



*Statutory Audit Accounting Information Reliability Guarantor*

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**Summary:**

This article focuses on a bibliographical version, which revives the concept of audit from its definition, history and role in economic development.

In addition, it deals with the role of the auditor and the reform of state accounting as well as the standards, which were adopted by Algeria and inspired by the International Accounting Reference System. This article covers the constraints encountered by the auditor as well as the alternatives proposed for optimizing its contribution to company boards of directors.

With regard to information asymmetry at the company level, the intervention of the auditor could mitigate the said asymmetry and contribute to resolving agency conflicts, considered a major obstacle to the development and sustainability of companies.

**Key words:** national accounting, auditor, information asymmetry, companies, Algeria

**Codes Jel :** G30, G32, M4

**Introduction:**

Accounting is one of applied economics branches that focuses on presenting different activities and companies' outcomes in financial information.

Many economists agree that any development based on economic liberalization and openness to international markets should create a need for transparency in companies' financial statements. The transparency of financial information is a major problem in various economies, regardless their institutions. In order to protect this information, a liberal profession is established, which is statutory audit. This is how the profession of a statutory auditor has become a guarantor of financial information and a crucial element of sustainable development. In fact, faithfulness in financial information ensures the investor and is essential for the growth.

Based on Humphrey<sup>1</sup> and Power's<sup>2</sup> definition we can state that auditing can be considered as a social mechanism, a reliable producer, which means that there is a processor designed to acknowledge the credibility of the information mentioned in the company's financial statement. Thus, statutory auditors play a crucial role in maintaining trust within the business ecosystem. The assigned legal control mission focuses on preventing and combatting corruption<sup>3</sup> along with addressing the asymmetry of information among stakeholders in companies particularly minimizing agency costs.

According to Stieglitz<sup>4</sup> a distorted information caused by accounting manipulations is considered as the trigger of its collapse. Therefore, the more the company places on the auditor's remarks and orientations the more seeks a qualified legal audit.

**Definition:**

The audit is defined as examination carried out by a qualified and independent professional in order to express a rational opinion on the information regularity and sincerity. It is also the examination carried out by an independent professional of financial information comes from for - profit or nonprofit entity regardless its size or legal form<sup>5</sup>. Hence, audit includes all the procedures and techniques of the control that

forms the in-depth examination made by a professional and based on methodology. Therefore, the opinion is the control result or the main aim of audit. Indeed, the auditor expresses his opinion on the transmitted information provided by a company, aligning it with accounting principles and audit acknowledge standards.

According to *Larousse* Dictionary, “auditor” is a person who listens to “a speech, a radio broadcast or a lecture”. The dictionary specifies that in law field, an auditor is a magistrate responsible for preparing the decisions to be taken by his or her superiors in some jurisdictions (Council of state, Courts of audit); regarding justice auditor, he designates ‘the future judge’

## History

In ancient Babylon, the code of Hammurabi defined commercial and social laws. It also mentioned the obligation to use an accounting plan and imposed specific presentation standards to ensure that financial information and communication are reliable.

In the 3rd century BC, Roman governors designated quaestors to oversee the accounts of various provinces. These officials would verbally present their task to an assembly of auditors, marking the inception of the term "audit." The term is derived from the Latin word "AUDIRE," which means "to listen."

In the USA, starting from 1900, American bankers required their clients to have their balance sheets certified. In 1930, the New York Stock Exchange created the Securities and Exchange Commission (SEC), which required audits of every company listed on the stock exchange. Further, in France, the law of July 24, 1867 on public limited companies established a legal audit of accounts, the origin of the current audit office.

In 1935, the responsibilities of auditors were expended. They were required to unveil any criminal activities they became aware of to the public prosecutor.

In 1939, the McKesson and Robbins scandal, stemming from false balance sheet presentations, led to the publication of a document relating to the expansion of audit

procedures. In the post-war period, the need to boost the financial market to support economic expansion resulted in a significant reform of the audit profession.

The new auditing profession gained momentum with the issuance of Decree Number 69-810 on August 12, 1969. Which was implemented in accordance with the law of July 24, 1966, concerning commercial companies.

In the recent time, the Sarbanes-Oxley<sup>6</sup> law (SOX) in the United States and the financial security law in France (August 1, 2003) were the consequences of the financial scandals that rocked the United States and Europe in 2001 and 2002. As a result, following these events, several measures were adopted to strengthen the regulatory and legal arsenal of legal controls.

In Algeria, the accounting profession, governed by Ordinance Number 71-72 of December 29, 1971, established the Higher Council of Accounting, placed under the supervision of the Ministry of Finance. As part of the economic reforms launched since 1988, the accounting profession benefited from a new reorganization instituted by Law Number 91-08 on April 27, 1991, which granted total autonomy to the accounting profession. This autonomy was achieved through, in particular, the creation of a national order bringing together the three professional bodies.

It should be noted that the reform of accounting and auditing is part of the NEPAD<sup>8</sup> declaration by which the heads of state of African Unity, including Algeria, showed their desire to adopt for their countries respective international benchmarks, considered as a minimum requirement, convinced that the codes and standards are likely to promote market efficiency, combat waste, consolidate democracy and promote private financial flows. Therefore, Algeria has embarked on a vast program of reform of corporate and State accounting, with respectively the Financial Accounting System<sup>9</sup> inspired by the International Financial Accounting Standard IAS-IFRS and the implementation in parallel to an adaptation of IPSAS Standards.

This accounting reform was followed by a restructuring of accounting<sup>10</sup> professionals, and on October 22, 2010, members of the National Accounting Council were installed.

### **The mission of the auditor**

Law Number. 10-01 and the related texts provide the auditor with a monitoring and alert role in the event likely to compromise the continuity of operations<sup>11</sup> that he or she may have noticed during his mission<sup>12</sup>.

Statutory auditor must report to the managers and the general meeting or to the authorized deliberative body, any insufficiency likely to compromise the continuity of operation of the company of which it may have become aware, such as the loss of  $\frac{3}{4}$  of its social capital, when an irrational and abusive use of resources is noted or the cash flow shows a compromising imbalance

Additionally, in accordance with the law number 05 - 01<sup>13</sup> and ordinance number 12-2<sup>14</sup>, the audits must be committed to combat money laundering and terrorist financing.

In the interim audit report, the auditor must advise the company management regarding its organization seeking to enhance internal control and avoid the occurrence of fraud and mistakes as much as possible.

Conclusively, during certain company operations (such as adjusting or transforming the legal nature of the company, adjusting and/or opening capital, adjusting the corporate purpose, or altering the legal status of the company), the auditor intervenes in a specific and timely manner by preparing a special report.

The statutory auditor practises a regulated liberal profession and reports to the National Chamber of Statutory Auditors<sup>15</sup>, governed by Law Number 10-01 and decree Number 11-26, which establishes his composition, attributions and the rules of his operation. It brings together all regularly registered professionals.

The auditor is appointed according to the chapter number 600 and 609 of the commercial code for a mandate of three years (03) renewable once. The designation is governed by executive decree Number. 11-32<sup>16</sup>. As part of the mission, the auditor seeks to ensure that existing procedures minimize the risks of any mistake and fraud and produce financial and accounting reflecting the faithful image of the assets and financial situation and the results at deadline.

The appointment of statutory auditors follows the executive<sup>17</sup> decree mentioned earlier, which outlines the procedures for these appointments based on specifications formalized and standardized by the National Chamber of Statutory Auditors and the standardization committee of the National Accounting Council.

Within a deadline of one month after the end of the last financial year of the auditor's mandate, the board of directors, management board, manager, or authorized body are required to prepare specifications<sup>18</sup> anticipating the appointment by the general assembly of one or more statutory auditors.

### **The Auditor and the asymmetry of information**

After a series of crises and financial scandals in both Europe and the United States, statutory audit has become to the realm of law, because this change was necessary to protect investors and rebuild their trust. The restoration of confidence involved the implementation of legal scrutiny over financial accounts, carried out by members of an independent professional body.

In Algeria, the reform of the national economy that aims to giving to the financial and accounting information all its importance has imposed the auditor's office as guardian of legality and guarantor of the reliability and sincerity of this information. To this end, Article 10 bis of the Commercial Code (Ordinance 96-27 of December 9<sup>th</sup>, 1996) requires commercial legal entities to "proceed or have carried out the verification and certification of their accounts and balance sheets according to the legal requirements"; the same applies for local and economic public companies<sup>19</sup>.

Regarding to information asymmetry, unlike shareholders, managers have access to full accounting and financial information (financial statements, management reports, internal audit reports, etc.). The asymmetry in the distribution of information associated with differences of interests causes the “agency problem.” The harmful effects of full asymmetric information were first demonstrated by Akerlof (1970). Therefore, engaging an external auditor in the services is economically beneficial, especially in the absence of regulatory factors. They play a vital role in reducing informational asymmetry, minimizing what is referred to as the 'residual loss'—the implicit portion of agency costs resulting from the opportunistic behaviour of managers (Jensen and Meckling, 1976). On the other hand, according to Pigé (1998, 2000), there is an information asymmetry between directors and shareholders concerns the financial statements. In light of this, the certification from auditors is seen as a mean to provide a reasonable level of assurance regarding the reliability of the information presented in the financial statements.

There is a certain asymmetry of information between the shareholders who delegate the responsibility to manage the company to managers. Therefore, the intervention of an auditor is introduced as a measure to alleviate asymmetry and contribute to resolving the Agency conflicts, considered as a major obstacle to the development and the sustainability of businesses.

The repressive role, through the obligation to reveal to the public prosecutor, which weighs heavily on the auditor finds its source in article 830 of the commercial code which punishes with incarceration and/or any auditor who knowingly has, given or confirmed false information about the situation of the company or who has not revealed to the public prosecutor the criminal acts of which he becomes aware of such activities. In addition, failure to comply with this obligation involves disciplinary sanctions, which include receiving a warning, reprimand, temporary suspension, for a maximum period of six (6) months and removal from the roll.

## The independence of the statutory auditor

Auditor's independence is a rising concern since the scandalous affairs of Enron, Wordlcom, etc. As Fortin and Martel (1997) pointed out that it is accepted that the auditor, in his function of certifying financial statements, must act according to the interests, often contradictory, of various groups of users (creditors, shareholders or regulatory agencies). When preparing his report, the auditor must provide investor with enough information to evaluate risks and potential gains, make a judgment on the relevance of the information to be disclosed, and take account of the public interest.

laws, regulations and professional ethics mandate auditors to be independent. Therefore, the auditors must maintain a mindset that enables them to carry out their tasks with integrity and objectivity. They should also be free from any relationships that could be perceived as hindering their integrity and objectivity. Hence, the auditor's competence is crucial condition for their independence. To make informed decisions about material, moral, and intellectual independence, the auditor must possess the competence to thoroughly understand all aspects of their audit work. Technical control is essential to enable forming an opinion on the accounts. It emphasizes that competence and independence are interconnected variables, and sometimes they may even oppose. Thus, achieving a balance is a crucial to ensure and enhance the quality if the audit It follows that independence, objectivity, ethics, and professionalism are fundamental elements in guaranteeing and improving the quality of legal auditing.

unfortunately, since the enactment of Law 01-10, certain specifications in calls for tenders or consultations to appoint auditors include titles or diplomas unrelated to the legal control mission. This paradoxical inclusion aims to compromise fair competition. The introduction of additional requirements or distinctive criteria likely leads to biased or skewed choices. Adding salt to injury, the actions of defining the audit program, setting the mission schedule, and engaging in an auction of fees all contribute to harming the independence of the statutory auditor. Indeed, unfair competition and offering services at very low prices promote mediocrity and harm the integrity of competent professionals.



To sum up, a higher degree of independence among auditors and members of the board of directors leads to more effective and higher-quality auditing processes.

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<sup>1</sup> Humphrey, 1997

<sup>1</sup> Power, 1997

<sup>1</sup> Loi de 2006 sur la répression de la fraude

<sup>1</sup> Stiglitz J E., 2003, «Quant le capitalisme perd la tête », FAYARD, p. 56

<sup>1</sup> I. F. A. (Institut Française d'Audit)

<sup>1</sup> Le Sarbanes-Oxley Act, dit SOX du 30/07/2001

<sup>1</sup> Enron, Pramalal, Vivendis, Wodlldcom, Global Crossing, Qwest, Tyco

<sup>1</sup> Déclaration du NEPAD du 08/07/2001

<sup>1</sup> SCF 2007

<sup>1</sup> Loi 10-01 du 29 juin 2010, relative aux professions d'expert-comptable, de commissaire aux comptes et de comptable agréé)

<sup>1</sup> Arrêté du 24 juin 2013 fixant le contenu des normes des rapports du commissaire aux comptes (point 8.3)

<sup>1</sup> Articles l'article 715 bis 4 et 715 bis 13 du code de commerce.

<sup>13</sup> Loi relative à la lutte contre le blanchiment d'argent et le financement du terrorisme

<sup>14</sup> Loi n° 05-01 du 06 février 2005 relative à la prévention et la lutte contre le blanchiment d'argent et le financement du terrorisme

<sup>15</sup> Loi relative à la lutte contre le blanchiment d'argent et le financement du terrorisme

<sup>16</sup> Ordonnance n° 12-02 du 13 février 2012 modifiant et complétant la loi n°05-01 du 06 février 2005.

<sup>17</sup> [loi n° 10-01 du 29 Juin 2010](#)

<sup>18</sup> Décret exécutif n°11-26 du 27/01/2011

<sup>19</sup> Décret exécutif n° 11-32 du 27 janvier 2011 relatif à la [désignation des commissaires aux comptes](#).

<sup>20</sup> Décret législatif n° 93-08 du 25 avril 1993

<sup>21</sup> Cahier des charges.

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- Loi n° 10-01 du 29 juin 2010 relative aux professions d'expert-comptable, de commissaire aux comptes et de comptable agréé ;
- Décret exécutif n° 11-26 du 27 janvier 2011 fixant la composition, les attributions et les règles de fonctionnement du conseil national de la chambre nationale des commissaires aux comptes ;
- Décret exécutif n° 11-24 du 27 janvier 2011, fixant la composition, l'organisation et les règles de fonctionnement du conseil national de la comptabilité ;
- Décret exécutif n° 11-28 du 27 janvier 2011 fixant la composition et les attributions de la commission ad hoc chargée de l'organisation des élections des conseils nationaux de l'ordre national des experts comptables, de la chambre nationale des commissaires aux comptes et de l'organisation nationale des comptables agréés ;
- Décret exécutif n° 11-29 du 27 janvier 2011 fixant le rang et les attributions des représentants du ministre chargé des finances au sein des conseils nationaux de l'ordre national des experts comptables, de la chambre nationale des commissaires aux comptes et de l'organisation nationale des comptables agréés ;
- Décret exécutif n° 2011-30 du 27 janvier 2011 fixant les conditions et modalités d'agrément pour l'exercice de la profession d'expert-comptable, de commissaire aux comptes et de comptable agréé (JORA N° 7 du 20/02/2011) ;
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- Décision n°150 du 11 octobre 2016 de Monsieur le Ministre des Finances, portant Normes Algériennes d'Audit (NAA 300 - 500 - 510 - 700) du 02/11/2016 ;
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### **Legal missions as defined in the law.**

- - Certify that the annual financial statements present fairly the results of operations for the year just ended and of the financial position and assets of the companies and organizations,

- - Reviewing the information contained in the management report provided by senior management to shareholders, partners or unitholders, for fair presentation and consistency with the financial statements;
- - Provide an opinion, in the form of a special report, on the internal control procedures adopted by the Board of Directors, the Executive Board or the Managing Director,
- - Evaluate the conditions under which agreements are concluded between the controlled company and affiliated companies or organizations, or with companies or organizations in which the directors and officers have a direct or indirect interest;
- - Report any shortcomings of which it may become aware that could jeopardize the company's ability to continue as a going concern, to management and to the shareholders' meeting or authorized decision-making body.
- Signaler, aux dirigeants et à l'assemblée générale ou à l'organe délibérant habilité, toute insuffisance de nature à compromettre la continuité d'exploitation de l'entreprise ou de l'organisme et dont il a pu avoir connaissance.