

The impact of External Auditing In Enhancing Good internal control Practice: Case Study of Economic Organizations in Algeria.

**L'impact de l'audit externe dans l'amélioration de bonnes pratiques de
contrôle interne: Etude de cas des organisations économiques en Algérie.**

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Abstract :

External audit's function is an independent unit to ensure the effectiveness and efficiency of internal control in the organization. This function covers the role and responsibilities of external audit, skills, expertise and the independence of the external auditors.

This study aims to examine the impact of external auditing in enhancing internal control practice of economic organizations in Algeria. Data analysis method was utilized to test the hypothesis and analyzed by multiple regression test using SPSS Version 22. The primary data was collected using questionnaires distributed to the 100 external auditors (Legal Auditors).

The validity and reliability test was implemented before the hypothesis test. The result reveals that independent external auditors and the skills and expertise available to them, have a significant impact on enhancing internal control practices.

Keywords: External Audit, legal Auditors, Internal Control, Economic Organizations , Algeria.

JEL Classifications : M42, M49

Résumé :

L'audit externe est une unité indépendante qui veille à l'efficacité et au bon fonctionnement du contrôle interne de l'organisation. Cette fonction couvre le rôle et les responsabilités de l'audit externe, les compétences, l'expertise et l'indépendance des auditeurs externes.

Cette étude vise à examiner l'impact de l'audit externe sur le renforcement des pratiques de contrôle interne des organisations économiques en Algérie. La méthode d'analyse des données a été utilisée pour tester l'hypothèse et analysée par un test de régression multiple à l'aide de SPSS version 22. Les données primaires ont été collectées à l'aide de questionnaires distribué aux 100 auditeurs externes (Auditeurs Légaux).

Le test de validité et de fiabilité a été mis en œuvre avant le test d'hypothèse. Le résultat révèle que les auditeurs externes indépendants, ainsi que les compétences et l'expertise dont ils disposent, ont un impact significatif sur l'amélioration des pratiques de contrôle interne.

Mots-clés: Audit Externe, Auditeurs Légaux , Contrôle Interne, Organisations Economiques, Algérie.

Classifications JEL: M42, M49

Introduction :

The emergence of the audit and its development is only a collection of what has reached it now. The emergence of the Industrial Revolution has an important turning point in the great impact that it has created in life and economic activities in terms of its organization and implementation, the expansion of institutions and the ramifications of their functions with increasing complexity and branching, This is evident by the separation of ownership from the administration and this is contrary to what it was in the past. The owner no longer has any income in the organization in terms of its management, management, and control of the work performed in it. Does not directly and adequately view the real reality And from which it is necessary to appoint an independent third party, which is considered as an intermediary between the interested parties (the owners and managers), which is the external auditor. The latter monitors the management's actions and aims to protect their rights. And meet the needs, and to provide the real situation through the disclosure of honest information in the various lists and reports that are prepared.

Access to valid and honest financial information is confirmed by an external auditor as the person who is trained and scientifically qualified to examine the financial statements of the organization.

The external audit is one of the pillars of external oversight, which aims to express an impartial technical opinion about the extent to which the final financial statements of the organization represent the real center.

Achieving this goal is achieved by following a rigorous audit methodology that complies with the professional standards of external auditing, which constitute the theoretical basis for practicing this profession.

Today, in businesses worldwide, the internal control functioning become very important for their operation and achieving the objective of organizations. The role of external auditing is to ensure the effectiveness and efficiency of internal control in the organization and to find out whether the system is functioning as intended.

Internal control systems are seen as one of important element in any organisation. The control system normally embedded into structure, policies and procedures of organization. An organization without proper control systems would normally suffer a lot of problems such as rise of cost and loss of cash. It is a responsibility of management to establish and maintaining

reasonable internal control systems. Management not only liable to design and develop internal control system but also review the effectiveness of the control. The purpose of the review isto ascertain whether the organisation's objectives and goals have been achieved (Fadzil, 2005).

The main objectives of this paper are to determine the impact of external auditing in the economic organizations and how it is effective and also to find out the level of internal control system effectiveness in the economic organizations . This study intends to explore the influence of external audit on the effectiveness of internal control system of the Algerian economic organizations. Further, this study identified the relationship among of the scope of work of external audit and the quality of internal control system.

From the above, the following problematic has been formulated: **How far has external audit contributed to improving the internal control system?**

To enrich this study, we adopted the following plan: Theoretical framework and review of related literature; Methodology and Data Analysis.

1. Theoretical framework and review of related literature :

1.1.External audit

The emergence and development of external auditing came as an inevitable result of the development and expansion of economic activities, especially after the most important stage in history, the stage of industrial revolution, which defined the transformation of organizations and small factories into large organizations and factories, the emergence of joint stock companies, Since then, the principle of separation of ownership from management has been devised. In this context, the classic approach of audit objectives has changed from the discovery of mistakes and manipulations to a more modern and broader concept to the objective of expressing an impartial technical opinion about the validity and fairness of the financial statements of the organization. Audit process Examination of interested parties.

Theoretically, The external audit is a review of the financial statements of an organization by independent legal authorized auditors.

The main objective of the external audit is to provide an opinion on the financial statements.

For the definition of external auditing, we note that it did not settle when defining a comprehensive and specific concept, but also according to academic researchers and scientific bodies in their different opinions and theories, and also according to the professional organizations. Therefore, we will try to give the most important definitions given to him by (AAA : American Accounting Association) As "an organized process and methodology for the objective collection and evaluation of evidence relevant to the results of economic activities and events to determine the compatibility of these results with the established criteria and to inform the parties concerned of the audit results."(Al-Sharaa,2003)

What is noted in this definition is that it is a combination of scrutiny as a composite process consisting of several levels, which are objective in collecting and evaluating evidence, and communicating its results to the parties that are most in need.

It is also defined as: "the control exercised by the legally qualified professional person in order to ascertain and certify the validity and fairness of the annual financial statements of the organization, which is represented by the general budget, income statement, cash flow statement ".(Belaiboud,2005)

In this definition we find an important term that is the control, as this kind of scrutiny is one of the pillars of external control, which is exercised according to professional and legal basis.

According the definition of external audit by European Union of Economic and Financial Accounting Experts (UEC) audit as : "The extent to which the auditor is able to express his impartial technical opinion on the accuracy and correctness of the financial position of the institution at the date of preparation of the final financial statements (Germond, 1991).

The audit process is defined as "the independent impartial examination process, which is conducted in accordance with the requirements of the external parties that benefit from the services of the auditor, and which ends up expressing an opinion on the financial statements of the organization through a neutral auditor (Porter, 1997).

This definition enables us to base ourselves on an important and fundamental principle relating to the auditor, the principle of independence or impartiality, which is at the same time an essential requirement for external parties that benefit from the services of this auditor.

External audit and its relationship to internal control can be defined as: "The process of examining the internal control systems, data, documents, accounts and books of the project

under review is a controlled audit in order to produce a neutral opinion on the extent of the financial statements' At the end of a specified period of time, and the extent to which the results of his work are accounted for by the profit or loss of that period" .(Khaled, 2000)

It is noted that this definition gives the auditing a new task in the important system of the subject of the internal control system due to the intensive research which focused on the development of this system and the consequent academic and professional improvements, in order to indicate the need for critical examination In this sense, this definition ensures that the auditor is required to ensure the consistency and consistency of the financial statements and to disclose any irregularities in this regard.

1.1.1. External audit in Algeria

With regard to Algeria, it has been delayed in the field of accounting and auditing profession compared to Arab countries such as Egypt, Iraq and Jordan, where this profession was not regulated until the promulgation of Law No. 91-08 of 27 April 1991 which contains legislation and provisions related to the profession and its practitioners, Followed by Law No. 10-01 of 29 June 2010.

The most common external audit in Algeria is mandatory auditing, because companies through the General Assembly are committed to appoint an external auditor for some fees in accordance with the provisions of the law. This type of audit is known in Algeria as legal or statutory audit.

External audit in Algeria is divided into the following three sections:(Boutine,2003)

- 1- Legal Audit: The law, which is mandatory annual monitoring, is carried out by the governor of accounts (Statutory audit)
- 2- Contractuel Audit: performed by a professional at the request of one of the parties (internal or external), dealing with the organizations, which can be renewed annually.
- 3- Judicial Expertise: It is carried out by an outside professional at the request of the court.

1.2. Internal Control

By definition, Internal control or an Internal Control System is the” integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance that the organization will achieve its objectives

and mission”. (Buthayna, 2016). In another Definition of internal control put forward by (Konrath,2002), quoting from the American Institute of Certified Public Accountants (AICPA) Professional Standards, defines internal control as follows: “The process effected by an entity’s board of directors, management, and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) operating control-relating to the effective and efficient use of the entity’s resources; (b) financial reporting controls-relating to the preparation of reliable published financial statements; and (c) compliance controls-relating to the entity’s compliance with applicable laws and regulations”.

According to (Boynton, et al.,2006),states: Control the safeguarding of assets against unauthorized acquisition, use, and, disposition, which may imply that an internal control to safeguard assets against expropriation, use, and disposition of assets illegally. According to the Internal Audit Consortium Professional Organization (2004) the general purpose of the internal control process is to support the parties involved in the activities of the organization in managing risk and achieve the goals that have been set and communicated by the organization, with the aim of: (1) reliability and integrity of financial and operating information, (2) operating activities implemented efficiently and achieve the desired results effectively, (3) the security of state assets, and (4) the activities and decisions of the organization within the corridor of compliance with laws and regulations apply.

Internal control as a means of being created for the benefit of the organization in line with the definition put forward by the Committee on Auditing Procedure of (AICPA) in 1949 (Rosma, 2014) as follows :”Internal control comprises the plan of organization and all of the coordinate and methods measures adopted within a business to safeguarded its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies”.

By establishing a sound internal control system, the organization promotes efficient and effective business processes that are able to produce quality products/services convenient with the organization's mission. It also preserves resources against loss due to waste by ensuring adherence to laws / regulations/ contracts and management directives. As a result, the internal control systems develop and maintain reliable financial and management data in a timely reporting system (Mahadeen, et al., 2016). There are five components of the

internal control system namely control environment, information and communication, risk assessment, control activities and monitoring :

Control Environment: the control environment sets the tone of an organization, influencing the control consciousness of its people (Leung, et al., 2011). It is the foundation for an internal control system. It includes the overall attitude and actions of management regarding the importance of controls in their organization.

Internal controls are likely to function well if management believes that those controls are important and communicates that view to employees at all levels. COSO's updated internal control framework identifies five principles associated with the control environment (internal Control Guide & Resources) : (1) the oversight body and management should demonstrate a commitment to integrity and ethical values, (2) the oversight body should oversee the entity's internal control system, (3) management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives, (4) management should demonstrate a commitment to attract, develop, and retain competent individuals and (5) management should evaluate performance and hold individuals accountable for their internal control responsibilities.

The implementation of these five principles is crucial to the implementation and operating effectiveness of the internal control environment.

Information and Communication : Information and Communication systems or processes that support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.

This component can be defined as the process of transmitting information and common understanding from one person to another. The word communication is derived from the Latin word, (communis) which means common. The definition suggests the fact that unless a common understanding results from the exchange of information, there is no communication. Communication channels are developed in organizations between all members of the organization and to communicate relevant information to the right people in a timely way (Mahadeen, et al., 2016).

Risk Assessment : A risk is anything that endangers the achievement of an objective. The risk assessment process is used to identify, analyze, and manage the potential risks that could

hinder or prevent an agency from achieving its objectives. Risk increases during a time of change, for example, turnover in personnel, rapid growth, or establishment of new services. Other potential high risk factors include complex programs or activities, cash receipts, direct third party beneficiaries, and prior problems (internal Control Guide & Resources).and in A brief explanation of risk assessment : Risk assessment is to identify and analyze the risks affecting achievement of goals and establish the basis for determining how to achieve effective risk management (Shanszadeh & Zolfaghari, 2015).

Control Activities : actual controls that are in place, control activities are policies and procedures which help management assurance about performing guidelines, for example, segregation of duties, authorization and transactions.

Organizations should establish control activities - both manual and automated - to effectively and efficiently accomplish the organization's objectives and mission and to reduce the risks that can hinder their achievement in addition to dealing with any exceptional / undesired event promptly and appropriately as soon as it is noticed (Shanszadeh, 2015).

Monitoring: Internal control system and controls application varies over the time. It can be as a result of entry of new employees, changing effectiveness of implementation of procedures and supervision, time, and resource limitations or changes in the conditions for which the internal control system was originally designed. Thus, the management should determine if internal control system application in its original way is effective or not (Ghanbarian, 2011& Shanszadeh, 2015).

Control Environment :The control environment is the foundation for an internal control system. This fundamental element provides order and structure for all other internal control elementsIt includes the overall attitude and actions of management regarding the importance of controls in their organization. Internal controls are likely to function well if management believes that those controls are important and communicates that view to employees at all levels (internal Control Guide & Resources).Control environment - what kind of message the management sends to its employees about the importance of internal control ?

1.3.External audit relationship with internal control

Even though, by definition, the external auditors are not part of organization, and therefore they are not part of the internal control process, they have an important role on the quality and the improvement of the systems of internal control. The external auditors provide an important “feedback” for the effectiveness of the internal control systems during the performance of their audits, the regular discussions with the Executive Board, Governing Body, middle management and employees, as well as through the recommendations for improving the systems for internal control. Given the fact that the primary function of the external auditors is to provide an opinion on the reality of the annual account of the organization, they should decide whether during the performance of the external audit they can rely on the efficiency of the internal control process in the organization. Hence, it follows that they should have knowledge of the internal control system in the organization.

Basically, the external auditors are expected to provide assessment of the internal control systems as a basis for preparing accurate financial statements for the working of the organization. They are expected, in case of detecting material deficiencies, to inform the Executive Board, the Governing Body and the supervisory authorities by submitting confidential letters. The Governing Body and the Executive Board should provide implementation of the corrective measures for the identified weak internal control systems established and indicated in the report of the external auditors.(Josheski, 2012)

With the consensus of economists, academic researchers and professionals who agreed that the external audit process means a set of procedures and a thorough examination by a professional and independent person of the records or accounts to provide a neutral professional opinion to determine whether the expenses expended and the revenues received are restricted Accounting records , and if the assets were assessed correctly in a given period of time. To confirm these procedures, external auditing is an important means of judging the efficiency and effectiveness of the internal control system.

The external auditor aims to determine the methods of control that can be relied upon to determine the size, nature and timeliness of the tests necessary to design or modify the audit program. This is the primary objective of the external auditor, while the secondary objective is

to identify weaknesses In the system that must be reported to the management of the organization, and then advise the management to work on the control provisions.

The internal control system of any organization is the first line of defense that protects the interests of shareholders in particular and all parties related to the institution in general, as it provides protection for the production of financial information that can be relied upon to make sound investment and credit decisions, and is the first attention for external auditor's when examining financial statements and final accounts.(Carmichael,2004)

Internal auditing is considered as an indicator of the integrity and validity of the data. Among the indicators that are important for the external auditor to rely on in preparing the audit program, the results of the external auditor's evaluation of the internal control system affect the nature and extent of the required audit procedures. And to ensure that they are used and implemented as planned in the first phase of the planning and performance of auditing the internal control of the organization.

In order to confirm the planning point of the audit, IAS 400 states that the auditor should obtain an adequate understanding of the accounting system and internal control system to plan the audit, and develop an effective method of implementation and the auditor, should use his or her professional judgment to assess audit risk , And design audit procedures to ensure that they have been reduced to an acceptable minimum level.

The essential features of the external auditor represented of independence, competence and professional experience, are closely linked to internal control, and this link is also direct.

With regard to the characteristics and character of independence, some organizations may be considered to have weak internal control if the external auditors are less independent. On the contrary, organizations With strict internal control may be considered if external auditors are fully independent, and this important element of independence is among the important indicators Which should be provided by the external auditor, and which would affect the enhancing of the internal control in the organization.(Zhang, 2007)

As for the competence and professional experience resulting from the external auditor's exercise of complex tasks, and in different organizations, in respect of his study and understanding of the activity of the institution and its environment, including internal control related to the financial statements, whether due to fraud or error, Evaluating external auditors

through their professional competence and experience helps them to improve their ability to assess the risk of fraud. External auditors with experience and high proficiency are more likely to be exposed to fraud risks than experienced external auditors. (Mohd-Sanusi, 2015)

Although effective internal control does not reduce the time and cost of external audit, it enhances the quality of audit by contributing to increased disclosure of core errors, as well as increasing the credibility of financial statements and information transparency.(Shanszadeh, 2015)

External audit plays an important role as a trusted guardian, he is a responsible for validating the reliability of the financial information issued by the organization to investors. (Maryam,2019)

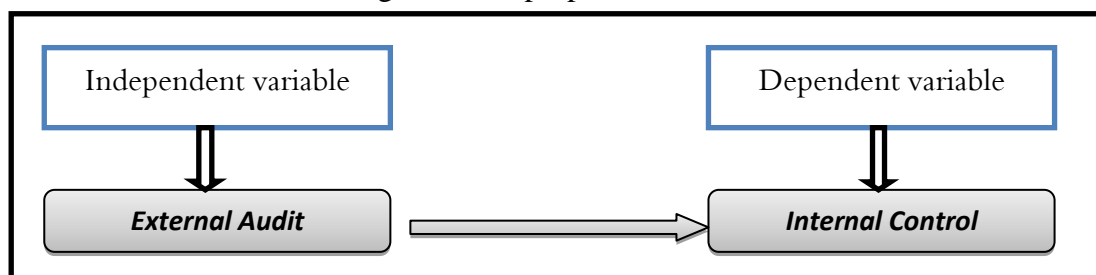
2. Methodology

This research was conducted by census. Data analysis methods to test the hypothesis was regression analysis using SPSS. The data is primary data collected through questionnaires. This study conducted the validity and reliability test before the hypothesis test.

2.1. Research model and hypothesis

the following figure 1 show the proposed research model included two variables, one is independent variable and the other is dependent variable

Figure 1. The proposed research model



Source: Prepared by researchers

This study aims to test the following hypothesis :

H_0 : There is no statistically significant impact at $(\alpha \leq 0.05)$ for the performance of External audit on Internal control in the Algerian economic organizations.

H_1 : There is statistically significant impact at $(\alpha \leq 0.05)$ for the performance of External audit on Internal control in the Algerian economic organizations.

2.2. Research Procedure

Several Algerian economic organizations were targeted, and then they focused on the financial organizations, both public and private, regardless of whether they are industrial, productive or service. As the internal audit unit is found by overwhelming majority in these organizations throughout the national territory, A simple questionnaire was distributed to 175 respondents, of which 135 were rejected and 35 were excluded due to lack of seriousness. The number of questionnaires valid for the analysis is 100, and the following table shows the statistics for the external auditors' questionnaire as follows:

Table 1: Statistics on the external auditors' questionnaire

Explanations	Frequency	Percentage
Distributed questionnaires	175	100%
Retrieved questionnaires	135	77.14 %
Unanswered questionnaires	40	22.86 %
Canceled questionnaires	35	20 %
Valid questionnaires	100	57.14 %

Source: Prepared by researchers based on responses from sample members.

In this table, we note that 100 valid questionnaires represent more than half of the estimated **57.14 %**. Therefore, the sample is representative of the total sample size.

3.2.1. Stability coefficient Alpha-Cronbach

A questionnaire contacting 35 items measuring the external audit performance on improving internal control system. These items were measured using 5 points from 1- strongly disagree to 5- strongly agree. To test the reliability, Cronbach's alpha was used in this study to test reliability and consistency of the scale. All items were above the cut-off (0.7) and ranged between 0.903 and 0.860 which means that the items being measured have adequate reliability (Sekaran & Bougie, 2009). The questionnaire items and reliability results can be shown in the following table.

Table 2: Stability coefficient Alpha-Cronbach

Statement	N°of Items	Alpha-Cronbach	Statement	N° of Items	Alpha-Cronbach
Axis 1	19	,903	Overall Study Survey	35	,894
Axis 2	16	,860			

Source: Prepared by researchers based on SPSS outputs.

The results show that the "alpha-cronbach" stability coefficient for the items of the form reached (89.4%) and is higher than the acceptable ratio (70%), indicating the internal consistency between the questions of the form directed to the external auditors and therefore the reliability of the results of the form and its credibility Stability and ability to achieve the objectives of the study.

3. Data Analysis

3.1 Demographic Analysis

Among the returned 100 questionnaires, there was (88%) male and (12%) female. The highest participation percentage (49%) was from the age group 51 years and above, while the lowest participation percentage (8%) was from those within the age group (21-30) years, Most of the employees are statutory auditor's (74 %). In addition, most of the respondents were those holding Bachelor degree (68%). As for the scientific specialization, the results in Table 3 show that the highest percentage (48%) was from specialization Accounting and, or Auditing. Table 3 provide a detailed description about the demographic characteristics of the respondents.

Table 3. Respondents demographic profile

Category	Frequency	Percentage %
Gender		
Male	88	88
Female	12	12
Employee Age		
21-30 years	8	8
31-40	30	30

41-50	13	13
51 years and above	49	49
Current Function		
Statutory Auditor's	74	74
Certified Public Accountant/ Statutory Auditor	26	26
Educational Level		
Bachelor Degree (BA)	68	68
Master	15	15
Phd	9	9
Professional Certificate	8	8
Scientific Specialization		
Accounting / Auditing	48	48
Financial Sciences	43	43
Others	9	9
Total	100	100

Source: Prepared by researchers based on SPSS outputs.

3.2 Descriptive Analysis

The average mean ranged from 1.43 to 2.89 which means that the respondents had positive response towards the constructs being measured. In addition, the standard deviation for the constructs were ranged between 0.63 and 1.11 which indicate a narrow spread around the mean. The results of the descriptive analysis can be shown in the following table.

Table 4. Mean and standard deviation

Statement	N°of Items	Mean	Standard Deviation
Axis 1	19	1.43-1.86	0.63-1.06
Axis 2	16	0.85-2.89	0.80-1.11

Source: Prepared by researchers based on SPSS outputs.

3.3 Hypothesis Testing

In order to test the hypothesis, the multiple regression method was used.

There is no statistically significant impact at ($\alpha \leq 0.05$) for the performance of External audit on Internal control in the Algerian economic organizations.

Table 5. H0 Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the estimate
1.	.257 ^a	.066	.056	5.61878
a. External Audit: (Constant)				

Source: Prepared by researchers based on SPSS outputs.

According to the multiple regression analysis tables above, the multiple correlation coefficient $R = 0.257$ indicates that there is a average positive correlation between External audit and internal control. This means that the independent variables and dependent variable change in the same direction. The results showed that the external audit accounted for 06.6% ($R^2=0.066$) of the variation in internal control and that (06.6%) of the variance in the internal control is significantly explained by the external audit . It also means that the average the external audit applicability, the average the applicability of internal control.

The adjusted $R^2 = 0.056$ detects the generalizability of the model. It allows generalizing the results taken from the sample to the whole external auditor's .It is noticed that the value of adjusted R^2 is very close to the value of R^2 . If the adjusted R^2 is excluded from R^2 ($0.066 - 0.056$), the value will be 0.01. This small value (0.01) indicates that if the model has been fitted when the whole external auditor's participates in the study, there will be 1 % less variance in the outcome.

Table 6. H0 ANOVA ^a test

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	123.897	1	123.897	6.916	0.010 ^b
Residual	1755.543	98	17.914		
Total	1879.440	99			
a. Dependent Variable: External Audit					
b.Independent Variables (Constant) : Internal Control					

Source: Prepared by researchers based on SPSS outputs.

According to the ANOVA table, the calculated F-ratio is 6.916, and the statistical significance level is 0.010, there is a statistically significant impact of external audit on internal control. Thus, the null hypothesis will be rejected and the alternative hypothesis is substantiated, which means that there is a statistically significant effect for external audit on the internal control as a dependent variable.

Table 7. H0 T-Test

Model	Regression Rate	Std.Error	Beta (β)	T-Test	Sig.
Constant (α_0)	12.103	1.483	0.257	8.163	0.000
External Audit Performance(α_1)	0.174	0.066		2.630	0.010

Source: Prepared by researchers based on SPSS outputs.

For the performance of the external audit, the value of the T-Test is 2.630 with an indication level (Sig = 0.010) which is less than 5%, and we reject the null hypothesis that the parameter (a_1) is not significant ($a_1 = 0$), the alternative hypothesis is accepted that ($a_1 \neq 0$). For the constant (a_0), the value of the T-Test is 8.163 with an indication level (Sig = 0.000) which is less than 5% and we reject the null hypothesis that the parameter (a_0) is not significant ($a_0 = 0$). The alternative hypothesis is accepted that ($a_0 \neq 0$);

Thus, the mathematical model that shows the impact of external audit performance on internal control can be reached in the following mathematical formula:

$$y_i = a_0 + a_1x_i + \varepsilon_i$$

Where:

y_i : Dependent Variable (Internal Control);

x_i : Independent Variable (External Audit Performance);

a_0 : The Regression Constant is equal to 12.103;

a_1 : the Regression Coefficient is 0.174 and represents the slope of the straight line;

ε_i : Random Variable.

To compensate for the values obtained from the table, we obtain the equation from the following mathematical formula:

$$y_i = 12.103 + 0.174 * x_i + e_i$$

$$\text{Internal control} = 12.103 + 0.174 (\text{External Audit Performance}) + e_i$$

In the sense that each increase or improvement in external audit performance by 0.174 improves the internal control of one unit at the field level.

Conclusion and Recommendations

The external auditing represents the process done by legally authorized people, through which the information related to a certain organization is analyzed and evaluated, in a professional manner, using specific techniques and procedures, in order to obtain evidence which will be used to formulate a responsible and independent opinion, by using well established criteria.

External auditors are the link between the organization's management and stakeholders (shareholders, creditors, managers, employees, authorities, business environment) because the reports compiled by the auditors offer some guarantees about the information given in the financial statements. Accordingly, the stakeholders can take the best decision.

The external audit has as main objective the limitation of risks, blocking the appearance of new errors in the activity of organizations, being necessary the implementation of system management and internal control, elaboration of clear procedures for all activities conducted inside the organizations, as well as identifying and managing risks.

This study found that the external auditing of economic organizations in Algeria has a favorable situation. Means that economic enterprises in Algeria established effective external auditing, they use the external audit to review and control their activities, and also Auditing measured the management performance according to control system. The suggestion of the researcher for economic organizations is that they sustain the control system if organizations are seeking to survive and to be successful.

This study found a positive moderate correlation between external auditing practices and internal control system. From the above findings, it is clear that the external audit of the

organizations has significantly influence on the internal control in economic organizations in Algeria.

Based on the findings, we can propose some recommendations that may contribute to enhancing the internal control resulting from the good performance level provided by the external auditors in the economic organizations:

- Increase the degree of interest in the external audit profession and give it full authority to enable it to carry out the functions and functions bestowed upon it;
- Conducting continuous training of external auditors to raise their level and qualifications with regard to international standards auditing of external audit.

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