

An analysis of the impact of internal audit on banking governance in Algeria

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Abstract---This study examines the impact of internal audit on banking governance in Algeria using a quantitative approach based on a survey of 102 banking executives and structural equation modeling. The findings reveal that internal audit significantly enhances governance mechanisms by reducing information asymmetry, strengthening internal control systems, improving risk management, and supporting the balance of power among stakeholders. These results emphasize the strategic importance of internal audit as a governance tool in the banking sector. Practical recommendations include reinforcing auditor training and increasing top management support to optimize audit effectiveness.

Keywords---Internal audit, Banking governance, Information asymmetry, Risk management, Internal control.
Jel Classification Codes: G21, G34, M42

1. INTRODUCTION

Corporate governance is a dynamic and multifaceted field that has undergone significant developments over recent decades, both in academic literature and in empirical studies. Internal audit is a mechanism of undeniable importance in the governance process. Consequently, given the role of this function in the effectiveness of the governance system, we have examined the subject through our study entitled: 'An Analysis of the Impact of Internal Audit on Banking governance in Algeria'

Research Question

In the banking sector, Banking governance is emerging as an increasingly important issue because, just like any business, banks are becoming more commercial, competitive and focused on growth and profitability. However, due to the nature of their activities, banks face risks that can lead to financial losses or penalties for non-compliance with Prudential regulations or legislative requirements. This is

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where a crucial element of good governance comes into play: ensuring that senior management and supervisory bodies work to reduce operational risk and compliance risk – in other words, to reduce exposure to risk;

From this perspective, internal audit appears to be a key factor in resolving these conflicts of interest by ensuring that the financial information disclosed provides a true and fair view.

In this context, the research question is formulated as follows: How can the internal audit function contribute to improving corporate governance in Algerian banks?

Hypotheses:

In response to our research question, we have formulated the main hypothesis as follows: “Internal audit, as a tool for governance, is expected to have a positive impact on improving Banking governance in Algeria.”

The underlying hypotheses relevant to our research question are as follows:

H 01: Internal audit exerts a positive influence on Banking governance through its role in reducing Information asymmetry.

H 02: The internal audit function contributes to the balance of power and the protection of the interests of all the bank’s stakeholders.

H 03: Effective internal control improves internal oversight and limits opportunistic behavior by bank staff at all levels.

H 04: Internal audit exerts a positive influence through its role in the bank’s risk management.

2. Theoretical foundations of the research

2.1. Definition of the concept of ‘Internal audit’

The concept of auditing is a long-standing one, the original purpose of which was to verify and safeguard financial statements. This is why the audit function was long associated with the Court of Auditors; as (Mikol, 2000) put it: “it is an accounting verification task”. However, internal audit has developed and matured significantly. It is now regarded as synonymous with objectivity and efficiency, and as a tool to aid decision-making, thanks to the recommendations it provides.

The French Institute of Audit and Internal Control defines audit as “an independent and objective activity that provides an organisation with assurance regarding the degree of control over its operations, offers advice on how to improve them, and contributes to creating value. It helps the organisation achieve its objectives by systematically and methodically evaluating its risk management, internal control and corporate governance processes, and by making proposals to enhance their effectiveness”.

Whereas the primary mission of Internal audit is to enhance and safeguard the organisation’s value by providing objective assurance, advice and guidance based on a risk-based approach.

2.2. Definition of the concept of ‘Corporate governance’

The extensive media coverage of corporate governance might suggest that it is merely a passing fad; however, its origins date back to the separation of ownership and power in companies, formerly known as firms. As early as the late 17th century, Adam Smith had already observed that the extreme dispersion of capital undermines a company’s economic performance and that non-owner managers are less effective than those who manage their own businesses.

The issue of governance is often explained by the challenges posed by the separation of capital and control. It explains the nature of the relationship between the various stakeholders, particularly managers and shareholders; this determines the firm’s ability to create value and thus constitutes a key driver of its growth (CABY, 2013)

The concept of governance has given rise to several definitions; we shall retain the most well-known one proposed by (BOUAISS, 2009, pp. 93–126), according to which Corporate governance is ‘the set

of organisational mechanisms that serve to delimit the powers and influence the decisions of managers, in other words, that govern their discretionary power?

According to the Institute of Internal Auditors (IIA), corporate governance is defined as “the combination of processes and structures implemented by the board of directors to inform, direct and oversee the organisation’s activities with a view to achieving its objectives” (IIA, 2009).

Corporate governance therefore refers to the set of rules and systems governing the relationship, on the one hand, between shareholders and managers; and on the other hand, between shareholders and other Stakeholders, the aim of which is to protect the interests of these various parties.

2.3. Banking governance:

The banking sector is subject to both internal and external constraints relating to the direction of its activities and the inherent risks. Consequently, banks establish internal and external mechanisms to monitor and control management’s activities in order to better guide and incentivise their behaviour.

These mechanisms consist of measures imposed by internal regulations (Internal control, External audit, charters and articles of association, etc.) and external regulations (Basel II, IAS/IFRS standards – such as rules on financial reporting transparency: banking law, financial markets, etc.) Indeed, Banking governance contributes to the creation of a climate that fosters internal and external communication, is stable through the adoption of Prudential regulations, and inspires confidence on both sides of the balance sheet: lenders (savers) and borrowers (credit applicants).

The characteristics of Banking governance:

Comprehensiveness: Banking governance extends to defending the interests of all stakeholders, whereas in a company it is limited to protecting the interests of shareholders;

High regulation: intervention by the state or another regulatory authority helps to partially resolve agency problems by reducing information asymmetry;

Opacity: This is linked to high exposure to risks and the difficulties in measuring performance.

2.4. The relationship between Internal audit and Corporate governance

Corporate governance is built on a school of thought that developed in the United States, Japan and Europe in response to a series of scandals. The most flagrant breaches of good governance first involved Enron in November 2001, followed by Andersen in January 2002; then WorldCom in March 2002; Vivendi in July 2002; Global Crossing in January 2003; and Elf and Crédit Lyonnais in 2004. All went bankrupt, with the sole charge being ‘ineffectiveness of internal control systems’, which led legislators in the affected countries to introduce legislation.

Furthermore, the requirements of the Sarbanes-Oxley Act (SOX) of July 2002 in the United States and the Financial Security Act (LSF) of 1 August 2003 in France regarding internal control have reinforced the contribution of internal audit to improving corporate governance. This is due to its involvement in the process of preparing and producing the internal control report (Mandzila E. E., 2015)

3. Research methods and tools:

To carry out our study, and with the aim of providing answers to our initial research question, we have opted for a methodology based on several sources, enabling us to combine a wealth of documentary evidence with scientific rigour: documentary research, official documents (laws, decrees, regulations, public contracts), banks’ annual reports, specialist journals, questionnaires, interviews and direct observation.

3.1. Operationalisation of variables

In this section, we will present in greater detail the various variables included in our study. To measure these variables, we used a 4-point Likert scale ranging from ‘Strongly disagree’ to ‘Strongly agree’.

3.1.1. The dependent variable

Internal audit: Internal audit plays a key role in management as it provides an assessment of the reliability of financial information, which improves the efficiency of resource allocation by reducing risk.

3.1.2. The independent variables

a. Reduction of information asymmetry:

Information asymmetry in banking manifests itself at several levels given the number of stakeholders involved; directors can only fulfil their role as overseers of managerial action effectively if they have access to a range of information. However, not only do they not receive enough information, but the information provided to them is sometimes irrelevant.

a. Risk management

The impact of internal audit on corporate governance can be assessed through its relationship with risk management. Like internal audit, Risk management is positioned at a high hierarchical level to preserve its independence; where it exists within the organisation, it is carried out by a specialist in the field: a risk manager.

c. Assessment of the internal control system

Among the main regulatory obligations for banks is the establishment of an effective internal control system. This system is defined as the control framework comprising a set of mechanisms designed and implemented by the management body and approved by the board of directors with a view to ensuring, on an ongoing basis, in particular:

- The verification of internal operations and procedures;
- The measurement, management, and monitoring of risks;
- The effectiveness of internal channels for the circulation of documentation and information, as well as their dissemination to third parties.

d. Balance of power:

A good balance (separation of duties, independence of the board, oversight of senior management) **promotes the effectiveness of internal audit.**

This balance guarantees greater autonomy, resources and objectivity for the audit function, which improves the quality of its work.

Conversely, a balance of power limits the internal audit independence and reduces its impact on governance.

3.2. Questionnaire

The most appropriate data collection method for our study is a survey questionnaire targeting senior managers at public and private banks operating in Algeria. The questionnaire was administered via an online survey using Google Forms on the social media platform 'LinkedIn', with validation checks applied to all questions to ensure only complete responses were collected. The questionnaire was administered between January and May 2023. Preliminary analyses enabled us to ensure there were no missing values and no severe non-normality issues, as indicated by the Skewness coefficient (which must be between -2 and +2) and the Aplatissement coefficient (which must be between -7 and +7). After eliminating invalid responses, we were left with 102 usable responses.

4. Preliminary analysis:

4.1. External validity of the questionnaire

Before proceeding with data analysis, we will first calculate key indicators such as the response rate in order to provide a meaningful assessment of the volume of responses collected. In our case, we received 102 responses, representing a response rate of 68% out of 150 questionnaires sent out. This response rate is perfectly acceptable given that the questionnaire was sent to a population of overworked professionals, particularly as the sector limited the sample size, given the small number of internal auditors working in banks.

Table 1. Percentage of questionnaires distributed

Item	Questionnaire	
	Number	Percentage
Questionnaires distributed	150	100%
Unanswered questionnaires	14	9.33%
Discarded questionnaires	4	2.66%
Questionnaires received and valid	102	68%

Source: compiled by the author

4.1 Analysis of normal distribution:

The two main parameters used in this study are as follows: The Skewness coefficient and the Aplatissement coefficient are used to confirm the condition of normality of the distributions.

Table 2. Presentation of data normality

ConstRUucts	Item	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
Asymmetry	asymmetry1	1	5	3.41	1.180	-0.632	-0.290
	asymmetry2	1	5	3.42	1.246	-0.694	-0.474
	asymmetry3	1	5	3.54	1.224	-0.737	-0.373
	asymmetry4	1	5	3.52	1.183	-0.82	-0.033
	asymmetry5	1	5	3.45	1.131	-0.588	-0.422
Control	control1	1	5	3.51	0.962	-0.232	-0.331
	control2	1	5	3.76	1.007	-0.638	-0.134
	control3	1	5	2.97	1.278	-0.205	-0.998
	control4	1	5	3.08	1.240	-0.310	-0.904
	control5	2	5	4.34	0.711	-0.777	0.020
Risk	risk1	1	5	3.09	1.082	-0.274	-0.471
	risk2	1	5	3.04	1.151	-0.276	-0.750
	risk3	1	5	3.14	1.117	-0.363	-0.520
	risk4	1	5	3.20	1.161	-0.509	-0.369
	risk5	1	5	3.14	1.350	-0.329	-1.025
	risk6	1	5	3.49	1.241	-0.754	-0.371
	risk7	1	5	3.32	1.244	-0.515	-0.658
Balance	balanc1	1	5	3.62	1.108	-0.615	-0.271
	balanc2	1	5	3.43	1.165	-0.483	-0.638
	balanc3	1	5	3.75	1.050	-0.673	-0.123
	balanc4	1	5	3.59	1.111	-0.713	-0.136
	balanc5	1	5	3.47	1.256	-0.467	-0.789
	balanc6	1	5	3.63	1.107	-0.463	-0.659
Audit	audit1	1	5	3.40	1.204	-0.580	-0.457
	audit2	1	5	3.14	1.235	-0.299	-0.865
	audit3	1	5	2.88	1.261	-0.076	-1.007
	audit4	1	5	2.79	1.285	0.137	-0.976
	audit5	1	5	3.59	1.138	-0.778	0.029

Source: Prepared by the authors using SPSS

The results of the tests for normal distribution showed that all items follow a normal distribution. Indeed, for all items, the skewness coefficient lies between -2 and +2; similarly, for all items, the kurtosis coefficient lies between -7 and +7.

4.3 Validation of measurement instruments

We present the results of the tests carried out in the exploratory phase, followed by the confirmatory phase for each construct in our measurement model. An exploratory factor analysis was conducted to examine the factor structure of each construct. To this end, we followed the procedure recommended by (EVRARD, 2009)

Table 3. Summary of the exploratory analysis

Construct	Retained items	Factor loadings	KMO Index	Cronbach's Alpha
Asymmetry	asymmetry1	0.908	0.880	0.958
	asymmetry2	0.922		
	asymmetry3	0.941		
	asymmetry4	0.955		
	asymmetry5	0.901		
Control	control1	0.683	0.768	0.749
	control2	0.785		
	control3	0.718		
	control4	0.735		
	control5	0.736		
Risk	risk1	0.855	0.901	0.931
	risk2	0.872		
	risk3	0.927		
	risk4	0.826		
	risk5	0.876		
	risk6	0.794		
	risk7	0.734		
Balance	balance1	0.927	0.879	0.950
	balance2	0.904		
	balance3	0.939		
	balance4	0.877		
	balance5	0.865		
	balance6	0.889		
Audit	audit1	0.912	0.824	0.917
	audit2	0.938		
	audit3	0.916		
	audit4	0.711		
	audit5	0.860		

Source: Prepared by the authors using SPSS

Overall, the results are very satisfactory. The factor loadings for all items are high (generally above 0.7), indicating that latent variables such as asymmetry, control, risk, balance and audit are well represented. This confirms the convergent validity of the constructs.

Furthermore, the Kaiser-Meyer-Olkin indices are all above 0.7 (ranging from 0.768 to 0.901), indicating that the sample is suitable for factor analysis. In addition, the Cronbach's alpha coefficients are high (between 0.749 and 0.958), reflecting excellent internal reliability of the measurement scales.

These results therefore validate the methodological quality of the measurement instrument and allow us to conclude that the dimensions studied are relevant for analysing the role of internal audit in improving Banking governance mechanisms in Algeria.

5. Confirmatory factor analysis

All the scales in our questionnaire were retested to verify their internal consistency and structure. A confirmatory factor analysis was applied to all items of the variables in our model.

5.1 The asymmetry measurement scale

Joreskog's Rho coefficient is greater than 0.7; furthermore, it has convergent validity: the convergence Rho is greater than 0.5 (Hair, 2010). On this basis, we can state that the reliability of the asymmetry scale is confirmed.

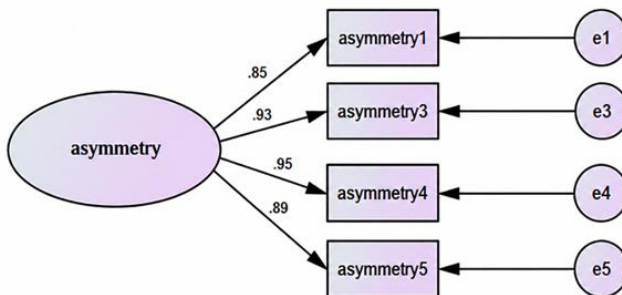


Fig.1. measure model of asymmetry

Source: prepared by AMOS

We have removed item 2

Table 4. Results of the reliability and validity tests for the asymmetry scale

Construct	Jöreskog's Rho Coefficient	Convergent Reliability Coefficient (Rho)
ASYMMETRY	0.950	0.826

Source: Prepared by the authors using AMOS software

5.1.1 The measurement scale of the test

Joreskog's Rho coefficient indicates good overall internal consistency of the scale. Furthermore, the convergent validity index is good, which supports the validity of the scale and confirms the results obtained.

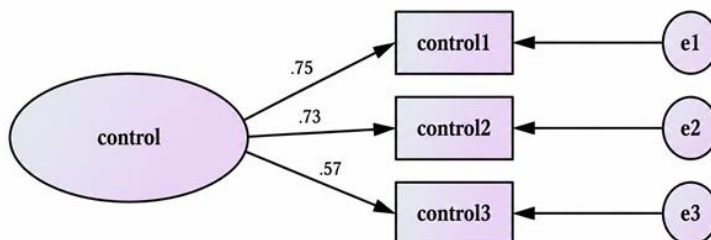


Fig.2. measure model of control

Source: prepared by AMOS

We have removed items 4 and 5

Table 5. Results of the reliability and validity tests for the control scale

Construct	Jöreskog's Rho Coefficient	Convergent Reliability Coefficient (Rho)
CONTROL	0.724	0.523

Source: Prepared by the authors using AMOS software

5.1.2 The risk measurement scale

We confirm the reliability of the risk variable scale, as the Joreskog Rho coefficient is greater than 0.7 and its convergent validity (convergence Rho) is equal to 0.5

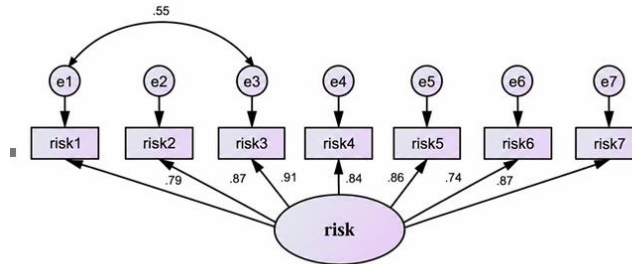


Fig.3. measure model of risk

Source: prepared by AMOS

Table 6. Results of the reliability and validity test of the risk scale

Construct	Jöreskog's Rho Coefficient	Convergent Reliability Coefficient (Rho)
RISK	0.931	0.662

Source: Prepared by the authors using AMOS software

5.1.3 The measurement scale for measuring balance of power

The assessment of the Joreskog Rho coefficients and the convergence Rho is entirely satisfactory; this confirms the reliability and convergent validity of the measurement instruments

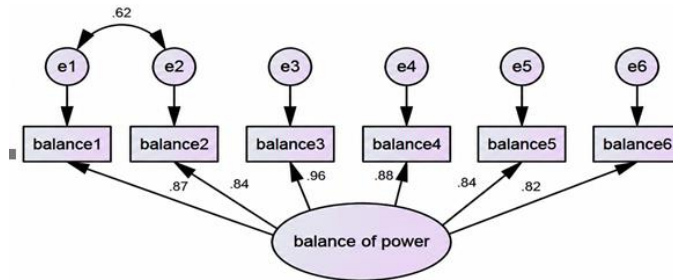


Fig.4. measure model of balance of power

Source: prepared by AMOS

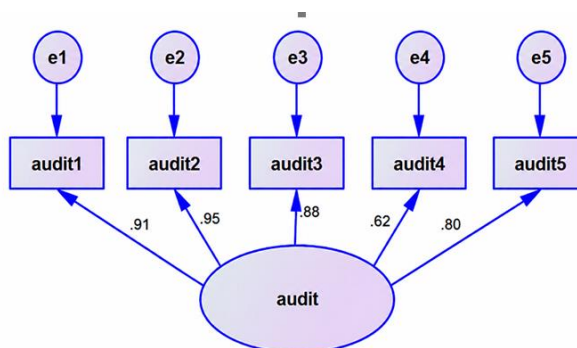
Table 7. Results of the reliability and validity test of the balance scale

Construct	Jöreskog's Rho Coefficient	Convergent Reliability Coefficient (Rho)
BALANCE	0.948	0.753

Source: Prepared by the authors using AMOS software

5.1.4 The measurement scale of the audit

Joreskog's Rho coefficient indicates good overall internal consistency of the scale. Furthermore, the convergent validity index is good, which supports the validity of the scale and confirms the results obtained.

**Fig.5.** measure model of the audit

Source: prepared by AMOS

Table 8. Results of the reliability and validity test of the audit scale

Construct	Jöreskog's Rho Coefficient	Convergent Reliability Coefficient (Rho)
AUDIT	0.922	0.707

Source: Prepared by the authors using AMOS software

We have removed the item 'balance 3'

5.2. Validation of the research model

In order to examine the measurement model and the structural model, the structural equation modelling method has been adopted. We estimate the parameters using maximum likelihood estimation (with Amos 24), working on the covariance matrix. Structural equation modeling allows for a better analysis of mediating variables by circumventing problems related to measurement error, multicollinearity and non-linear relationships (EVRARD, 2009). We estimated the overall measurement model in accordance with the recommendations of (Hair, Multivariate Data Analysis, 2010)

The table below summarises the results, indicating satisfactory discriminant and convergent validity for the constructs in our model. With the exception of the control variable, whose AVE is less than 0.5, this is due to the small number of items representing this variable (the variable is represented by only 3 items).

Table 9. Validation of measurement instruments

	CR	AVE	Audit	Asymmetry	Control	Risk	Balance
Audit	0.921	0.705	0.840				
Asymmetry	0.951	0.829	0.846	0.911			
Control	0.785	0.437	0.754	0.670	0.781		
Risk	0.929	0.655	0.844	0.814	0.693	0.889	
Balance	0.949	0.757	0.825	0.788	0.738	0.833	0.870

Source: Prepared by the authors using AMOS software

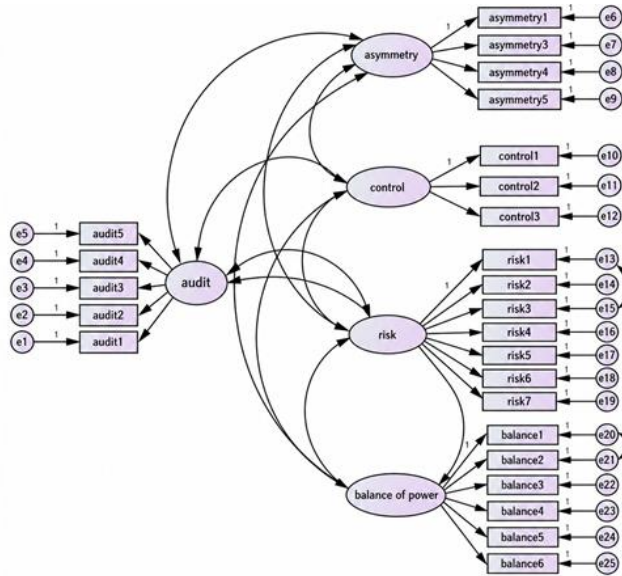


Fig.6. structure model of the research

Source: Prepared by the authors using AMOS software

Analysis of the variable correlation matrix shows that the coefficient values are below the suggested threshold of 0.50. Furthermore, the calculated VIF values for all variables fall within the range of 0.781 to 0.911. The impact of multicollinearity among the variables is therefore not a problem in the context of this research.

5.2.1. Fitting the structural model

Table 10. Model fit indices for the structural model

Index Type	Measure	Estimate	Threshold	Interpretation
Absolute indices	CMIN	498.495	--	--
	DF	240	--	--
	SRMR	0.058	< 0.08	Excellent
	RMSEA	0.06	< 0.06	Excellent
Incremental indices	CFI	0.901	> 0.90	Excellent
	TLI	0.911	> 0.90	Excellent
	NFI	0.945	> 0.90	Excellent
Parsimony index	CMIN/DF	2.077	Between 1 and 3	Excellent

Source: Prepared by the authors using AMOS software

In light of the results obtained, we conclude that the model fit is valid. On the one hand, we have incremental indices that comply with the standards indicated in the literature; on the other hand, the parsimony index is excellent (it lies between 1 and 3); and finally, the absolute indices are very satisfactory (RMSEA is less than 0.06 and SRMR is less than 0.08). Ultimately, based on the results obtained, we conclude that the fit of the final model is entirely satisfactory. The various model fit indices are in line with the thresholds recommended in the literature.

5.2.2 Testing of research hypotheses and discussion

In order to test our research hypotheses, which generally relate to cause-and-effect relationships between the model's variables, we applied regression analyses and structural equation methods.

Firstly, we will examine the following two tests:

- Critical Ratio (CR) test: this test is equivalent to Student's t-test; it allows us to examine whether there is a significant relationship between the explanatory variable and the dependent variable. Thus, a relationship is significant if the absolute value of the CR is greater than 1.96.
- Significance test: this test allows us to reject the null hypothesis, which states that there is no link between two variables. This test is significant if $p < 0.05$ (i.e. a 95% confidence interval).
- Regression coefficients (the factor weight of each variable): these allow us to assess the extent to which one explanatory variable influences another.

The hypotheses were formulated, on the one hand, to understand and study the effect of the internal audit function on Banking governance through Information asymmetry, internal control, Balance of power and risk management.

a. Hypothesis testing

Table 11. Hypothesis testing of the link between the internal audit function and Banking governance

Relationship	Regression Coefficient (Beta)	C.R.	P
Asymmetry ← Audit	0.880	13.019	***
Control ← Audit	0.314	4.265	***
Risk ← Audit	0.728	10.510	***
Balance ← Audit	0.740	10.586	***

(*** = 0.001)

Source: Prepared by the authors using AMOS software

An examination of the statistical significance tests (P) confirms the link between Banking governance, as represented by the variables (Asymmetry, Control, Risk and Balance), and auditing ($p < 0.005$ and $CR > 1.96$).

Hypothesis H1: Internal audit has a positive influence on Banking governance through its role in reducing information asymmetry.

We confirm that auditing has a positive effect on corporate governance through its role in reducing information asymmetry (Beta = 0.880 and $p < 0.01$); hypothesis H1 is therefore validated.

Hypothesis H2: Effective internal control improves internal control and limits opportunistic behavior among bank staff at their respective levels.

(Beta = 0.314, $p < 0.01$). Indeed, this confirms the existence of a positive link between internal control and opportunistic behavior among senior management. Hypothesis H2 is therefore validated.

Hypothesis H3: The internal audit function contributes to the balance of power and the protection of the interests of all the bank's stakeholders.

Audit has a positive influence on the balance of power (Beta = 0.728, $p < 0.01$). This demonstrates that the internal audit function in banks has a direct and positive effect on control. Hypothesis H3 is therefore validated.

H 04: Internal audit exerts a positive influence through its role in the bank's risk management.

Internal audit has a positive influence on the risk management function in banks (Beta = 0.740, $p < 0.01$). Hypothesis H4 is therefore confirmed.

b. Discussion of the study's findings:**Hypothesis 01: states that Internal audit has a positive influence on Banking governance through its role in reducing information asymmetry.**

H1: Indeed, information asymmetry between, on the one hand, senior management and, on the other, shareholders and their representatives (the directors) appears to be one of the primary causes of conflict within companies in general and banks in particular. According to a study conducted by the OECD and published in its report 'Internal Control and Audit', the role of internal audit in reducing information asymmetry involves the creation of an audit committee or its attachment to the board of directors. The audit committee therefore ensures the reliability of the internal audit report submitted to senior management; internal audit has thus become a key player in reducing information asymmetry. (Godowski, 2007) , in turn, noted that internal audit enables the organisation to take a stance on the quality of the information produced by the bank, which reflects the bank's image; in his view, this position allows it to address issues of information asymmetry between management and shareholders. Cabane (2013) also advances this line of thinking regarding the oversight of accounting practices and the bank's financial reporting process; according to his study, the Audit committee is viewed as an agency mechanism, that is to say, a potential mechanism for regulating information asymmetries between management and shareholders. (Klein, 2002, pp. 435–452) regards the Audit committee as a key element in the accountability process, particularly with regard to the control of financial information intended for stakeholders. (BOUSSAADA, 2012) concludes that high-quality auditing improves the quality of accounting information. These findings support our own, thus allowing us to validate hypothesis H1.

Hypothesis 02: Effective internal control improves internal control and limits opportunistic behavior by bank staff at their respective levels.

H2: According to (DeZoort, 2002, pp. 208–227), the Audit committee's responsibilities regarding Internal audit address the key concern of 'overseeing the reliability of the Internal control system'. According to (Bécour, 1996), internal control represents "a fundamental element, both in the assessment of the company, system, process or function subject to the audit, and in the choice of audit methodologies to be employed, since a failing internal control system forces the auditor to examine activities more thoroughly and poses a permanent risk to their performance, or even their appropriateness, even if this risk has not yet materialised". American studies aimed at describing the role of the Audit committee in the reliability of the Internal control system have been developed (Krishnan, 2009, pp. 115–144); (Zhang, 2007, pp. 300–327); This research highlights the independence and financial expertise of audit committee members as key factors in preventing internal control weaknesses

Hypothesis 03: The internal audit function contributes to the balance of power and the protection of the interests of all the bank's stakeholders.

H3: (Mandzila E. , 2015) states in his study that audit and internal control constitute mechanisms capable of limiting or even resolving conflicts within corporate governance, notably by ensuring the reliability of information and reducing information asymmetry, by establishing a Balance of power and by channelling the behaviour of stakeholders. Other empirical studies that have examined the contribution of internal control and audit to corporate governance in the light of agency theory and transaction costs regard internal control and audit as two mechanisms for regulating the behaviour of various stakeholders in their relations with the company. (Bouquin, 1997) In order to enable the board of directors to fulfil its management and control functions with a view to defending shareholders' interests, it has been recommended that specialised committees, including an Audit committee, be established to act as a counterbalance to management. (Charreaux, 2006) Internal control and audit,

through their procedures or simply by their existence (audit in particular), act as a deterrent against opportunistic behavior, and above all help to prevent conflicts or create structures to resolve them. The most interesting example concerns the role of Internal control and audit in limiting excessive remuneration and over-investment by senior management. The bank's interests must not remain confined to the narrow circle of its owners but must go beyond this stage to include those of the key players in its management and development, particularly its directors and executive teams. By integrating stakeholders into a 'win-win' relational dynamic through improved relations with its environment, the bank is sure to enhance its credibility and attractiveness, positively alter third parties' perceptions of it, and thus transform its environment favourably rather than merely enduring it.

Hypothesis 04: Internal audit exerts a positive influence through its role in the bank's risk management.

H4: The study by (Power, 1997) shows that audit is indeed a form of verification and risk reduction imposed when the two conditions of information asymmetry (moral hazard and adverse selection) are present. According to (Manita, 2008), it appears that directors are highly sensitive to the way in which the auditor communicates with the Audit committee regarding identified risks, the audit programmes put in place, and the results achieved at all stages of the audit process. It would also appear that Audit committee members consider an auditor who, when assessing audit risks and sensitive areas, takes into account the Audit committee's understanding and knowledge of the company's various systems and processes, as well as the results of its control work, to be a sign of the auditor's effectiveness and competence.

6. CONCLUSION

The aim of this research was to analyse the impact of internal control and internal audit on Banking governance, particularly in Algeria. The results show that internal audit is a key driver for improving governance, by reducing information asymmetry, strengthening Risk management and enhancing transparency. The study empirically confirms, through structural equation modeling, a positive and significant effect of internal audit on Banking governance (validation of hypotheses H1 to H4). Among its main contributions, the research highlights the role of the audit committee in improving financial information quality and in mitigating internal control failures. It also highlights the differences between public and private banks in terms of governance and audit practices. However, several limitations are noted, notably the exclusively quantitative approach, the small sample size, and the absence of certain important explanatory variables. Conceptually, the use of unidimensional scales limits the depth of the analysis. In terms of recommendations, it is essential to strengthen the internal audit independence, improve auditor training and consolidate support from top management. Finally, future research directions suggest incorporating qualitative approaches, extending the model to include new variables (organisational culture, reputation, auditor characteristics) and examining moderating variables such as gender or seniority.

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