIA is to develop international auditing standards, so the institute often updates all the information and definitions, according to the latest version of the IIA describing internal auditing in 1999 by defining the latter as "an independent and objective activity that provides insurance to an organization on the degree of control of its operations, advises on improvements and contributes to the creation of added value. This definition presented by the IIA shows the different role of internal auditing in effective corporate governance. Internal auditing provides independent and objective insurance in addition to consulting services with the only purpose of contributing to value creation.

According to J.Renard "internal auditing is like the smell of gas, it is rarely pleasant but it can sometimes prevent an explosion". This new definition or description has introduced a new role for the internal auditor evaluation and recommendations", (ed: 2010 “Théorie et pratique de L’audit interne’’, édition, p.75) which is an opposite definition to the classic role of "review and compliance". Thus, the role of the internal auditor is to provide management and the board of directors with an objective and independent opinion on the adequacy and effectiveness of the company's internal control system, as well as to make recommendations for improving internal control and provide advice on internal control.

The auditing profession

The job of internal auditing is very difficult because managers require auditors to be highly specialized in a wide range of subjects such as: accounting, administrative processes and information systems. It is preferable that the management of the organizations often provides new trainings to the auditors which will allow them to have the necessary skills and to make them work in teams so they can exchange the good practices. The concept of internal auditing as a profession can be applied and performed in several ways, either in a technical way and it will be according to a methodology, that will allow the internal auditors to reach a conclusion at the end. Or by using the reporting, which is considered as a written communication, and it is on the basis of the auditors' writings that the decision can be taken, so the auditors must be clear, concise, neutral and objective (S.Naim ed:2015 La Contribution de L'audit Interne À La Performance de L'entreprise)

Without forgetting that in exercising this profession the auditor must be brave towards the audited companies or institutions and towards the managers.

Aims of internal audit

The audit in general and permanently can have several objectives but the most recurrent are the following:

- ❖ Assuring management of the application of its policies and directives and the quality of internal control,
- ❖ Assisting managers to improve their level of control and efficiency,
- ❖ Verify the existence of a good internal control system that allows for the control of risks,
- ❖ To ensure the efficiency of its operation on a permanent basis.

Other objectives that are considered today as a challenge for internal auditors is the creation of added value. Added value is nowadays a main objective of internal auditing. As mentioned before in the definition of internal auditing it states that the internal auditor contributes to creating added value. This requirement is reflected in the auditor's recommendations.

To achieve this goal, internal auditing must have the necessary resources and competent personnel (IIA Ed: 2020 L'Audit Interne d'Hier à Aujourd'hui: Les besoins pour le 21e siècle). A 2006 PricewaterhouseCoopers (PWC) survey of internal audit managers in the United States entitled "Continuous auditing gains momentum" shows five emerging trends, among them: The resources needed by internal audit departments are growing, but talent is scarce.

Internal auditing standards

As mentioned earlier, internal auditing was organized through the Institute of internal auditor (IIA) which was founded in the United States in 1942, the IIA known as an international professional association of 122000 members, it has an important activity in professional trainings and researches.

The function of internal auditing has evolved since the creation of the IIA, but the mission of this concept is always exercised within the limits of the standards defined by the profession, which is, in fact, organized at the international level. The function of the internal auditor has evolved since the creation of the IIA, but the mission of this concept is always exercised within the limits of the norms defined by the profession, which is, in fact, organized at the international level. The norms presented after the approval of the IIA have become an essential reference for the internal auditors to be able to fulfill their responsibility regardless of their legal and cultural environment.

These standards were published in 1978 by the ’’Internal Audit Standards Board’’ for the purpose of:

- Define the fundamental principles of the practice of internal auditing.
- Establish criteria for assessing the performance of the internal audit function.
- Promote organizational and operational process improvements.
- Provide a framework for the implementation and promotion of a wide range of value-added internal audit interventions.

SECTION 2: INTERNAL AUDITING AND ITS RAMIFICATIONS

This section's objective is to explain how internal auditing connects to these other functions. Internal auditing continues to be a key within the organization in order to improve performance.

External auditing

Internal auditing evolved from external auditing, as previously stated. Today, external audits, like internal audits, are at the heart of disputes, not only because they are likely to ensure the sincerity, accuracy, and relevance of a company's financial statements, but also because they might be viewed as a means of completing the responsibility to produce accounts. As such, the external audit constitutes one of the mechanisms for regulating relations between shareholders and management.

As a result, the external audit is portrayed as a neutral investigation that affects in the first place the accounting and financial fields. Accounting has become a main tool within companies, considered as a system of organization of financial information allowing to capture, classify, evaluate, and record basic numerical data and present statements reflecting a true and fair view of the assets, financial situation and results of the entity at the closing date. Accounting allows periodic comparisons to be made and the evolution of the entity to be assessed from a continuity perspective.

From these definitions (Schick, P, Op. Cite. p.52), we can say that accounting is a methodical examination that gives a clear and true picture of the financial situation of the company. It is therefore important that accounting be performed by professionals with knowledge of accounting and finance.

Two types of external audit can be distinguished, the legal audit and the contractual audit:

1.1 Legal Audit

A statutory audit is a critical examination by an independent professional, called a statutory auditor, of the fairness and accuracy of financial statements. The mission of the latter is described by the law, which means that the audit includes a financial audit mission that leads to the certification. The mission of the legal audit include a financial audit mission leading to certification and the need for related interventions (Mikol A. Op Cite. P.740).

The auditor does not have the right to give advice to his client, especially in tax matters, he is there to certify the accounts, the financial statements and the results.

1.1.1. The objectives of the auditor's mission

The auditor's mission is to help the various stakeholders (users of the financial statements, investors, shareholders, employees, creditors and other partners of the company) to have reliable information that is close to the information of the managers.

According to ISA 200, the objective of an audit of financial statements is as follows:

- ❖ To obtain reasonable insurance about whether the financial statements taken as a whole are free from material misstatement, whether due to fraud or error, and accordingly to express an opinion on whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework.
- ❖ To issue a report on the financial statements, and make the disclosures required by the ISAs, based on its findings.

This means that the objective of an audit of financial statements is to enable the auditor to verify whether the financial statements have been prepared in accordance with an identified financial reporting framework.

Concerning the national company of statutory auditors: "The purpose of an audit of the annual, consolidated or interim financial statements is to enable the statutory auditor to formulate an opinion to check whether the financial statements have been prepared, in all material respects, in accordance with the applicable accounting standards. This opinion is formulated in accordance with the provisions of article L.823-9 of the French Commercial Code in terms of "certification of regularity, sincerity and fair presentation".

For the Order of Chartered Accountants (Obert R, Mairesse M.P. p. 403): "The objective of an audit of financial statements is to enable the accountant to express an opinion on whether the financial statements present fairly, in all material respects, the financial position of the entity and the results of its operations (or whether they are consistent, fair and accurate) in accordance with the identified financial reporting framework."

1.2 Contractual Audit

As the name implies, a contract audit is an audit review performed by a professional who is bound to the company by a contract. The terms of the audit engagement in a contract. Contrary to the legal audit, which performs a certification mission required by law, the contractual audit mission can be performed by the company's request or by third parties.

1.2.1. Company Requests

The reasons that lead the company to intervene in the contractual audit are most often:

- ❖ The need for the company to have reliable financial information before using it or presenting it to third parties.
- ❖ The assessment of its current organization, with a view to identifying its shortcomings and improving it.
- ❖ The need to avoid the occurrence of frauds, or possible misappropriations.

1.2.2. Third parties Requests

As essential factors within the company, third parties have the right to bring in a contractual auditor to audit the accounts submitted to them in order to ensure the smooth running of their company. There are four reasons that may trigger a contractual engagement (Mikol A, Op cite.p.42.):

- ❖ The audited entity does not have statutory auditors and wishes to entrust a competent and independent professional with a financial audit mission leading to certification similar to that conducted by the statutory auditor
- ❖ The contractual auditor has a competence particularly well adapted to a very precise mission (implementation of internal control procedures, creation of programmed procedures, audit of inventory valuation methods, etc.);

- ❖ The company needs the opinion of an auditor whose signature enjoys particular prestige.
- ❖ A particular control mission is required by a third party, for example a bank when granting a loan.

1.3. Internal auditing

1.3.1. The Definition of Internal Control

According to the American Institute of Certified Public Accountants (1978), "Internal control consists of plans and all the methods and procedures adopted within an organization to safeguard its assets, control the accuracy of accounting information, improve performance and ensure compliance with management's instructions.’’(Weber C.P, Kuting K, Kinney W, Kagermann H., Op, Cite. p. 2.)

Internal control includes all the control systems, financial and otherwise, established by management in order to conduct the business of the company in an orderly and efficient manner, to ensure compliance with management policies, to safeguard assets and to ensure as far as possible the accuracy and completeness of recorded information.

The Committee of Sponsoring Organizations proposed in the early 1992’s in its Internal Control-Integrated Framework a definition that is considered quite comprehensive and synthesizes the previous definitions. According to the latter, internal control is defined as a process of implementation by the board of directors, management and staff of an organization designed to provide reasonable insurance that:

- ❖ These operations are carried out, secured, optimized and thus enable the organization to achieve its basic objectives of performance, profitability and asset protection.
- ❖ Financial and operational information is reliable, and laws and regulations are respected.

Figure 1: The COSO model

Summary: "The Essential Handbook of Internal Auditing'' John Wiley & Sons Ltd, England, p.90

The figure above presents the basic elements that make up the COSO model, including the control environment, which presents the culture of the organization, an assessment of the risks that allow to know them in order to control them well, control activities including specific devices, satisfactory information and communication, and finally a steering by each manager at his or her level (which means that each manager of the entity assumes his or her responsibility).

The definitions of internal control are therefore reversed "devices, means, procedures, system" but all agree that the IC is not a function of a set of devices implemented by managers at all levels to control the operation of their entity. Internal control is a case to be achieved and maintained, not a function. It is a means and not an end. Internal auditing is there to support the management of an organization and to ensure a correct, legally compliant, economical and efficient administrative activity.

In principle, internal control remains an essential system within the company. According to the Financial Reporting Council (FRC), an internal control system has a key role to play in risk management, allowing the company to protect the shareholders' investments and the company's assets (Ed: 2005Internal Control: "Revised Guidance for Directors on the Combined Code." P.3).

1.4.The importance of internal Audit

Internal audit is an indispensable element within the company, it presents all the policies and procedures adopted by the management of an organization. A control system encompasses the policies, procedures, tasks, behaviors and other aspects of an organization. (Deloitte. (2016). "Evolution or irrelevance, internal audit at a crossroads).

It supports the effectiveness and efficiency of operations by helping the company to achieve its objectives, including the protection of assets;

- ❖ This requires keeping appropriate records and maintaining general processes for a relevant and reliable flow of information.
- ❖ Assist in ensuring compliance with laws and regulations as well as internal policies.

The importance of internal control can be summarized as follows:

- ❖ It assists in the achievement of management objectives.
- ❖ It ensures the orderly and efficient conduct of its activities.
- ❖ It plays an important role in the prevention of fraud and errors.

1.5. Various aspects of internal control

There are two types of internal control (Ed 1999 Principe of Auditing: An international Perspective):

- **Accounting control**: Accounting controls are primarily concerned with safeguarding assets and providing insurance that the financial statements and underlying accounting records are reliable.
- **Administrative control**: Administrative Control is concerned with promoting operational efficiency and adherence to prescribed managerial policies. Administrative controls are related to operational audits and compliance audits.

Table 1: Comparative analysis of internal and external auditing

	INTERNAL AUDIT	EXTERNAL AUDIT
GLOBAL	From the top management to the managers of the company	From the board of directors (officially from the general assembly)
PURPOSE	Linked to all functions: planning. All types of audits and all subjects.	Linked to the certification of accounts. Regularity audit only in the accounting field.
CONCLUSION	Give recommendations and follow up on their implementation. Obligation of result	Obligation of capacity.

Summary: SHICK, "Memento of Internal Audit''

This first Table provides a clear picture of the differences between internal and external auditing. It is important to note that we are talking about the external auditor and that his mission leads to a certification. The external audit, like the internal audit, plays an important role in corporate governance. Indeed, the external audit provides a report on the accounts prepared by the board, i.e. it verifies that these accounts give a true and fair view. Therefore, unlike the internal audit, the main objective of the external audit is to examine the fundamental transactions that form the basis of the financial statements.

1.6. Management control

Management control is the process by which management ensures that resources are obtained and used effectively (in relation to objectives) and efficiently (in relation to the means employed) to achieve the organization's objectives. This definition emphasizes two essential characteristics of management control:

- Management control is not an isolated action but rather a process.
- It recalls the finalized nature of this process by explicitly mentioning the notion of objectives.

1.6.1. The role of management control

The purpose of a management controller is not only to create dashboards, prepare budgets, implement them, and evaluate performance, but it also has a broader purpose: to enable managers to emerge and to provide them with reference points so that they can seize opportunities for sustainable development. It is for this reason that Jerome has stressed that the control must assist in dealing with complexity and change.

In the similar vein, Ernest & Young performed a poll titled "Management Control: Change to Address the Company's Challenges**,*"(*** Ed: 2021 Ernst et Young,) which determined that the management controller must assume three roles to meet the company's challenges: partner, actor, and contributor.

- It must be a partner in the continuous improvement of the financial function, notably in terms of information quality, time, and cost.
- It should improve internal control while contributing to governance and transparency.
- The management controller, as a player in the firm, represents a key pivot for management: he or she delivers quality information to managers and participates in company decisions by his or her participation, talents, and global view of the ingredients necessary for efficient management.

Internal audit and management control are two tasks that operate in the same arena. Indeed, these two instruments are interested in all of the company's actions. As a result, the management controller, like the internal auditor, is not a decision-maker or a corrector; rather, his function is to make recommendations and suggest solutions.

Internal audit is a detailed control, whereas management control is always a worldwide control. The internal audit can use the management control information to develop the audit plan.

1.7. Management risk

Risk management is a critical component of today's business. This function, however, is not present in all companies. This is a function that only huge corporations have. The ISA defines it as "the process of recognizing, analyzing, managing, and regulating events and situations in order to provide reasonable insurance that the organization's objectives are met."(International Standards for Professional Practice of Internal Auditing'' Glossary, p.46.)

It serves the same purpose as internal auditing in detecting fraud. In fact, according to the Michelin group's director of internal audit, the two tasks are complementary, with the same goal of assisting the organization (the Michelin group) in improved risk management.

The risk management function, like internal audit, is directly related to general management, is positioned at the highest level for more independence, and covers all aspects of the company's operations.

1.7.1. Risk management missions

On four essential points, risk management's mission can be distinguished:

- Risk management pays special attention to strategic, political, and environmental concerns so that all risks, whether internal or external to the firm, can be identified.
- Create a risk map that will allow you to assess them. This mapping was used in the internal audit to control risks at the operational level.
- Managers can be trained by providing ways to link operational risk management with the overall strategy.
- Define a risk plan and present it to the executive team. For each identified risk, this technique provides four options (Nazanin.B & Kateryna.J. Ed: 2015)
    1) Accepting the risk.
    2) Reducing the risk by recommending new techniques.

3) Eliminate or at the very least reduce the risk.
4) Transferring risk.

Finally, we can state that the internal audit function and risk management have a very close relationship. The internal auditor is required to participate in the execution of a risk management process, and his goal is to evaluate it (KPMG "Internal Audit: Top 10 key risks in 2015.)

1.8. Inspection

An inspector, as the name implies, is someone who conducts inspections. Internal audit, on the other hand, is in charge of ensuring that rules and directions are followed correctly. In addition, if the inspector finds errors, he should sanction or have sanctioned the person in charge of the task, such as a cashier. That is why they claim that the inspection is focused on people.

Table 2: The difference between the internal audit and inspection

	Internal Audit	**Inspection**
The efficiency	Ensure that the regulations are followed and that they are still relevant.	Observe adherence to the norms without interrogating or interpreting them.
Methods and Aims	Returns to the source of the problem in order to develop recommendations for improving the company's performance.	Determine the steps required to repair and restore the situation.
Evaluation	Keep in mind that the one who is accountable is always the person who is responsible. As a result, criticize and condemn the systems rather than the people evaluating their performance.	Determine who is to blame, and charge and discipline those who are.

Source: P.Schick, Memonto of internal audit page 54

1.9. External Consultant

Consultants play an essential part in the organization as well. They are knowledgeable and skilled in all aspects of the business. The role of consultant is sometimes performed by audit firms, who do have expertise in a variety of subjects; however, it can also be performed by professionals of any kind.

According to Jacques Renard, consultant missions have four unique characteristics:

- ❖ The consultant is hired to solve a specific problem that has been identified and corresponds to his technical expertise; he is not required to intervene in other areas of the organization.
- ❖ His mission is often fixed in time and he is commissioned for a certain reason.
- ❖ He reports to a specific management, who solicited his or her input and thus retains "ownership" of the report. This manager could oversee the entire company, or he or she could be in charge of a specific department.
- ❖ Its role can range from a simple analysis of the current condition to the recommendation of new organizations or means, as well as participation in their implementation, depending on the terms of its mission.

Despite their distinctions, the two disciplines (internal audit and consulting) have become closer since the Institute of Internal Audit (IIA) awarded the internal auditor the consultant role. Furthermore, the internal auditor's information must be shared with other external consultants in order for the organization's risks to be adequately covered, as required by the "2050 standard":

"The chief audit executive should share information and coordinate actions with various internal and external insurance and consulting providers to guarantee proper coverage and minimize duplication."(IIA Ed: 2016 “Internal Standards for Professional Practice of Internal Auditing)

SECTION 3: THE FORMS OF INTERNAL AUDIT

Today, the term "audit" is applied to all aspects of a company's operations. It can be done by someone who works in a structured profession (chartered accountant, statutory auditor, internal auditor), but it can also be done by persons from all walks of life (computer scientists, lawyers, engineers, civil servants, etc.).

1.10. Audit of the accounting function by the auditors

We attempted to outline what has been mentioned about financial and accounting auditing, which relates to the verification of financial results' regularity and sincerity. Internal auditors' audit of the accounting function aims to "pass judgment on the management of the function and recommend measures to be taken to improve it," whereas external auditors' audit of the accounting function aims to "pass judgment on the management of the function and recommend measures to be taken to improve it." (Ebondon Wa Mandzil., 2007 Organisation et méthodologie de l'audit interne).

This implies that the internal auditor's mission is to ensure that the accounting function runs smoothly. For Ebon don, the internal auditor must guarantee that the accounting internal control methods are dependable in partnership with the external auditors. It is not a question of certifying the books.

1.11. The operational Audit

1.11.1. Definition

Operational audits covers a company's or a portion of its extensive value chain. Internal auditors, or professionals are engaged by the companies where they work to ensure that all operations are running as efficiently as possible. They report to the company's general management and are separate from other departments or activities.

In general, the auditor and the management controller always have four questions in mind:

- Does it work?
- If this does not work, what steps should be followed to fix the situation?
- How can you improve your performance?
- What issues are likely to occur in the future?

The goal of an operational audit is to answer the previous questions and analyze the existing risks and deficiencies in order to provide advices, make recommendations, and set up processes (data processing, stock management, etc.) or propose new strategies. In other words, an operational audit includes strong missions that aim to improve the company's performance.

The term "operational audit" conjures up images of "audit of a specific operation," such as a factory under development.

Unlike the financial audit, which strives to validate the accuracy and sincerity of accounting and financial information as well as acts affecting asset preservation, the operational audit applies to all actions regardless of their impact on account preservation.

"The internal audit investigates and reviews the planning, organization, and management procedures to determine whether there is reasonable insurance that the objectives and goals will be attained," according to the IIA. As a result, an operational audit is a procedure that involves all aspects of a company's operations in order to improve them. (BECOUR J.H, BOUQUI.H, Op.Cite.p16.)

1.11.2. The principal purposes of the operational audit

The following business units can be considered as common objects of operational audits:

- Specific business units (for example, development, sales, and consulting) and their core operations and essential responsibilities can be regarded common targets of operational audits.
- The company's financial areas (for example, corporate financial reporting and corporate management accounting).
- Local subsidiaries.
- Partners who, due to a majority interest or other legal agreements, fall under the scope of internal auditing (in the case of minority interests).

There are other areas that can be regarded key areas on which the operational audit is based, in addition to the audit objects described above. The following are some of the major areas: (Kuting K, Weber C. Op cit. P.123)

- Global units (e.g., initiatives, departments).
- The specific problems of individuals (e.g., premium system, pension system).
- Review of internal and external projects in terms of project management, contracts, and project content.
- The entire risk management process.
- Management of information between established organizational units and projects/initiatives.

The primary goal of an operational audit is to improve the organization and efficiency of the company's operations. A systematic audit focuses on the investigation of the organizational structure as well as processes or transactions in this regard. The major goal is to verify that all of the company's organizational solutions adhere to the norms and regulations.

1.12. Operational audit actors

1.12.1. The public sector

Operational auditing in the public sector consists of focusing these methodologies on the non-market administrative sector. Operational auditing has advanced significantly, particularly in terms of professional standards, thanks to the *United States General Accounting Office*, which is led by the *Comptroller General of the United States* and is charged with helping parliamentary oversight over public finances.

Auditing is now focused on improving performance, effectiveness, and efficiency rather than simply verifying accounting systems. Indeed, these missions involve not only spending verification, i.e. verifying that funds allotted to public bodies are spent in accordance with legislation (compliance audit), but also ensuring that these objectives are met by governmental organizations (effectiveness audit).

According to the GAO, there are three missions of the audit of public organizations, the last two of which are characteristic of the operational audit:

- ❖ The financial component and adherence to regulations, which relates to financial operations, financial statements, adherence to legislation, and, in short, the regularity, sincerity, and fidelity of the picture that the accounts must present.
- ❖ Examining the economy and efficiency of the audited entity's use of all available resources in order to identify the sources of deviations, particularly those connected to inadequacy of information systems, administrative procedures, and organizational structure.
- ❖ The examination of the outcomes of implemented programs in order to determine whether the desired outcomes were accomplished, and whether "the entity investigated other choices that could have resulted in the same effects at a lesser cost."

In local governments, operational auditing also has a role to play. Indeed, it monitors the latter's activities in order to defend their "world" from legal, judicial, and financial difficulties.

1.12.2. Private Sector

Operational auditing has long been associated with internal auditors, i.e. employees of companies who are hierarchically attached to the general management and independent of other departments or functions, in contrast to accounting and financial auditing, which performs a profession within the framework of a legal mission. The operational audit does not have the right to certify the accounts, it intervenes in all the processes of the company not specifically related to the accounting processes.

It is due to the large financial audit firms that operational auditing has developed in relation to these activities. Indeed, the objectives that have been brought by these firms are the following:

- A strategic desire: the large audit firms considered that the traditional activities of operational auditing did not allow the company, sometimes with tens of thousands of employees, to carry out a good operational audit. Indeed, according to them, operational audit was less a diversification than an opportunity for synergy. It was necessary to set up new audit structures in order to control all the processes or activities of the companies.
- Third parties to the company have requested an operational audit in order to reach a judgment on the company's appropriate running. To address the needs of clients, it was required to provide an audit service. As a result of the legislation, the complementarity between accounting and operational audit tasks has been highlighted. As a result of their obligations in terms of interim accounts, accounting professionals are now playing a new role in the operational audit. Indeed, it is a matter of intervening in the company's forecasting management system's quality as well as the management control of all its operations.
- The development of computerized structures: the development of integrated or networked computerized structures leads audit firms to rely on their financial audit, as well as on internal control.

1.13. The management audit

To the general public, it is probably the most well-known audit. 'The goal of a management audit,' according to Mikol, ‘is to either produce evidence of fraud or embezzlement, or to pass critical judgment on a management operation or the performance of a person or group of people.' (Mikol A, Op. Cite. P.337) The purpose of the management audit is to pass judgment on the significance of these activities and the quality of the managers, as opposed to the accounting and financial audit, which aims to verify the right transcription of the company's operations into accounting language.

Management auditors must determine if the organization has defined the relevant processes and norms, as well as whether managers are functioning in compliance with the set rules. As a result, the purpose of a management audit is to make a decision about an entity's performance.

1.13.1. The strategic audit

Strategic auditing is one of the most challenging management disciplines to master in a business It entails ensuring that all policies and initiatives are consistent. The audit, in theory, should help to improve performance by confirming the existence of standard. In practice, it permits a company's function of learning and transformation in a constantly changing environment to be clarified in a precise manner; to do so, the audit must have serious capabilities in all sectors.

1.13.2. Definition of the audit strategic

"The strategic audit is that of the performances associated to the strategic decisions (internal reference) and the environment (external reference)," according to Michel Weill (WEILL, M, Op. Cite.p.42). Its purpose is to determine whether the company's outcomes are in line with the defined objectives. The strategic audit, according to the same source, is not a generic organization audit. It doesn't get into all of the functions. It's not a financial audit, and it's not a functional audit, either, or a set of simplified functional audits.

1.13.3. The approach to the implementation of the strategic audit

It is vital to create a baseline for the strategic audit at the outset. This is the first stage in preparing for an audit. Indeed, it is within this context that the company will be able to assess the coherence of its strategic decisions and position itself in respect to its environment and competitors.

The various stages of the implementation of an audit are the following:

A) The collecting of the information

Information gathering is considered the crucial step in the implementation of a strategic audit. It is composed of two important elements: the identification of the interlocutors and the search for all the sources of information necessary for the audit.

In principle, the company's director or a member of senior management is responsible for delivering information to the strategic auditor. He or she is the audit's principal point of contact. In reality, he will give the auditor all the necessary tools to conduct a thorough search of the company's records. He is also the strategy's primary pilot. As a result, he will offer the auditor the information needed to conduct his audit.

As a result, the manager is critical to the information's quality, and it is through this information that the auditor completes his mission. Managers in charge of key functions (human resources, marketing, finance, production, research, and so on) can also provide crucial information for the audit. Indeed, they enable the auditor to obtain internal or external information (suppliers, subcontractors, and customers) in order to have a broad understanding of the business (political, economic, sociological environment, procedures, productivity, etc.).

B) The construction of indicators

The strategic auditor creates a comprehensive diagnosis of the company, and the company must distinguish between primary and secondary parts. To allow the auditor to decide the indications to be tracked in priority, the company's strengths and weaknesses within its surroundings must be prioritized. According to Brillet Patricia, these indicators might be quantitative (number of competitors, market share, and growth rate), as well as qualitative (number of competitors, market share, and growth rate) (elaboration of a new law, or governmental directive consumer behavior). Quantitative indicators are simple to produce and examine, according to the same author. The implementation of qualitative indicators is required.

1.14. Social Audit

The term "social auditing" refers to auditing management and the way individuals work within the organizations, as well as their internal and external interactions. This means that social auditing tries to enhance social interactions both internally (employee relationships, hierarchical relationships, and so on) and externally (the company's relationships with various stakeholders such as shareholders, the government, and suppliers, to name a few).

According to Peretti and Igalens, they propose a clearer and more precise definition form of observation that tends to verify the principles, policies, processes and results in the field of the relations of the company with its stakeholders: 'that it has done what it says it has done; that it has used its resources to the best of its ability; that it has retained its autonomy and assets; that it is capable of doing what it says it wants to do; that it follows the rules of the game; and that it understands how to assess the risks it faces.'(Ed: 2019 Sébastien Allaire La mise en pratique du concept de valeur pour l'audit interne)

The purpose of the social audit is therefore to verify the effectiveness and compliance of the company's social rules, which is why the compliance audit is part of the social audit activities. These objectives are diverse. In fact, according to the International Institute of Social Auditing, the four goals of social auditing are as follows:

- Verification of the compliance of a social or management system with the national or international rules and standards that apply to it.
- Assessment of the effectiveness and efficiency of this system and the risks involved.
- Assessment of the coherence of social policies and the means implemented.
- Verification of the socio-economic feasibility of a project or program.

Several other types of audits can be found as follows:

- ***Legal auditing:*** is examining an entity's operating regulations, contracts, and other documents. Thus, in terms of company law auditing, the auditor will examine whether the required documents are kept, whether legal obligations, such as holding general meetings, signing minutes, and recording mandatory information on attendance sheets, are met, and whether obligations, such as annual approval of accounts, allocation of results, renewal of director mandates, or the appointment of new directors, are met. The auditor's job is to identify and remedy any irregularities, as well as to establish the legal and fiscal implications.
- ***The tax audit****:* it controls the correct application of the tax rules.
- ***IT audit*****:** it assesses the level of control of risks associated with IT activities.
- ***Regulatory compliance audit****:* it carries out an inventory of the site with respect to regulatory obligations in environment, health and safety at work and/or fire.

- ***The marketing audit:*** it analyzes the position of the company within its environment and its market.
- ***The management audit****:* its objective is either to provide evidence of waste or fraud, or to make a judgment on the performance of an entity.
- ***Organizational audit****:* it analyzes the current context of a structure to give impetus to a dynamic and to put in perspective a reorganization; and more other types of audit…

SECTION 4: THE MISSIONS OF THE INTERNAL AUDITOR

The goal of an internal audit mission nowadays is to guarantee that the organization is operating properly. This mission, will concentrate on risk management procedures. Indeed, the findings of a PricewaterhouseCoopers (PWC) assessment on internal auditing in 2012 revealed that the mission of internal auditing will be centered on risk management. Internal auditor missions can be divided into two categories: insurance missions and consultation missions.

In the first scenario, the internal auditor forms an independent opinion or draws conclusions about a process, a system, or any other issue. He chooses the nature of his projects, which usually include three sorts of people as follows *(IIA Ed: 2017. Normes Internationales pour la pratique professionnelle de l'audit interne)*:

- ❖ The individual or group directly involved in the process, system or subject under review (the process owner).
- ❖ The person or group performing the assessment (the internal auditor).
- ❖ The person or group using the evaluation results (the user).

Consulting missions are usually carried out at the request of a customer in the second circumstance. Their nature is decided upon in consultation with the client. There are two people in this group:

- ❖ The person or group providing the advice (in this case the internal auditor).
- ❖ The person or group for whom they are intended (the customer).

The internal auditor does not have to assume any responsibility for the management, he is only there to carry out his consulting mission.

Before we go over the processes of an audit mission, let's clarify what is the role of the internal auditor?

Previously, the internal auditor's job was to assess the effectiveness of the internal control system, or ICS (internal control system). If it’s up to the company's standards. Companies can reach their goals with the help of an effective ICS (performance, profitability, protection of assets, etc.) but today we refer to confirmation, i.e. verification of the presence of the internal control system.

Companies under regulatory pressure, such as the SOX regulation in the United States, must confirm the presence of their internal control system, according to Jean M. (it does not require verification of its effectiveness, i.e. its correct and sustainable operation). In addition, the management process will be the focus of the internal audit function. In fact, a PWC poll of 250 internal audit managers titled "Internal Audit" revealed that in the next years, the internal audit function will be focused on the risk management process. The internal audit function is impacted by five primary aspects, according to the survey (Ed: 2012 PWC):

- ❖ Globalization: the emergence and development of new economies (e.g. Russia, India, Basil and China) have a significant influence on the roles and responsibilities of the internal auditor, and externalization has a strong impact on the internal audit function.
- ❖ The evolving role of internal auditing: Technological developments have a significant impact on the role of internal auditing, as do new regulations, risk management and corporate governance. Internal auditing can adjust its role to this environment.
- ❖ Skills management and organizational issues: The internal audit function's competences must be supplemented with other skills; translational skills in auditing and accounting are limited; they must be converted to a risk-based analysis approach, data analysis, technology innovations, notably in the field of fraud, and so on. More than 63 percent of respondents stated the number of auditors with skills in "risk management, fraud detection, IT, and other areas" has increased.
- ❖ Technological advancements: Over the next four years, the dangers associated with technological advancements will rise. It is expected that technological tools would play a larger role in internal auditing's day-to-day operations.

Regarding the internal audit's mission. In general, any audit task is divided into three phases: study (i.e. planning according to professional standards), verification (or analysis, as some call it), and judgment.

As we all know, the first phase, "studies," is prepared in the office, particularly in the documentary funds, and must be carried out in the field, the second phase, "verification," is conducted entirely in the field, and the final phase, "conclusion," is presented as an internal audit interaction with the audited.

The conduct of an internal audit assignment is determined by two criteria (scope and duration). According to Renard, it is a question of varying the scope in a significant way according to two elements "the object and the function".

- The purpose: the purpose will allow the auditors to distinguish the specific missions from the general ones.
  - Specific mission: the audit of the business sector's sales is determined by a mission to a specific point in a location.
  - General mission: this is a mission that has no geographical limits, for example "a sales mission", i.e. not interested in a sector.
- The function: there are two different types of mission:
  - The single-functional mission: the single-functional mission is a mission that concerns the function whatever its nature (specific or general mission).
  - The multi-functional mission: unlike the single-function mission, this mission concerns several functions during the same mission

The duration of an internal audit mission may last ten days or ten weeks depending on the importance of the subject to be dealt with or audited, i.e. there are no rules that determine the duration.

As far as the internal audit mission is concerned, as we have already mentioned, any audit mission goes through three main phases that we will explain in the following paragraphs.

1.15. The study or preparation phase

1.15.1. The Mission Order or Engagement Letter

According to Jacques Renard, "As its name indicates, the engagement order or "engagement letter" is a document that allows the internal auditor to legally begin his or her mission. It translates the mandate given by senior management to the internal auditor". It is not, therefore, a contractual document exchanged between a company and an external party because this is concerned with external auditors, consultants, etc.). To summarize the mission order formalizes the world given by the general management to the internal audit. But the question that arises is: does the auditor have a right of access to information without having an engagement letter?

The answer is: As long as the auditor is not mandated, he has no right of access to any information. So every audit assignment must start with a mandate. But the problem that arises is: who mandates the internal auditor, i.e. who will allow him to start his mission? To answer this question, we must go back to Schick. In fact, Schick presented us with a few questions that need to be asked:

- ❖ Who delegates the audit? The general management, the audit committee of course if it exists or a body at this level.
- ❖ Why an audit is requested, why is an assignment decided?

In this respect, a survey carried out by IFACI (French Institute of Audit and Internal Control) on the current topic of internal auditing "the practice of internal auditing", showed that the internal audit function is attached to the audit committee. In fact, more than 37% of the audit departments are functionally attached to the audit committee or to the Internal Audit Department. With regard to the second question, the audit department is mandated to ensure that the engagement order allows for the dissemination of information to all managers concerned, because the engagement letter is addressed not only to the internal audit department but also to all those who will be affected by the engagement (auditees), department heads and managers.

1.15.2. Breakdown of auditable objects

Internal auditors must acquire all the information concerning the company (history, activity, organization chart and precisely the scope of the audit) and identify the people to meet to facilitate their work. In most cases, these auditors study all relevant information collected about the company or the activities to be audited, develop questionnaires and even conduct some interviews. All this work is aimed at establishing an audit framework to analyze these risks and identify the precise audit objectives. It is a matter of breaking down the subject of the mission.

- ❖ It is to be noted that doing or carrying out this analysis work for a new mission is difficult, but unfortunately it is rare for an audit mission,

❖ The audit is based on previous assignments on the same subject in another entity.

The knowledge of the audited domain or function is a classical work: as it reaches the information collected about the audited subject by various managers will not be reliable and the reliable information, efficiency can lead the auditor to know better the risks and improve them. That is why the internal auditor must start his work directly with the observation on the field. According to Jacques Renard, this part is considered the most important part of the mission. Because it is where the internal auditor can have a general knowledge of the company, i.e. an overall vision of the organization, thus the object of the mission and the effective internal controls to control it. Two essential tools for getting to know the audited area. The analysis diagram of an activity and the division into auditable objects.

Figure 2: Analyze an activity

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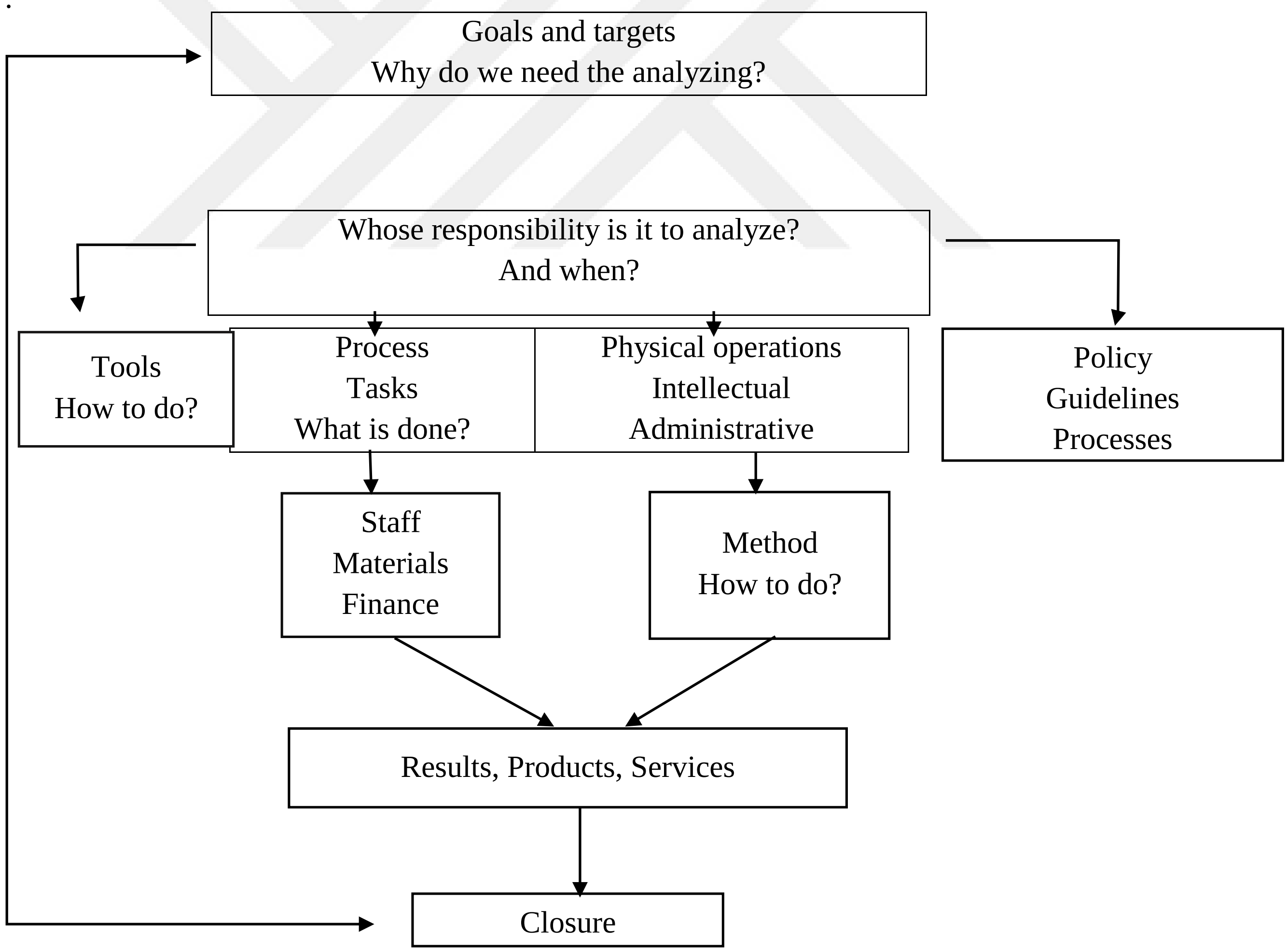


Reference: P. SCHICK, 2008. Internal Audit Handbook

The Schema 04 gives the auditors a better understanding of the audited sector, allowing them to understand a global or detailed knowledge of the audited sector.

The process of the entity to be audited is broken down into different elements that are easy to understand so that the internal auditor can study each stage in his own way.

1.16. The "realization" verification step

This time the auditor will leave his office and start his mission within the audited entity. It all starts with an opening meeting.

1.16.1. Opening meeting

Before beginning the audit, it is necessary to spend a few minutes in an opening meeting to present the audit team to the audited, to establish a climate of trust between the auditors and the audited, to recall the objectives, the field, and the audit plant, to specify the schedules and the date of the closing meeting, and to summarize the methods and procedures to be used to conduct the audit. As a result, this meeting must take place at the auditee's premises as well as the location where the audit mission will take place.

1.16.2. The audit program

Under the guidance of the mission leader, the audit team, i.e. the team in charge of the mission, creates an internal document called the audit program. The audit program used to meet the objectives of the orientation report is an internal document created by the internal audit department to define, plan, and track the auditors' work using cover sheets. It enables the internal auditor to know what activities need to be completed, what investigations need to be conducted, what questions need to be asked, what points need to be examined, and even what procedures need to be explored (some call it a "work program"). It should be stressed, however, that this program is not a requirement nor an excuse.

The audit program is a major document that allows the audit team to:

- ❖ The Head of Internal Audit ensures that all concerns on the subject have been considered,
- ❖ It guides listeners and prevents them from getting overwhelmed,
- ❖ It documents the progress of the mission.

1.16.3. The cover sheet

The cover sheet is a two-step document that defines how to carry out a task stated in the verification program, such as specifying the test's characteristics, the substance of the questionnaire, the detailed plan of the interview guide, and so on, and then lists the results reached. Because the auditors base their suggestions and advise on the information acquired on all aspects of the mission objectives, it must be reliable, relevant, and valuable. The internal auditor provides his or her working papers with proposed recommendations to the engagement leader and supervisor at the end of each part, and discusses them with the auditees involved.

1.17. The conclusion step

The audit is almost over, the auditors meet to share their findings and prepare the closing meeting:

1.17.1. The Closing Meeting

The purpose of the closing meeting, which brings together auditors and auditees, is to emphasize the internal control system's strong and weak aspects, to denounce and justify audit findings, and to explain their importance, and to denounce a written report. Finally, before the final report is written, the closing meeting provides an opportunity to resolve any issues of contention.

1.17.2. The audit report

The identity of the auditors, the audited organization, the scope, objectives, and criteria of the audit, the audit plan, the duration of the audit, the statement of the deviations that must be formalized in a clear and concise manner, and the audit conclusions are all contained in the audit report, which is written by the person in charge of the audit. The audit report must be readable by the owner, i.e. it must be short (two pages), clear and balanced. On reading it, one must understand where the risks are, what the action plans are.

1.17.3. Follow-up of the internal audit report

Internal auditors need to know what occurred to their suggestions, or what remedies were given to problems, in order to gauge the true effectiveness of their work. Internal auditors should not be involved in implementing their own suggestions, as stated in the definition of internal auditing: the internal auditor is not someone who does things, but someone who observes how things are done, and in the professional practice guidelines for this job.

Standard 2500A1: Those responsible for internal auditing must establish and maintain a system to monitor the progress of the work and report the results to the manager.

In the monitoring process, there are two (02) methods that can be grouped into two main families:

- ❖ The Anglo-Saxon method: The follow-up of recommendations is no longer the business of internal audit. It is the business of the hierarchy which must take its responsibilities.
- ❖ The French method: It gives the essential role in the follow-up of these recommendations to the internal audit

SECTION 05: INTERNAL AUDIT AND ITS TOOLS

1.18. Internal audit tools

The internal auditor has a wide range of instruments at his disposal for each phase of the mission: it's also worth mentioning audit-specific software, because computer tools are becoming increasingly vital in the performance of internal audit missions, especially given that most firms now employ ICT (information and communication technologies) (Renard, J. 2010, “théorie et pratique de l’audit interne’’, Eyrolles, Paris. p.329.)

In general, the auditor's tools have three features in the practice of internal:

- ❖ They are not used in a systematic manner; instead, the auditor selects the instrument that is best suited to the goal.
- ❖ They are not limited to internal auditors; external auditors, consultants, computer scientists, and other professions can use them as well.
- ❖ In the same search, two tools might be employed.

We can classify two types of instruments:

- Questioning tools: they are aids that assist the internal auditor in generating or answering inquiries.
- Description tools: they are tools that assist the auditor in determining the specifics of the situations they are confronted with.

1.18.1. Questioning tools

1.18.1.1. Statistical surveys

The existence of computer files is used in statistical surveys. However, there is a question to ask: why do we claim to be using a statistical survey when we actually have computer files? Two key points can answer this question:

- ❖ The database does not necessarily contain all the sets that the auditor wants to observe.
- ❖ And even if the entire observed database exists in a computer file, is it up to date?

Even before the internal auditor employs this technique, the statistical survey must complete its inquiry. This requires obtaining statistical data that is divided into three levels:

- ❖ **<u>First level:</u>** The auditor will sort out conclusions or observation leads based on the basic data. He sorts using one of two methods: a survey that allows the internal auditor to determine the percentage of people who will respond yes or no. Alternatively, you can use the cross-sorting method. This method is complicated since it involves two variables, such as a sales analysis by location and product.
- ❖ **<u>Second level:</u>** The internal auditor receives data or internal statistics from everyone, particularly the management controllers. In this case, the management controller is quite critical.
- ❖ **<u>The third level:</u>** Concerning the statistical sampling implemented by the Survey technique. In general, a statistical survey is a procedure that allows you to select a sample or a reference group and extrapolate the results from that sample to the entire population.

The following guidelines must be followed for the statistical survey to perform properly:

- ❖ Only use the survey if it is tailored to the audit's goals. As a result, don't undertake a statistical survey for the sake of "seeing if..." or "just in case..."
- ❖ Understand the population: The internal auditor should avoid conducting statistical surveys on populations that are ill-defined, incomplete, or have ambiguous borders.
- ❖ The method must be chosen at random: the use of a random method is an absolute must.
- ❖ No personal bias: Any thought of a goal that one would want to accomplish or justify must be banished from one's head.
- ❖ Regardless of the population's particular configurations, the sampling remains random.
- ❖ Do not extrapolate unreasonably: stick to the simplicity of the result.
- ❖ Don't lose sight of reality: if you spend too much time juggling figures, you'll lose perspective of the bigger picture.

- ❖ Stratify whenever possible to limit sample dispersion: instead of one statistical survey, several should be conducted.
- ❖ Don't set unrealistically high confidence levels.
- ❖ Don't just look at the numbers; look at the root causes.

1.18.1.2. The interviews

The auditor's mission requires him to use the interview as a tool. The auditor is the one who listens in this case: auditing is listening, not interrogation, which would result in a report similar to that of an accused facing his accuser. It's important to remember that the internal auditor can't accuse or condemn anyone. The auditor is a referee in a game. An internal audit interview should be conducted in a collaborative environment. The interview in internal auditing is a collective effort.

In order for the auditor to conduct a good interview, they must follow certain rules: The hierarchy or structure must be respected. The auditor should not conduct an interview without first informing the interviewee's superior. The interviewer for the internal auditor must understand why and how the interview was conducted. That is, he or she must be well aware of the auditor's mission and goals. All of the obstacles, reliable points, and even errors and anomalies must be mentioned at the same time, together with the results of the most recent research; Before being communicated, the interviewee's findings must be agreed upon, and the results of an interview must not be transmitted unless the interviewee or the auditor has offered his or her judgment on the findings; questions should be kept to a minimum, as they are subjective in nature and call into question the answers and the internal auditor must be a good listener. The auditor must avoid being the one who talks more than he listens.

1.18.1.3. IT tools

The internal auditor uses a variety of IT tools. Indeed, the many tools employed can be divided into the following categories (“Contrôle et auditor’’, Dunod, p.45):

- ❖ Auditor's tools of the trade: Word processing software, Presentation software (Power Point, etc.), and tables are examples (Excel).
- ❖ The means by which the missions will be carried out: For example, the methodological tools that allow the QCI to be established and tracked.
- ❖ Management tools: Audit plan, Audit program , Audit evidence.

On a poll conducted by the IIA regarding the "Internal Audit Software." , it was stated that Internal auditors around the world utilize ACL software to improve overall corporate performance and assist compliance measures. Auditors can reduce audit cycles by using ACL technology. Otherwise, as the dangers associated with technology grow in companies, technological instruments become increasingly vital.

1.19. Conclusion of Chapter One

As a result of the changes that have occurred in the field of control, auditing has become an essential component of corporate governance in order to detect errors and abnormalities. The audit is no longer limited to financial audits as it was in the past; it is now more focused on the company's systems and processes.

Internal audit is recognized by international standards as a legitimate source of continuous improvement for improving the efficiency of the company's worldwide system. A successful audit must be well-organized and employ appropriate tools and methodologies.

In recent years, the internal auditor's role has expanded, and he or she has become more than a guardian of the organization's assets; he or she has also become a strategic business partner.

Internal auditing has become a vital tool within the firm since the financial scandals that have hit the news in the United States and Europe.

It is through this understanding that we can achieve the two main objectives of the mission:

- ❖ The first one being to provide an objective, undistorted and professional image of what we see, putting all the elements in a correct perspective.
- ❖ The second one is to leave each field where we intervene a little better than we found it.

CHAPTER TWO

CORPORATE GOVERNANCE

Introduction

Following corporate governance scandals in the 1990s and 2000s, the notion of corporate governance was developed. The collapse of Enron, WorldCom, and Vivendi Universal, as well as the near-bankruptcy of Vivendi Universal, demonstrated the harm that an authoritarian and opaque exercise of power inside a major group may cause to society as a whole (because, when a large group falls, it takes with it hundreds or even thousands of direct employees and subcontractors...).

Originally, corporate governance was regarded as an agency relationship, in which one or more people (the principals) hire another person (the agent) to execute specific services on their behalf, with the agent receiving some decision-making authority. As a result, it is a contractual connection between the owners of financial capital (shareholders), referred to as the principal, and the company's managers, and referred to as the agents.

We shall offer some generalities about corporate governance, such as its definition and basic principles, in the first portion of this chapter.

We'll talk about the different actors in corporate governance in the second section, which includes the board of directors, the audit committee and management.

In the third and last section, we look at the various internal and external mechanisms of corporate governance, such as the mechanisms used by owners to control managers, the mechanisms used by the board of directors to discipline managers, the mechanisms used by employees to control managers, the mechanisms used by other stakeholders to control managers, the market for goods and services, the market for managers' labor, and the financial market.

SECTION 01: OVERVIEW OF CORPORATE GOVERNANCE

Definition of the corporate governance

It also provides a framework for tracking strategic actions, resource definition corporate governance is a structure designed to lead and oversee a corporation over time, based on its missions and values. Governance safeguards not only shareholders' rights and interests, but also those of other stakeholders (managers, employees, customers, suppliers, banks, etc.), and allocation for achieving a desired level of performance. It specifies who has authority over what and how that authority is exerted. To accomplish so, it establishes rules, practices, and standards of conduct that are tailored to the circumstances. (Ed: 2016 C.Mallin Corporate governance).

The objective is to add value. To do this, governance must be organized in a way that is proportional to the structure's size and specificities (type of shareholding, type of market, etc.). Effective governance, as a source of value generation, has the following characteristics:

- ❖ It must develop a plan that is consistent with the company's missions and values on the one hand, and its vision on the other. This strategy considers the characteristics of its environment, internal structure, and stakeholder satisfaction, including shareholder happiness.
- ❖ It regularly monitors its surroundings to discover risks and opportunities in order to create value using its business strategy.
- ❖ It establishes the organization's framework and operating rules. The distribution of decision-making power within the organization chart, as well as its development for efficient operation, are particularly important.
- ❖ It establishes the organization's framework and operating rules. The distribution of decision-making power within the organization chart, as well as its development for effective operation, are particularly important.
- ❖ It ensures that the rules are followed.

In a matter of fact, corporate governance is a collection of controls put in place by a firm to better regulate its operations and protect shareholders' interests (investors).

The core principles of corporate governance

Corporate governance promotes a long-term and efficient value generation process that is in conformity with all internal and external stakeholders, as well as legal regulations, internal statutes, and ethical values. There are seven important corporate governance principles that can be identified: Discipline, transparency, independence, accountability, fairness, and social responsibility are all values that should be upheld. From these seven points we can conclude that the network is based on three key aspects: leadership, sustainability and citizenship which can be explained as follows:

A- ***Leadership:*** competent leadership is essential for good governance; leaders must be able to address the demands of modern government. In order to accomplish corporate performance, such leadership is characterized by the ethical value of responsibility, accountability, and transparency, among other things.

B- - ***Sustainability***: Sustainability is considered to be the primary moral and economic imperative for the 21st century. It is one of the most important sources of both opportunities and risks for businesses naturally, societies and businesses are interconnected in complex ways that must be understood by decision makers.

C- ***Citizenship****:* In a nutshell, these three components constitute foundations of corporate governance, as they support the preceding concepts.

The comparison of the two versions of the ASX Corporate Governance Council's "Principles of Good Governance and Best Practice Recommendations" reveals another example of the change of ideas on the core principles of corporate governance. Indeed, ten fundamental characteristics of good governance have been established, including the following:

- ❖ Lay a firm basis for management oversight by recognizing and publicizing the board of directors' and management's separate duties and responsibilities.
- ❖ Create added value by structuring the board of directors and having an effective board composition.
- ❖ Encourage decision-making that is based on ethics and responsibility.
- ❖ Maintain the financial information's integrity by establishing an independent structure that verifies and preserves the company's financial reports.
- ❖ Respecting and supporting the efficient exercise of shareholders' rights.
- ❖ Recognize and manage risks by putting in place a solid risk monitoring, management, and internal control system.
- ❖ Encourage employees to enhance their performance, as well as the effectiveness of the board of directors and management.
- ❖ Recognize stakeholders' legitimate interests (stakeholders).

Finally, the Cadbury Committee's work must be presented, as it has had an impact on the evolution of corporate governance concepts (Ed: 2018 **R.Källenius** the Cadbury Report). This research has had a significant impact not only in the United Kingdom, but in all countries with a market economy. Indeed, the recommendations in this analysis are primarily aimed at the following goals.

The creation of a balance of powers between executive and non-executive directors on the board:

- The destination of the chairman of the board of directors and the general manager's functions.
- The organization of regular board of directors' meetings.
- Effective transparency of executive remuneration.
- The limitation of the duration of executive directors' employment contracts.
- The creation of specialized committees to assist the board: the audit committee or also known as the accounts committee, the nomination committee and the remuneration committee.

The Cadbury report was then supplemented by other works, among which we can mention for example:

- The turn bull review: which provides guidelines for directors to improve internal control.
- The Smith review: which deals with the operation and role of audit committees and recommends the strengthening of the presence of independent directors on these committees

These different reports were integrated into the Combined Code on Corporate Governance and formulated the main annexes of the stock exchange rules of the LES (London stock exchange). These recommendations have been applied by the various listed companies following pressure from investors and the market.

SECTION 02: CORPORATE GOVERNANCE PARTICIPANTS

Different points of view have been noticed on the subject of the actors of corporate governance, some speak only of the owners, (principal), managers (general direction) and administrators, while other, widen the team adding the participation of a more important element that of stakeholders (stakeholders).

The quantity and identity of players (participants), according to Lutgard Van den Berhge and Abigail Levrau, is determined by the "degree of corporate governance."(Van den Berghe L, Carchon S., 2001, p. 4) Indeed, their research reveals five levels of corporate governance, the first of which is the most limited, focusing solely on the board of directors. Shareholders, directors, and top management make up the second level, while stakeholders such as "workers, suppliers, customers, and so on" make up the third level. The final level is a macro level that can be found on a national, European, or even global scale, encompassing concerns about the firm, culture, value, and so on.

The governing board

The board of directors is one of the key players in the corporate governance process. It is the brain of the company. Indeed, agency theory has defined it as 'one of the main instruments for remedying the shortcomings of managers '(Jensen M.C. ET Meckling W.H. 1976.). In this framework, Hamalin and Weisbach qualify it as the "heart of governance", this internal control mechanism is responsible for defending the interests of shareholders and fighting against non-competent managers.

In general, the board is responsible for overseeing all matters related to corporate governance. In particular, the board should prepare a report on the effectiveness of a company's internal control system.

In addition, the Sarbanes-Oxley Act (SOX) in the United States and the Financial Security Act (LSF) in France impose new obligations in terms of internal control (IC). For example, the SOX Act requires the chairman of the board of directors or the supervisory board to give an account in a report of the conditions of preparation and organization of the work of the board as well as of the internal control procedures put in place by the company. These two laws therefore make internal control a major issue of corporate governance and a responsibility of the board of directors.

On the other hand, the study conducted by PriceWaterHouseCoopers entitled "Corporate Governance and The Board- What Works Best", has clearly shown these responsibilities, including the following tasks:

- ❖ Ensure the organization's strategy (development, implementation and monitoring).
- ❖ Monitor management risk management (effectiveness, proactive, continuous).

- ❖ Judging the organization's culture (tone of top, ethical values).
- ❖ Measure and track performance (both leading and lagging).
- ❖ Evaluate the appropriate diligence in transformations
- ❖ Evaluating compensation management and succession planning
- ❖ Communication and disclosure (financial and operational disclosure including corporate governance practices).

On the same subject, the OECD has developed a set of board responsibilities and principles. The OECD created the Principles in 1999, and the most recent revision was made in 2004. All G20 nations were asked to participate in the process on an equal footing with OECD member nations during the most recent revision of the Principles, which was carried out under the auspices of the OECD's Corporate Governance Committee. The Basel Committee, the FSB, and the World Bank Group, among other significant international institutions, all actively contributed experts to the evaluation of the Principles.

Also contributing to the evaluation of the Principles were numerous participants in the regional corporate governance roundtables held in Latin America, Asia, the Middle East, and North Africa. Additionally, there were talks with experts and a public online consultation with over 80 contributions from various parties.

A draft revision of the Principles was presented and discussed at the G20/OECD Corporate Governance Forum meeting in Istanbul on April 10, 2015 at the request of the G20 Finance Ministers and Central Bank Governors meeting, which took place on February 9–10, 2015; the draft received strong support from attendees. (OECD Ed: 2015)

G20 Finance Ministers and Central Bank Governors noted during their April meeting that they intended to receive a revised draft of the Principles before their September meeting in light of the Forum's findings (with the Principles then to be forwarded to G20 Leaders as agreed at the February Finance Ministers and Central Bank Governors meeting).

It is important to note that the Principles are now recognized as follows:

- ❖ Directors must act knowledgeably, in good faith, with due care and diligence and in the best interests of the corporation and its shareholders.
- ❖ Where its decisions may affect different classes of shareholders in different ways, the board of directors must ensure that all shareholders are treated fairly.

- The board of directors must apply high ethical standards: it must consider the interests of the various stakeholders
- The board of directors must perform certain essential functions (the company's strategy, its main action plans, its risk policy, its annual budgets, etc.)
- The board of directors must be able to make objective and independent judgments about the conduct of the company's business.
- To fulfill their responsibilities, directors must have access to accurate, relevant and timely information.

2.1. Composition of the board of directors

There are two major theories on board composition: the "homogeneity current," which believes that there is an optimal composition, and the "specificity current," which believes that each company's board composition must be unique.

2.1.1. The current homogeneity

The European Corporate Governance Institute was the first to develop a set of "best practice" codes to describe this trend. These "good conduct" regulations, which first appeared in the 1990s, are considered a solid foundation for the current, as they meet the needs of institutional investors.

A good board of directors, according to the "standard model," is defined by the inclusion of a particular number of independent directors. External directors, according to Fama and Jensen, are good controllers who act in the best interests of the company to build a strong reputation as control specialists. Indeed, they will make more objective decisions than internal directors. Furthermore, Godard and Schatt show that a lack of director independence is most likely the source of board inefficiency. Therefore, most corporations insist on having independent directors on their boards of directors. In this context, Ernst & Young's "panorama of governance practices of French listed firms"(Ernst and Young. 2010.) report indicates that the number of directors has consolidated their position.

According to Wirtz, 'the fundamental responsibility of the CA is to supervise the managers in these codes. The goal is to resolve conflicts of interest between shareholders and managers, who constantly seek to exploit their positions to further their own interests.'(Witz, P.2008)

These rules of good governance (Best Practice Governance) have been adopted in many countries following the financial scandals that have shaken the world in recent years (Enron in the United States, Parmalat in Europe, etc.).

With regard to the separation of the functions of the general management and the chairmanship of the board, the authors of the report point out that there is a clear separation of responsibilities at the head of the company between the responsibility for the conduct of the board and the executive responsibility for the conduct of the company's business, and that the same person cannot hold both the chairmanship of the board of directors and the position of the chief executive officer (CEO). The division of responsibilities between the Chairman of the Board of Directors and the CEO is clearly established, put in writing and approved by the Board of Directors.

2.1.2. The current of specificity

Much research over the last two decades has tended to advocate for the specificity of boards of directors. The existence of a "good board" does not make sense, according to proponents of this viewpoint; board composition must be related to the features of the companies and their surroundings.

Outside directors have an informational disadvantage over inside directors, who are part of the company and thus have specific information on the quality of investment projects, according to Raheje's research, which is based on the size of boards and the "optimal" proposal of independent outside directors.

2.2. The audit committee

Audit committees are significant components of today's businesses, and they're essential for investors and internal auditors. They must ensure investor confidence in corporate governance, as well as the independence of the internal auditor. On the one hand, recent developments have given audit committees more authority, and on the other side, increased accountability.

The audit committee's primary success elements, like the board of directors', will be determined by the abilities and traits of its members. The importance of 'time commitment, financial literacy, and, above all, independence' is emphasized even more.

The number of outside members on an audit committee determines its independence in large part. In this regard, a study of publicly traded Canadian corporations found that when:

- The number of outside directors on the board has increased.
- The CEO and Chairman's roles have been separated.
- The board's total size has expanded.

There are two criteria that govern the audit committee's membership, the first of which states that the audit committee should be made up solely of non-executive and independent members. The other is that the audit committee should be entirely made up of non-executive members, with an independent majority. The second principle allows executive members or major shareholders who are not actively involved in management to join the audit committee. These individuals can add significant value to the committee by providing relevant expertise. Committee members should not only be knowledgeable in financial matters, but also in all aspects of the company's operations. Their primary goal is to contribute to the evaluation of the internal control system's effectiveness. In this context, Robert Baconnier highlights that the audit committee's primary goal is to verify that risks are properly identified and that internal control procedures are created and implemented to minimize risks. It is therefore a matter of evaluating the effectiveness of the internal control system in order to improve performance.

2.2.1. The role of the audit committee

It's important to remember that the audit committee's primary responsibility is to ensure that financial information is transparent and fair. According to a report performed by PWC on "the opportunities and difficulties of internal audit in 2012," the audit committee's function are focused on:

- Overseeing the financial reporting process.
- Assessing the efficacy of internal control, internal audit, and risk management systems.
- Overseeing the annual and consolidated financial statements' statutory audits
- Guaranteeing the independence of statutory auditors, particularly in the provision of extra services.

Internal auditing is encouraged by audit committees and company management to address strategic, operational, and business risks, according to another study by the same organization (PWC), titled "The Practice of Internal Auditing in the United States." They want auditors to offer more timely information on important risks and more actionable audit findings, according to the survey, and audit committees are increasingly putting pressure on internal audit departments to deliver.

As previously stated, the audit committee is under the control of the board of directors. The board of directors empowers the committee to:

- Examine any matter within the scope of its responsibilities,' according to the Audit Committee Institute.
- To gather all information essential for the completion of its goal, as well as all papers it deems relevant.
- To seek advice from experts who are not affiliated with the organization, and to assure the presence of people with the requisite experience and knowledge, if it believes it necessary.

The Treadway Commission has made several recommendations for audit committee procedures. These recommendations are as follows:

- The audit committee must be independent.
- The audit committee must have the necessary resources (possibility of using the services of an expert).
- The audit committee should have a written charter that describes its duties, authority, and resources.
- The audit committee must be an informed, vigilant, and effective monitor of the accounting and internal control process.
- The audit committee must ensure the indifference of the accounting and internal control process.
- The audit committee must ensure indifference.

Unlike the Treadway Commission, the Blue-Ribbon Committee (BCR), which concentrates on audit committees, offers nothing in the way of innovation in this area. It considers an overview of common information regarding audit committee roles and tasks. It emphasizes the audit committee's independence first, next its ability to be effective, and finally the significance of an audit charter that specifies the committee's missions. Furthermore, the BCR believes financial competence to be a critical component of any committee seeking to improve its effectiveness. The conclusions of the BCR are divided into ten suggestions and five principles.

In conclusion, audit committees play a crucial role within organizations; they are a means of ensuring the accuracy of financial statements and determining the quality of financial data in order to restore market confidence. Most countries with financial markets have adopted them by now.

2.3. The management

When it comes to competency management, the quality of corporate behavior is a crucial phrase, and it is frequently the focus of media attention when businesses fail.

The CEO's role, according to the BASEL Committee, might be characterized as follows:

"The executive is a vital aspect of corporate governance. While the board of directors is responsible for appointing these executives, the executive should also take on this duty of monitoring, with proper regard for the line managers in the various business areas. More than one person should make the most crucial decisions."(ED: 2002 Basel committee, publication n°56, 21).

To put it another way, everything related to corporate governance is dependent on the success or failure of managers; they deal with aspects of corporate governance on a daily basis, improving the level, quality, verifying the company's value of ethics, fraud, and social responsibility, as well as practicing risk management and being responsible for the internal control system.

This final section, on internal control, is regarded as a critical component of the corporate governance framework, in which internal audit plays a role. According to Root and beyond, the most significant individuals in managing the internal control systems that bring the most value are top executives, and their involvement must be aligned with strong corporate governance standards.

SECTION 03: CORPORATE GOVERNANCE MECHANISMS

Governance mechanisms and their effects on company performance have been the subject of research and studies in recent years. Indeed, the financial scandals ('the Enron disaster, followed by a series of other catastrophes') prompted the US government to examine corporate governance. The Sarbanes-Oxley Act was one of the outcomes, and it placed a high value on its internal control measures.

The findings revealed that there were flaws in the control methods used by various players to exert control on managers.

"The system of governance covers all the procedures whose objective is to punish the management and to reduce conflicts of interest between the managers and the many stakeholders of the organization, in particular, the shareholders," according to the definition of corporate governance.

2.4. The internal mechanisms of corporate governance

2.4.1. Mechanisms of control of managers by owners/shareholders

On the one hand, modern or managerial firms are defined by their management, which is carried out by managers who own no or only a tiny percentage of the capital of the companies they manage, and on the other hand, by the capital distribution among a large number of owners. The agency thesis, whose roots were provided by Berle and Means in 1932, was based on the separation of functions between (majority) shareholders and management.

This problem of separation of functions between owners, managers, and directors, according to theorists, is not only a cause of potential conflict, but also a hindrance to their interests. According to Charreaux, there are three reasons for the conflict of interest between owners (shareholders) and managers (Charreaux G.1997, Ed.), “Le gouvernement des entreprises’’, Economica, p.144-145.):

- ❖ The limited composition of the managers' assets would limit any possibility of risk diversification, which is not the case for any other investor.
- ❖ The managers' withdrawals, the free cash flow, to put down roots or make prestigious investments would also be a source of conflicts of interest.
- ❖ The managers' withdrawals, the free cash flow, to put down roots or make prestigious investments would also be
- ❖ -There are systems of management control to handle this problem of interests, that is, to restrict these divergences of interests: the board of directors, the audit committee, and so on.

2.4.2. The board of directors

The board of directors is considered by agency theory as one of the main instruments for protecting the interests of shareholders. It is the heart of governance and plays a principal role in monitoring and controlling the activities of senior management.

The proper functioning of the board of directors depends on its size, as demonstrated by Jensen. In fact, according to this author, for the board to function effectively it must be composed of a normal size (composed of seven to eight members). He therefore suggests a board composed of a reduced number of directors.

Another factor that affects the board's ability to function well is the members' independence (the outside directors). Several studies have investigated the impact of having independent outside directors on the performance of the board of directors. Most studies suggest that independents will have a clearer and more neutral view of the company, which is a beneficial influence. Outside directors, according to Fama and Jensen, are good controllers who respond to the firm's interests. Unlike the internal directors, they will make more objective decisions. In this context, Godard and Schatt discover that the absence of director independence has an impact on board effectiveness.

According to the agency theory, internal directors do not have enough power to effectively control managers; these directors are company civil servants (executives or employees) who are hierarchically dependent on management. As a result, their lack of independence has an impact on the efficacy of their control.

External directors, on the other hand, have grown in importance on the board of directors; they are hired for their expertise, and their independence allows them to challenge even the most dubious decisions.

The first (the director's financial control) is based on accounting factors including budgets, accounting, and financial performance. The second (strategic control) refers to management decisions that are in line with the board-proposed and authorized plan. The relevance of the board of directors has also been emphasized by transaction cost theory. Indeed, it sees it as an organizational framework for ensuring the security of transactions between the company and its shareholders on one hand, and the company and its managers on the other.

2.5. Mechanisms for employee control of managers

Employees did not have a role in controlling management in the past. Employees (producers) who participate directly in production and capitalists who control the means of production are fundamentally separated, according to classical economic theory. Employees' roles are growing more important than ever within the organization, and employees increasingly have a vital position in the corporate governance system. Employees are viewed as resource carriers by Charreaux and Desbrieres. As a result, they, like shareholders, creditors, and management, should be entitled to the value created.

2.5.1. Foundations and manifestations of employee control over managers

The rationale for employee control of managers can be seen at two levels: legal and financial.

- ❖ **Financial justifications:**

The argument over corporate governance is not just about the power that exists at the top of the firm, but also about the emergence of institutional investors, the introduction of corporate criminal culpability, and the growth of employee ownership. Not only does the latter bring human capital, but also equity. As a result, employees have the right to purchase shares through the processes in place.

- ❖ **Legal justifications:**

Several legal and legislative regulations have determined how the corporation recognizes the existence of its employees. In France, for example, the legislator has built bridges between capital and labor through a series of ordinances, the most important of which are the ordinances of February 22, 1945 relating to the institutionalization of works councils and October 21, 1986 relating to profit-sharing and employee participation in the fruits of expansion. In the same vein, a law was passed on July 25, 1994, to increase employee engagement in the workplace. As a result, all these statutory and regulatory provisions apply to all employees.

2.6. External mechanisms of corporate governance

External control is also carried out at several levels which can be presented as follows:

2.6.1. The market for goods and services

According to Demsetz, a manager who pursues a plan that serves exclusively his or her own interests at the expense of the firm's shareholders may make the company less competitive.

Mismanagement has an impact on the company's outcome, which could lead to its failure, i.e., the risk of a decline in competitiveness, which must be limited by the leader's opportunism. This process will be more effective if the competition is fierce.

2.6.2. The labor markets of executives

For executives, the role of the executive job market is to constantly assess the value of the managers that can play inside and outside the company.

2.6.2.1. The internal labor market for executives

Within the company, this market plays a role in two ways: first, by allowing a leader to control the talented leaders located below them in the opposite direction; second, by allowing lower-level leaders to monitor higher-level leaders, especially if the company achieves a lower result; and third, by allowing new leaders to be recruited. Indeed, the recruitment of new leaders is seen to maintain control over the existing ones. The studies of Faith and Tollinson on the impact of external leaders on existing leaders suggest that the recruitment of external leaders will allow the existing leaders' behavioral commitments to be enforced.

2.6.3. The external labor market for executives

Competent managers are the goal of corporations outside of the organization (the best is challenged or chased) or, on the other hand, non-competent or opportunistic managers are sanctioned or terminated. To prevent being replaced by other managers or losing their advantages, managers must preserve the interests of shareholders (investors).

2.7. The financial market

The financial market and management competition are thought to be the most effective control mechanisms. In the event of mismanagement, shareholders can sell their shares, resulting in managers losing their bonuses. Managers, according to Manne, should respond to shareholder requests.

Managers, according to Manne, should respond to shareholder requests, especially in the face of financial market pressure, which implies that the best-managed companies' share values grow.

2.8. Conclusion of Chapter Two

Corporate governance has been built on a current of opinion that has formed in these countries in recent years, following the financial scandals that have affected the United States, Japan, and Europe. These scandals have exposed the ineffectiveness of their governments' control systems. Jamie Heard, CEO of Institutional Shareholders Services, confirms this. Indeed, he believes that recent scandals have revealed the governance system's flaws. Corporate governance has evolved into a set of control systems for resolving conflicts of interest between shareholders (principal) and management (managers) (agent). It is viewed as a means of protection, i.e., to safeguard shareholders' investments. Its goal is to improve the relationship between management and owners.

Several countries and organizations have placed a high value on this notion, establishing a few principles and publishing a few studies. The OECD is one of these organizations. Indeed, the latter has offered the eight fundamental principles that have been regarded as the most crucial in the formation of governance. As a result, the Cadbury report, which is regarded as the first report (code) of good practices, has effectively defined and organized the corporate governance framework.

CHAPTER THREE

THE CONTRIBUTION OF INTERNAL AUDIT TO STRENGTHENING CORPORATE GOVERNANCE IN MOROCCO

CASE STUDY: PUBLIC COMPANIES IN MOROCCO

Introduction

Many changes have occurred in recent years, including globalization, information technology, economic growth, and financial scandals involving major corporations around the world, all of which have increased attention to the internal audit function as a control tool to ensure the company's ability to meet these goals.

Furthermore, because internal audit is one of the most effective tools in the corporate governance system, improving corporate governance based on internal audit is becoming a need. To do so, we'll break down the relationship into four key components: internal control system evaluation, strategic risk management, information asymmetry, and stakeholder protection. It should be mentioned that the concept of corporate governance is not new to the accounting profession, since it is closely related to an internal control system or structure, and it is also seen as one of the stages in the evolution of this system. The Institute of Internal Auditors (IIA) was the first to emphasize this concept. Indeed, the Institute of Internal Auditors believes that "the performance of the organization is determined by those sufficient resources and the competence of those internal auditors who provide value-added services that are essential today for the efficient and effective management of an organization," according to Howard J. Johnson in a paper titled "Corporate Accountability and Risk."

Furthermore, Howard J. Johnson states that the American Institute of Forensic Accountants has backed up the views of the Institute of Internal Auditors by forming the "Tread Way Committee" of The Committee of Sponsoring Organizations (COSO). Indeed, between 1987 and 1997, this committee conducted a study on fraudulent financial reporting within American organizations, which found that the real causes of corruption within companies are:

The effectiveness of internal control systems; the effectiveness of the internal audit function (independence); the strength of the board of directors' independence.

To achieve the objectives of this chapter, we study it as follows: in the first section of this chapter, we will discuss the reality and perspective of internal audit and corporate governance in Morocco through a historical overview of the economies of the two countries, the reality and perspective of internal audit and corporate governance in the two countries.

In the second and last section, we will present the case study that we carried out, where we will expose the methodology of the study, the population and the sample of the study, the tools of the study, the stability and reliability of the questionnaire, the statistical methods used in the research, the analysis and interpretation of the axes of the study as well as the testing of the hypotheses.

SECTION 1: INTERNAL AUDIT AND CORPORATE GOVERNANCE IN MOROCCO: REALITY AND PROSPECTS

And to better understand the contribution of the internal audit function in improving corporate governance, we must first know the history of the economy of Morocco.

3.1. The history of Moroccan economy

The Moroccan economic situation as in many other countries after the war Morocco has undergone important transformations but the state has worked on the Moroccan production in 1945 there was the gradual resumption of foreign trade by focusing mainly on the artisans, the latter their specialty was the manufacture of weapons, embroidery, fabrics, leather furniture and jewelry. So, this trade exchange with the whole of Africa allowed a gentle evolution of the internal economy. At that time there were not yet any economic studies taught in Morocco and therefore no banking or insurance system nor investment or urbanization projects. (M.BAKHTAOUI, N.OURIACHI. Ed: 2019).

It is until the 90's that the Moroccan economy was able to build up private companies were able to be established in the kingdom, thanks to the king and the economic adviser even large groups were able to settle in Morocco, as well as new strategic methods were implemented for the management, the French group accor was able to acquire six hotels of the Moroccan chain Moussafir and the management of the Jamaii palace of Fes. This private management operation allows Moroccan notables close to power to control the most prominent public companies and on the other hand French companies to make a strong comeback in the country's economy.

Morocco continues to make steady progress, after the accession of King Mohamed 6 the Moroccan economy has begun to favor the development of investors and other new groups have joined the Moroccan economy such as Akwa group and YNNA holdings. The economic growth has thus recognized an average increase of 4,8% between 1999 and 2003. This improvement, which has affected most sectors of activity (tourism, activities related to financial intermediation, telecommunications and construction), has also affected the primary sector.

This growth has also affected the primary sector (agriculture and fisheries), which increased by 16,1% in 2008 in terms of GDP. These results show the diversification of the sources of growth and the modernization.

In terms of the public financial situation, the performance achieved during the years of development has allowed it to contain the budget deficit around 2.8 percent of GDP on average between 2004 and 2006, and this deficit was then transformed into a slight surplus of 0.7 percent in 2007 and 0.4 percent in 2008.

3.2. The internal audit perspective

3.2.1. The history of internal auditing in Morocco

The leaders of large organizations began to realize that an organized, well-structured, and independent monitoring was necessary shortly before the last war, in Great Britain and the United States in 1930. In Morocco, the evolution of internal auditing occurred in an economic environment typical of Western countries, namely the pressures of the financial market as well as the requirements for the quality of financial information. Internal audit units were first established in several corporations in the 1970s, particularly in the public and semi-public sectors. Morocco's economy has gone through significant changes (modernization of structures, liberation and opening to the outside world).

The introduction and development of auditing happened at the same time. Indeed, external audits have been conducted on several enterprises, including subsidiaries of global corporations. Establishment of huge international corporations and the growth of domestic corporations; since 1990, the Moroccan Association of Internal Auditors Consultants (AM.A.C.I) has been associated with the I.I.A., and permanent internal audit committees have been established inside numerous ministries.

The growth of auditing in Morocco began in the public sector. Indeed, public organizations have long been subjected to external audits in order to meet the standards of international financial institutions for financial statement certification. We are seeing the creation of audit structures, particularly internal audit structures, inside the directives of public institutions, as well as concurrent measures influencing internal audit in the following four areas (HILALI, K. & BENLAKOUIRI, A. (2019).

- Promoting the establishment of modern management systems inside public organizations.
- Establishing permanent audit committees within public institutions
- The re-establishment of an institutional structure for accounting data
- Managerial training in external and internal auditing.

Without forgetting the Moroccan private sector, the concept and role of internal auditing are gaining traction, as evidenced by the establishment of the Moroccan association of internal auditors and controllers (AMACI or IIA MAROC) in 1985. Internal auditors from both the public and private sectors are represented by the latter, which has been a founding member of the French-speaking union of internal auditors (UFAI) since 1989 and a member of the European confederation of internal audit institutes (CEIAI) since 1997.

Morocco's IIA has grown into an African leader in audit and risk management governance over the last 37 years. This organization has also given organizations and stakeholders new methods and resources to help them complete their internal audit missions. Throughout its history, the IIA has always shared the same values, which are listed below (IIA MAROC Ed 2019):

1- ***Integrity and transparency*** are absolute standards of conduct for the Association with all its interlocutors, actors, and partners. These principles form the foundation for the Association's trust and credibility.
2- ***Respect and sharing:*** The Association intends to carry out its objective while remaining mindful of human rights and freedoms, as well as the environment in which it operates. The Association is dedicated to preserving fair working conditions for its employees and to ensuring a healthy work environment free of discrimination, aggression, abuse of power, and harassment, where relationships are founded on respect and dignity.

3- ***Innovation:*** For both its activities and management, the Association employs innovation as a lever for performance and self-disruption. The Association is devoted to establishing growth relays and innovating its working procedures in order to ensure its long-term viability. It is also dedicated to promoting awareness of the significance of implementing new technology in order to strengthen the internal auditor's position as a trusted advisor.

4- ***Loyalty:*** The Association conducts its business with a professional conscience and in good faith, with the goal of protecting its members' interests. It tries to improve its image and reputation.

5- ***Professional:*** In connection with the services it provides, the Association shall behave effectively and diligently. To achieve its goals of internal auditor professionalism and continuous improvement of the control environment, the Association must have financial, human, organizational, material, and technical resources available at all times that are appropriate to the nature and volume of its activities and in accordance with the IIA Global's international standards and governance principles.

6- ***Performance and excellence:*** The Association's strategy emphasizes long-term development through performance and excellence. The Association provides top-notch service to its constituents.

3.3. The strategic objective of the internal audit in Morocco

The IIA strives to accomplish four key goals:

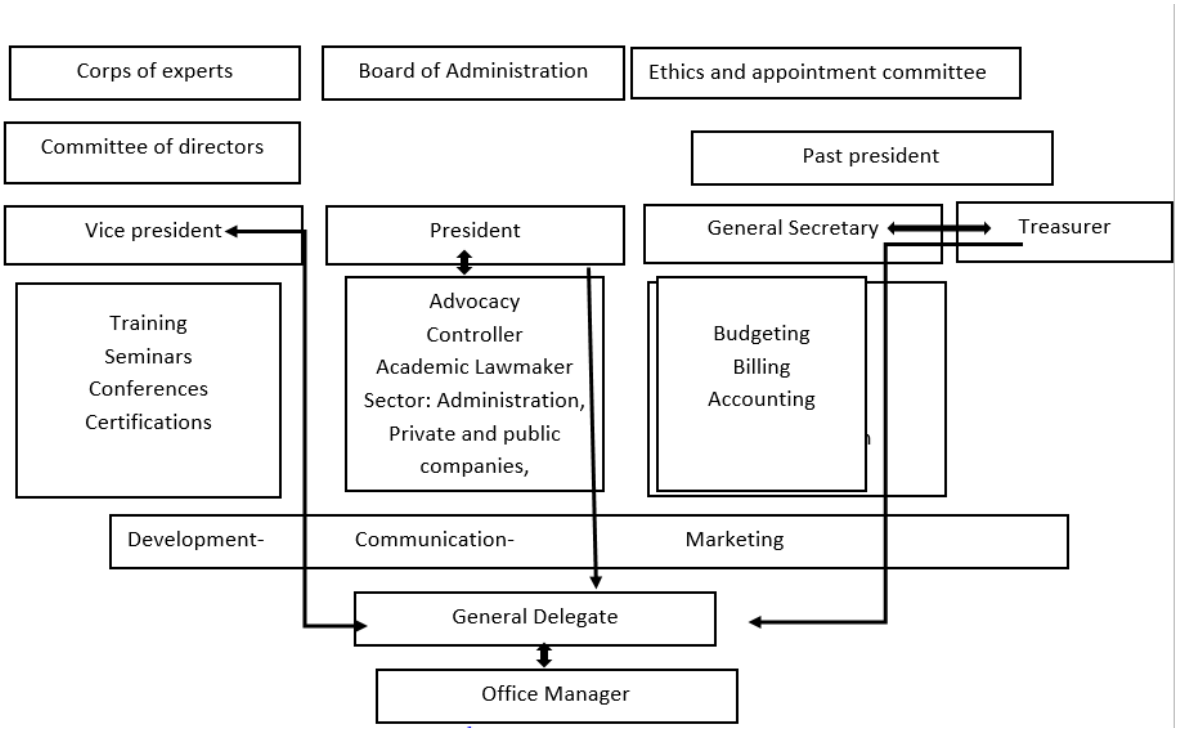
- ❖ To promote and defend internal auditing as a profession and to contribute to the betterment of the audit environment.
- ❖ To professionalize internal auditors and stakeholders in governance, risk management, and controllership.
- ❖ To strengthen the IIA-position MAROC's as Africa's leader in internal audit, risk management, and control.
- ❖ To offer IIA-MAROC with novel tools for implementing targeted and effective measures.

3.4. IIA Governance diagram

IIA-activities MAROC's are conducted in accordance with its Statutes and Rules of Procedure, as well as the IIA Global's Governance Principles.

To avoid the possibility of illegal, unexpected, or incorrect use of the Association's activity, the functions assigned to the management and governance bodies, as well as the permanent employees of the Association, are defined with adequate separation.

Figure 3: IIA-Morocco's governance structure



Source: https://www.iiamaroc.org/

The hierarchy is depicted in the diagram, with the board of directors in charge of overseeing the association's activities, and the ethics committee's mission being to hold committee meetings. Members of the ethics committee must not be members of the board of directors or the committee of the director of the association. Experts are chosen through a request for expressions of interest, and they are appointed by the Board of Directors on the recommendation of the Association's Steering Committee. Finally, the IIA is managed by a committee of four directors who are elected by the Board of Directors and the past president.

3.5. The role of the internal audit in the Moroccan public organizations:

Moroccan public organizations and corporations have created auditing processes based on the new Moroccan Constitution's notion of linking duty and accountability. Other variables that have aided the implementation of the IA system for good governance in Moroccan public companies include:

- International institutions' recommendations to public administrations to build up audit and control services under the aegis of governance (UN, INTOSAI, WB, IMF).
- Morocco's institutional and organizational frameworks for auditing and control since its independence in 1960, when the National Accounts Commission was established, which later became the audit office in 1979.
- Morocco is a member of INTOSAI, AFROSAI, and ARABOSAI, among other international and regional audit and control organizations.
- The New Public Management and the principles of good governance must be adopted and respected (NPM).
- The implementation of a results-based approach in Moroccan government agencies

In a recent interview, Mounim Zaghloul (President of the Moroccan Institute of Internal Auditors) described the importance of internal auditing in the public and private sectors. Internal auditing in the private sector is currently more advanced than in the public sector, he noted. ’’We also observe that the most advanced sectors are those that are heavily regulated, such as the banking industry, which is defined by the strengthening of governance and control mechanisms as a result of the regulator, Bank Al-Maghrib, issuing directives and circulars." Mandatory functions such as risk management, compliance, and permanent control have been established as second-line control functions, and their operations must be coordinated with internal audit, which has been established as a third-line control function.’’ Internal audit's involvement in the public sector has grown in recent years, thanks to Law 69-00 on the State's financial control over public firms, as well as the Moroccan Code of Good Governance Practices for public enterprises and organizations. "We have high hopes for the draft law on state governance and financial control over public institutions, companies, and other organizations," he continued, "which aims to reorient control toward performance assessment and risk prevention, in addition to verification of compliance with existing regulations."

SECTION 2: THE ROLE OF INTERNAL AUDIT IN IMPROVING CORPORATE GOVERNANCE IN MOROCCO CASE STUDY: MOROCCAN PUBLIC COMPANIES

3.6. Steps of the study

During this study we faced several barriers, which can be summarized as follows:

A- Spatial limitations: This study was conducted in Turkey in order to find out the role of internal audit in improving corporate governance in Morocco.

B- - Limitations of the Study: This study focuses on subjects and themes linked to strengthening corporate governance through the modernization of internal audit functions and activities, rather than on boosting their performance.

3.7. The population of our study

The population is composed of companies and public institutions where we tried to interview different assistants and specialists in the field when it was possible, in our case we worked with the semi-directive interviews.

Since we only obtained open-ended answers during our survey interview, our decision to use semi-directive interviews really aided us in obtaining the most information possible on our subject straight from the subject-matter experts. We made an effort to schedule the interviews in accordance with the interviewers' availability, so it took us from the beginning of July 2021 until the beginning of March 2022 to gather all the data and obtain the answers to all of our questions.

3.8. Questions asked to the population of the study

In total fifteen questions were asked to our population of study. All the answers received allowed us to have a clear responds to our hypotheses

- ❖ Would you please specify your position in the organisation?
- ❖ Have you ever used an audit firm for an audit mandate? Was it a contractual or legal mandate?
- ❖ What are the characteristics that allows you to choose your audit firm?
- ❖ Do you feel that there is a relationship of trust between you and the auditors (external)?
- ❖ Does the fact of having called upon auditors have a direct relationship with the fact that the projects are large and require a follow-up?
- ❖ Do you use auditors services regardless of the size of the project or do you have specific criteria/thresholds?
- ❖ Do you have an internal audit department?
- ❖ What is the size of the department (How many people do work on it)?
- ❖ Do you have an idea of all the written internal procedures that concern your department?

- Do you consider that the implementation of the internal audit function has a direct relationship with the environment to which you belong?
- Do you consider the audit department to be a support function that allows you to improve your daily life at work?
- Is the competence of the audit team important in the execution of the tasks and drafting of the procedures?
- Do you require the firm to have auditors (external and internal) from certain business schools?
- Do you require auditors (internal and external) to have a minimum number of years of experience?
- Have you ever had problems with auditors because of their year of experience?

You will find below few responses that we had from our population of study:

- Would you please specify your position in the organisation ? *Senior Auditor.*
- Have you ever used an audit firm for an audit mandate? Was it a contractual or legal mandate? *Our organisation has an audit department and have already used the services of external audit firm several times. Either as a support for us or for specific projects.*
- What are the characteristics that allows you to choose your audit firm*? In our case the audit is contractual, or for support as mentioned previously we can say that we have two criteria's the level of the auditors and of the firm are important.*
- Do you feel that there is a relationship of trust between you and the auditors (external*)? I think that trust is one of the fundamental steps in choosing an audit firm. These people will be treating highly sensitive confidential information. We can add trust to the characteristics for choosing an audit firm.*
- Does the fact of having called upon auditors have a direct relationship with the fact that the projects are large and require a follow-up? *The size of the project do not have a big impact (it doesn't mean it doesn't have an impact) in addition to the size there are several other criteria. Sometimes the project offer stipulates the follow-up with an auditing firm.*

- Do you use auditors regardless of the size of the project or do you have specific criteria/thresholds? *In line with what I have mentioned previously it depends on several criteria related to the project itself.*
- Do you have an internal audit department? *Yes.*
- What is the size of the department (How many people do work on it)? *We are 8 people working with a Vice President Audit and Internal control.*
- Do you have an idea of all the written internal procedures that concern your department? *Yes, we have a general idea of all the discussed procedures. But we should visit the manuals every time we need to give an opinion.*
- Do you consider that the implementation of the internal audit function has a direct relationship with the environment to which you belong? *I think that no matter the environment having an audit department will always give a big help to the company to improve and more forward.*
- Do you consider the audit department to be a support function that allows you to improve your daily life at work? *I think that due to the number years of experience in addition to the number of interactions with different departments of the same institution. Auditors can be a support to several functions in a company.*
- Is the competence of the audit team important in the execution of the tasks and drafting of the procedures? *The competence is a key fact. That's why in our team we have assistants, juniors, seniors and managers. We try to train people who are under our responsibility to allow them do the same job as us in one or two years. Writing a procedure can be supported by juniors but it's basically done by seniors and managers.*
- Do you require the firm to have auditors (external and internal) from certain business schools? *Not from specific schools; but sometimes we ask to have auditors that have experience abroad (Specifically France), because it helps the company with bright new ideas.*
- Do you require auditors (internal and external) to have a minimum number of years of experience*? As mentioned previously it depends on which position we are looking for. Our first require is to have a previous experience in an audit firm. The time is money and we prefer not to spend it making the new recruiters learn about the basics of the job.*

- ❖ Have you ever had problems with auditors because of their year of experience? *Not specifically I think that the managers tend to take more time looking for the good candidate in order to avoid having bad surprises. But it's never excluded.*

3.9. Statistical methods used in the research

We analyzed the data and documents using a statistical program for social sciences known as "Statistical Package for Social Sciences" [SPSS], which is widely used in the procedure of statistical analyses in all forms such as descriptive statistics, correlation, and regression, and which aids in the understanding and analysis of the necessary data in order to make rational decisions, and to verify the existence of a dependence between the variables that make up the hypotheses, we used the chi-square test, and as well these statistical tools, percentages, are mostly used to determine the frequency of the categories of variable.

3.10. Bivariate analysis

H1: The disposition of the internal audit function by public institutions would be justified by a limiting environment

- ❖ Dependent variable: The establishment of the internal audit.
- ❖ Independent variable: The constraint of the environment.

H2: The auditor's expertise would have a favorable impact on the risk management of numerous procedures.

- ❖ Dependent variable: Risk control
- ❖ Independent variable: The auditor's competence.

3.11. The IA in public institutions in Morocco

Pair 1: Investigate the relationship between internal audit and the constraint imposed by the environment:

The first pairing connects two variables that we'll look at: the formation of an internal audit function within the institution and environmental constraints. We'll calculate the chi-square statistic from a cross-tabulation with occurrences and compare its value to the chi-square distribution to see how "strange" this value is if the null hypothesis is true.

❖ Analysis & Interpretation:

This table combines the two variables of our initial hypothesis, with SPSS software producing the results.

Table 3: Crossover Implementation of Internal Audit * Constraining Environment

Implementation of the Audit Internal			Restrictive environment		
			YES	NO	SUM
	YES	Headcount	3	9	12
		Theoretical headcount	5.1	6.9	12.0
	NO	Headcount	14	14	28
		Theoretical headcount	11.9	16.1	28.0
SUM		Headcount	17	23	40
		Theoretical headcount	17.0	23.0	40.0

Source: SPSS software

The first requirement of application of the Chi-square Test is verified ($n \geq 30$) because our sample includes 40 public businesses.

We can see from the table above that all the theoretical numbers corresponding to our variables are bigger than 5 (the minimum theoretical number is 5.1), indicating that the 2nd application requirement ($n^*ij \geq 5$) has been verified.

Table 4:Chi-square tests

	Value	The degree of liberty (ddl or dol)	Meaning asymptotic (bilateral)	Exact meaning (bilateral)	Exact meaning (one-sided)
Pearson's chi-square	2.148 (A)	1	0.143		
Correction for continuity (B)	1.247	1	0.264		
Likelihood ratio	2.236	1	0.135		
Fisher's exact test				0.179	0.132
Linear-by-linear association	2.095	1	0.148		
No. of valid observations	40				

(A): There are 0 cells (0.0%) with a theoretical number less than 5. The theoretical minimum size is 5.10.
(B): Calculated only for a 2x2 table
Source: SPSS software

- The first line displays the Pearson Chi-square statistic of 2.148.
- The number of valid observations needed to calculate the Chi-2 value is indicated on the last line, which is 40.
- We selected to work with a risk of error level (α) of the order of 0.05 in our case (5 percent). This is the normal level of risk. It is, in fact, a reliable risk level.
- The theoretical Chi-square circled in red (3.8415) is obtained by crossing the degree of freedom (ddl=1) and the specified risk level (= 0.05) as shown in the following table:

Table 5: Chi-Square Distribution Table

Chi-square statistic: The table gives x such that P (k>x) =p

p	0,999	0,995	0,99	0,98	0,95	0,9	0,8	0,2	0,1	0,05	0,02
ddl											
1	0,0000	0,0000	0,0002	0,0006	0,0039	0,0158	0,0642	1,6424	2,7055	3,8415	5,4119
2	0,0020	0,0100	0,0201	0,0404	0,1026	0,2107	0,4463	3,2189	4,6052	5,9915	7,8240
3	0,0243	0,0717	0,1148	0,1848	0,3518	0,5844	1,0052	4,6416	6,2514	7,8147	9,8374
4	0,0908	0,2070	0,2971	0,4294	0,7107	1,0636	1,6488	5,9886	7,7794	9,4877	11,6678
5	0,2102	0,4117	0,5543	0,7519	1,1455	1,6103	2,3425	7,2893	9,2364	11,0705	13,3882
6	0,3811	0,6757	0,8721	1,1344	1,6354	2,2041	3,0701	8,5581	10,6446	12,5916	15,0332
7	0,5985	0,9893	1,2390	1,5643	2,1673	2,8331	3,8223	9,8032	12,0170	14,0671	16,6224
8	0,8571	1,3444	1,6465	2,0325	2,7326	3,4895	4,5936	11,0301	13,3616	15,5073	18,1682
9	1,1519	1,7349	2,0879	2,5324	3,3251	4,1682	5,3801	12,2421	14,6837	16,9190	19,6790
10	1,4787	2,1559	2,5582	3,0591	3,9403	4,8652	6,1791	13,4420	15,9872	18,3070	21,1608
11	1,8339	2,6032	3,0535	3,6087	4,5748	5,5778	6,9887	14,6314	17,2750	19,6751	22,6179
12	2,2142	3,0738	3,5706	4,1783	5,2260	6,3038	7,8073	15,8120	18,5493	21,0261	24,0540

Source: writer

As a result, we accept the null hypothesis H0, which states that the two variables analyzed, namely, environmental constraint and the formation of an internal audit function, are unrelated.

Finding 1:

Our previously specified first hypothesis is thus completely disproved, implying that the turbulence and uncertainty of the environment is not a primary predictor of the internal audit function's implementation. Indeed, good governance necessitates the establishment of an internal audit function to guarantee that operations operate smoothly and efficiently.

Pair 2: The influence of a competent internal audit team with sufficient professional experience on the detection of risk areas:

This second pairing highlights the relationship between two variables: the expertise and competence of the auditor and the control of operational risk.

❖ **Analysis and interpretations:**

Table 6: Risk Control * Auditor Competence Intersection

Risk Management		Restrictive environment			
			YES	NO	SUM
	YES	Headcount	20	0	20
		Theoretical headcount	11.0	9.0	20
	NO	Headcount	2	18	20
		Theoretical headcount	11.0	9.0	20.0
SUM		Headcount	22	18	40
		Theoretical headcount	22.0	18.0	40.0

Source: SPSS Software

The theoretical numbers differ from the observed numbers in the sample, as shown in the cross-tabulation above. This implies that the variables are interdependent. The Chi-square test will validate this observation. Remember that our sample consists of 40 public places, and as you can see from the cross-tabulation above, all the theoretical numbers are bigger than 5. (The minimum theoretical number is 9). As a result, the prerequisites for using the Chi-square test are confirmed.

- **Chi-square test:**

To test these results, we use the following chi-square probability table:

Table 7: Chi-square tests

	Value	The degree of liberty (ddl or dol)	Meaning asymptotic (bilateral)	Exact meaning (bilateral)	Exact meaning (one-sided)
Pearson's chi-square	32.727 (A)	1	0.000		
Correction for continuity (B)	29.192	1	0.000		
Likelihood ratio	42.048	1	0.000		
Fisher's exact test				0.000	0.000
Linear-by-linear association	31.909	1	0.000		
No. of valid observations	40				

(A): There are 0 cells (0.0%) with a theoretical number less than 5. The theoretical minimum size is 5.10.
(B): Calculated only for a 2x2 table
Source: SPSS software

The degree of significance is very low when compared to the margin of error, as seen in the table above (5 percent). As a result, we reject the null hypothesis H0, according to which the auditor's competence is independent of risk control and critical zone identification and support the alternative hypothesis of dependence. Similarly, the estimated Chi-square statistic (32.727>3.8415) is higher than the theoretical Chi-square. As a result, we confirm the theory of two-variable dependence. The goal of the next point is to demonstrate how the auditor's expertise affects operational risk management.

"Are there any significant audit areas that are not checked periodically by the internal audit team?" is the query we used in our database investigation to get these responses.

In this study, we'll look at the non-zero model. In contrast to the null model, which simply includes the constant, this model adds the predictors (explanatory variables) of public institutions' control of operational risk. Given the auditor's expertise and professional experience, the goal is to determine the likelihood (a posteriori) that a public institution chosen at random has the potential to recognize areas of risk. To begin, we look at what is known as the coefficient of determination to demonstrate the importance of model selection.

Table 8: Summary of models

N	Log of likelihood	R-two of Cox and Snell	R-two of Nagelkerke
1	*13.404*(a)	*0.650*	*0.867*

(a) The estimation stopped at iteration number 20, because the maximum number of iterations has been reached. The final solution cannot be found.

Source: SPSS software

From this table, we can see that the coefficient of determination of this R^2 model varies between 65% and 86.7%. The auditor's competence can therefore explain between 65% and 86.7% of the variability in the control of operational risk in public institutions.

Finding 2:

"After reviewing the results, it becomes evident to us that the auditor's competence has a beneficial influence on the control of risks associated with various processes in the majority of the establishments assessed, thereby validating our second hypothesis previously formulated." We can draw from the support of this hypothesis that controlling operational risk requires a skilled, highly qualified internal audit team. As a result, investing in the training of internal audit employees is critical and must be prioritized.

CONCLUSION

The intention of this research is to determine how internal auditing may help organizations and institutions improve their governance, or how it can assure good governance. In the context of a study on the new function of internal audit, some writers deemed the internal audit phenomenon to be an important mechanism for reducing company risks and contributing to value creation. In the experiential field, however, there is very little study on internal audit and corporate governance.

Internal auditing is becoming a standard risk management tool. At this point, we've attempted to convey the importance of internal audit in the company's risk management process. Indeed, the internal audit, as determined by the IIA, provides objective insurance to the Board of Directors as to the effectiveness of this activity, ensuring that the company's principal risks are properly handled and the internal control system functions properly.

We tried to answer our question about how to improve corporate governance by focusing on a few key features that might be considered the most important aspects of excellent corporate governance. Thus, in comparison to earlier studies, our key addition is that the deciding factors of the internal audit function have an impact on effective corporate governance as well as the areas in which internal audit helps to improve corporate governance improvement.

Internal auditing within public institutions in the Morocco has made remarkable progress in recent years. The entities that were the subject of our study have understood that the implementation of an internal audit unit is no longer just a Legal obligation, but it is a requirement of management and good governance. Indeed, since these institutions are considered key vectors of economic development in all areas (electricity, water, sanitation, housing, highways, etc.), their major concern is to seek performance at all costs in order to meet the challenges they face. In this logic of performance, strengthening the efficiency of public institutions and modernizing their management, internal auditing has proven to be the most appropriate tool to help the organization achieve its objectives while improving the processes of risk management and internal control.

The study we conducted showed that the establishment of internal audit is not primarily related to the constraint of the environment, but it has become a better tool for the governance of the organization (hypothesis 1), moreover, the competence of the auditor has a direct influence on the performance of the audit departments of the institutions in question (hypothesis 2) and finally, the tendency to establish specialized committees attached to the board of directors, such as the audit committee, has no direct effect on the quality of internal auditing, since public institutes and organizations hardly have internal audit structures, and audit committees are practically non-existent. (Hypothesis 3).

In a world marked by technical progress, mainly oriented towards the digitalization and dematerialization of procedures, working methods in a number of professions have evolved and internal auditing is one of them. So we consider that it is an obligation to change its methods towards a perspective of digitalization and computerization of its techniques. However, this change cannot be made without the effective existence of an internal control system based on the same logic. This will undoubtedly have an impact on the control of operational risks thanks to the traceability of the information system. In this respect:

- ❖ Public institutions must follow the evolution of private companies in terms of technological infrastructure by adopting an enterprise resource planning (ERP) system. With ERP, all procedures will be automated, so the likelihood of a risk occurring will be very low.
- ❖ It is necessary to invest in the upgrading of auditors' skills by organizing regular and periodic training sessions. For example, at the international level, there are internationally recognized professional training courses in internal auditing, such as the CIA (certificate of internal auditors), this type of training will allow auditors to align themselves with auditors with the requirements and developments of the profession on an international scale.
- ❖ Employees must also be aware of the internal audit culture. Indeed, the auditor in general must no longer be considered as an agent of authority, the vision must change so as to be perceived as a person who helps, and assists the institution to control its risks and to achieve the objectives that have been assigned to him.

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