

# Study of the Extent of the Impact of Internal Audit on Disclosure and Transparency in the Economic Institution

Analysis of the opinions of a sample of internal auditors in Algeria

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## Abstract:

This study aims to determine the extent to which internal audit principles contribute to enhancing disclosure and transparency of financial information and data. In order to address the basic problem of the study, a questionnaire was prepared and distributed to the study sample with the aim of measuring the extent of internal auditors' commitment and respect for internal audit principles and the availability of disclosure and transparency elements. The relationship between the pillars of internal audit as an independent variable and the principles of disclosure and transparency was also determined, as the study found a statistically significant relationship between the various variables.

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## 1. Introduction:

Internal auditing occupies an important position in the organizational pyramid of the economic institution, due to the role it plays as a completely independent interest, which has contributed to increasing demand for the various services it provides, especially with the emergence of joint-stock companies and the separation of ownership from management, as internal auditing is considered an evaluation activity for the various operations within the institution, which required organizing the internal auditing profession and paying attention to it, similar to the American Institute of Internal Auditors, which paid attention to the auditing profession.

Internal audit contributes to enhancing control over the extent of policy implementation within the economic institution, as independence and objectivity are among the most important pillars that contribute to achieving integrity in the internal audit process, especially with regard to the efficiency of preparing and evaluating the internal control system and collecting evidence and indications related to the various activities carried out by the institution. The internal audit function also contributes to reducing the spread of scandals and financial corruption through a

## **Study of the Extent of the Impact of Internal Audit on Disclosure and Transparency in the Economic Institution**

set of mechanisms on which it is based in order to contribute to performing the control function within the institution. Given the basic functions of management in the institution, which are planning, organizing, and directing, it is necessary to have people who have the quality of independence and objectivity in judging the various operations carried out by the institution, as it is necessary to assign an independent and qualified person to carry out the examination and data analysis processes. Through the above, the following problem can be raised: To what extent do independence and objectivity contribute to enhancing disclosure and transparency in the economic institution ?

- In order to simplify the main problem of the research, it was divided into a set of sub-questions as follows:
- How do independence and objectivity contribute to the implementation of the audit mission?
- To what extent does the internal auditor adhere to internal audit standards?
- How do the pillars of internal audit affect disclosure and transparency?

### **1.1 Study hypotheses:**

Based on the sub-questions that were previously raised, a set of the following hypotheses can be raised:

- There is a statistically significant relationship between the skill and necessary professional care and transparency and disclosure at a significance level of 0.05
- There is a statistically significant relationship between the independence and objectivity of the internal audit function and transparency and disclosure at a significance level of 0.05
- There is a statistically significant relationship between the internal audit charter and transparency and disclosure at a significance level of 0.05

### **1.2 Study objectives**

This research mainly seeks to achieve a set of objectives:

- Determine the role of internal audit as a basic function in the economic institution and its role in activating corporate governance;
- Study the extent of the impact of corporate governance on the performance of the economic institution;
- Studying the extent of adoption of corporate governance by Algerian institutions by studying the opinions of a sample of internal auditors and analyzing the impact of adopting governance principles on the institution's performance by attempting to build a balanced scorecard that combines various performance measurement criteria;

## **2 Theoretical Framework**

Auditing is an organized and systematic process of collecting and evaluating evidence and clues, objectively, related to the results of economic activities and events, in order to determine the extent of compatibility and conformity between these results and the established standards, and

## **Study of the Extent of the Impact of Internal Audit on Disclosure and Transparency in the Economic Institution**

to inform the concerned parties of the results of the audit. This is according to the American Accounting Association (AAA), where it is clear from this that the audit process is on an organized basis and according to specific foundations and frameworks with the aim of verifying the integrity of the internal control system, and expressing a technical and neutral opinion on the fairness of the financial statements and the information they provide about the institution's activity. (Walid Naji Al-Hayali 2017)

It is an examination of the financial statements, and includes an analytical research and evaluation of records, procedures and aspects of control with a critical analysis of the evidence used to summarize the various operations to come up with a neutral technical opinion on the significance of the financial statements for the financial position and results of operations during a specific period. (Ahmed Nour El-Din 2015 )

The continuity of the institution, improving its financial position and maintaining its reputation required the audit to expand its scope to include examining internal control systems in addition to discovering errors and fraud and working to reduce their occurrence. Disclosure and Transparency: Most thinkers differed in giving a comprehensive definition of disclosure, and below we will try to present a set of those definitions, where disclosure was defined as the process of showing financial information, whether quantitative or descriptive in the financial statements or in the margins, notes and supplementary tables at the appropriate time, which makes the financial statements not misleading and appropriate for users of the financial statements from external parties, who have the authority to view the books and records, and in general it can be said that disclosure is considered the process of transferring financial information to others, whether they are shareholders, regulatory bodies, potential investors or others, in order to avoid fraud, deception and illegal practices that harm the parties related to the project, and this is what allows users of this financial information to make sound decisions based on the financial information disclosed by the actors in the financial markets.

Definition of transparency: Transparency is defined as a phenomenon that refers to sharing information and dealing with it in an open manner. It allows those who have an interest in a matter to collect information about this matter that may have a decisive role in revealing the disadvantages and protecting their interests. Transparency is based on the free flow of information. It allows those concerned with their interests to directly view the operations and information related to these interests. It also provides them with sufficient information that helps them understand and monitor them and facilitate access to information. This can only be achieved through disclosure. From the above, it can be said that transparency in its meaning is the provision by companies of financial or non-financial data in a clear manner about the reality of their financial positions, as well as all operations related to the company so that the current and future activity of the company can be expected, taking into account its right to withhold data that may harm it. Transparency in financial markets means in its meaning not withholding Information and delivery of information to all stakeholders accurately, timely and adequately. (Mohammed Diab 2020)

### **3 . Field study**

## Study of the Extent of the Impact of Internal Audit on Disclosure and Transparency in the Economic Institution

Through this study, we will try to analyze the extent of the internal auditor's commitment in Algeria to the international standards for internal auditing. A study was prepared in which a questionnaire was prepared in line with the requirements of determining the relationship between the independent variable and the dependent variable. In order to measure the independent variable, the international standards for practicing the auditing profession issued by the Institute of Internal Auditing were relied upon, as these standards are considered principles of professional ethics, the aim of which is to provide an integrated framework for determining the powers of the internal audit function.

### 1- The target sample and data collection methods

In order to address the problem of the study in any research, the target sample must be determined. One of the difficulties facing any researcher is targeting the entire study community. The first part of the questionnaire related to internal auditing was directed to a group of internal auditors, an employee related to the internal auditing profession, given that this category has a direct relationship with the application of internal auditing standards.

In order to determine the relative weight of each paragraph of the questionnaire, the five-point Likert scale was used, as this method measures the degree of agreement among the study sample. This scale consists of five levels of response ranging from completely disagree to completely agree. To determine the length of the cells of the five-point Likert scale, we calculate the general range, which is the difference between the two limits of the scale, where the result is:  $5-1=4$ . The general range is equal to 4, and by dividing the general range by the number of degrees, we find the length of the cell, which is equal to:  $4/5=0.8$ . By adding the length of the cell to the minimum degree of agreement, the length of each category of the five-point Likert scale can be determined, and from there the position of the study sample towards a specific paragraph can be determined using this scale, as shown in the following table:

Table No. (1): The five-point Likert scale scores adopted in the study

level	Relative weight	approval rating order
Totally disagree	1.8-1	01
disagree	2.6-1.8	02
neutral	3.4-2.6	03
OK	4.2-3.4	04
Totally agree	5-4.2	05

Source: Based on the previous information

Through Table No. (1), which represents the five-point Likert scale, the level of agreement can be determined according to the following cases:

- If the arithmetic mean value of the sample members' answers ranges between •1; 1.8•, then the degree of agreement represents "completely disagree";

## Study of the Extent of the Impact of Internal Audit on Disclosure and Transparency in the Economic Institution

- If the arithmetic mean value of the sample members' answers ranges between  $\bullet 1.8$ ;  $2.6\bullet$ , then the degree of agreement represents "disagree";
- If the arithmetic mean value of the sample members' answers ranges between  $\bullet 2.6$ ;  $3.4\bullet$ , then the degree of agreement represents "neutral";
- If the arithmetic mean value of the sample members' answers ranges between  $\bullet 3.4$ ;  $4.2\bullet$ , then the degree of agreement represents "agree";
- If the arithmetic mean value of the sample members' answers ranges between  $\bullet 4.2$ ;  $5\bullet$ , then the degree of agreement represents "completely agree".

After collecting various data from the study samples, the Statistical Package for Social Sciences (SPSS) program was used to analyze the data and test the validity of the hypotheses by using various descriptive statistics and dispersion measures, where the following measures were used:

- Calculating frequencies and percentages in order to identify the personal characteristics and traits of the study sample;
- Calculating the arithmetic mean in order to identify the opinions of sample members regarding the extent of commitment to internal audit standards in the institution under study and the extent of adopting corporate governance principles;
- Calculating the standard deviation in order to know the extent of dispersion of values from their arithmetic mean for each paragraph of the questionnaire;
- Calculating the internal consistency coefficient Cronbach's alpha
- Using the simple regression method to test the hypotheses and the related moral significance
- The coefficient of determination  $R^2$  to know the explanatory power of all independent variables in order to determine the effect of each independent variable on the dependent variable;
- T-test to determine whether there is a statistically significant relationship between each of the independent variables in the dependent variable

### 1- Questionnaire content analysis

Through this requirement, we will try to analyze the content of the questionnaire, whether using descriptive analysis methods for the study variables or using standard or inferential analysis methods for the study results, using various indicators that are consistent with the nature of the study in order to reach results that enable the analysis of the relationship between the independent variable and the dependent variable.

### 2-1 Descriptive analysis of the study results

Descriptive analysis is based on describing a specific phenomenon in a scientific way, with the aim of reaching logical results and explanations through which the student can reach the research results.

## Study of the Extent of the Impact of Internal Audit on Disclosure and Transparency in the Economic Institution

In order to test the validity of the study hypotheses, the random sampling method was used, which is based on dividing the community into parts according to certain factors and characteristics.

- Distributed and retrieved forms: A set of forms were distributed to the study sample, estimated at 118 individuals, where they were contacted through personal interviews and they were also contacted via e-mail. However, 93 forms were retrieved, of which 82 were valid for use. The following table shows the number of retrieved forms:

**Table No. (2): Relative distribution of distributed questionnaires**

	%	n
Distributed forms	100%	118
Retrieved forms	78.81 %	93
Valid forms	88.17%	82

Source: Based on Excel outputs

Gender variable:

By analyzing the collected questionnaires, the following table shows the distribution of the study sample according to the gender variable:

**Table No. (3): Distribution of the study sample by gender**

gender	%	n
male	64.64%	53
feminine	35.36%	29
the total	100%	82

Source: Based on Excel program outputs

From Table No. (3), it is clear that males dominated the study sample, as their percentage reached 64.64% of the total study sample, while the percentage of females reached 35.36% of the total study sample.

-Professional experience

**Table No. (4): Distribution of the study sample according to the variable of professional experience**

Years of professional experience	%	n
Less than 10 years	20.74%	17
11 to 20 years	34.15 %	28

## Study of the Extent of the Impact of Internal Audit on Disclosure and Transparency in the Economic Institution

30 to 21 years	39.02%	32
Over 30 years old	6.09%	5
total	100%	82

Source: Based on Excel program outputs

From Table No. (4), it is clear that the professional experience of the study sample is distributed into four basic categories, but the dominant category extends from 11 years to 30 years, which contributes to achieving the study objectives due to the knowledge and experience of the study sample in the field of auditing.

### 2-2 Validity and reliability of questionnaire items

Based on the previous table and based on the outputs of the SPSS program, the Cronbach's alpha coefficient reached 0.817, which is an acceptable percentage compared to the reference value of the coefficient, which is 0.7. In the event of redistributing the questionnaire to the study sample, 81.7% of the sample members' answers will be the same answer that was analyzed, which indicates that the study tool enjoys a high degree of stability.

**Table No. (6): Cronbach's alpha coefficient for the study questionnaire**

Cronbach's alpha coefficient	n	Axis Title	Axis number
0.813	05	Internal Audit Charter	01
0.808	11	Independence and objectivity	02
0.613	11	Skill and professional care required	03
0.817	27	Overall coefficient for all questionnaire items	

Source: SPSS output

By using the correlation matrix, the validity of the questionnaire was verified, as various non-statistically significant paragraphs were excluded in order to add more credibility to the tool, as shown in the following tables:

### 2-2 Measuring the extent of Algerian auditors' commitment to the principles of internal auditing

-Internal Audit Charter

**Table No. (7): Correlation matrix for the first axis**

.001	0.362**	The purpose, authority and responsibility of the internal audit activity should be formally defined in the internal audit charter.
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# Study of the Extent of the Impact of Internal Audit on Disclosure and Transparency in the Economic Institution

.000	**0.782	The Chief Audit Executive shall periodically review the Internal Audit Charter and present it to senior management and the Board of Directors for approval.
.295	0.117	The nature of the assurance services provided to the organization must be clearly defined in the internal audit charter.
.000	** 0.604	The nature of the consulting services should be specified in the internal audit charter.
.015	* 0.269-	The mandatory nature of the Core Principles for the Professional Practice of Internal Auditing should be recognised.

Source: SPSS output

From Table No. (7), it is clear that the values of the correlation of the paragraphs with the total score of the first axis are clear, which indicates the validity of the paragraphs of this axis, except for paragraph No. 3, where the value of R reached 0.117, while the value of statistical significance is 0.295, which is greater than the level of moral significance of 0.05, and therefore we exclude paragraph No. 03 of the first axis from the analysis.

-Independence and objectivity

**Table No. (8): Correlation matrix for the second axis**

Statistical significance	The coefficient of	
.477	0.80	The internal audit activity must be independent, and auditors must perform their work objectively;
.000	0.434**	The Chief Audit Executive has direct and unrestricted access to senior management and the Board of Directors,
.000	0.252**	Matters that threaten independence are managed at the individual internal auditor level, at the audit engagement level, and at the functional and organizational levels.
.000	**0.792	Objectivity requires that internal auditors' judgments on audit matters are not subject to the opinions of others.
.001	0.356**	Matters that threaten objectivity are managed at



# Study of the Extent of the Impact of Internal Audit on Disclosure and Transparency in the Economic Institution

		the individual internal auditor level, at the audit engagement level, and at the functional and organizational levels.
.335	0.108	The position of Chief Internal Auditor reports to an organizational level in the organization that ensures that the internal audit activity performs its responsibilities to the best of its ability.
.000	**0.624	The internal audit activity must be free from any interference in determining the scope of the audit, completing its work, and communicating the results.
.004	**0.314	Internal auditors must be honest and impartial, and avoid any conflict of interest.
.000	**0.376	Internal auditors should refrain from evaluating operations that they previously supervised.
.000	**0.380	If there is any possibility that the independence or objectivity of internal auditors may be affected during a proposed consulting engagement, they must disclose this to the client who commissioned the engagement before accepting it.
.000	**0.337	The internal audit activity must be independent, and internal auditors must perform their work objectively;

Source: SPSS output

From Table No. (8), it is clear that the paragraphs are related to the total score of the first axis, which indicates the validity of the paragraphs of this axis, except for paragraph No. 01 and paragraph No. 06, where the significance level for each of the two paragraphs reached 0.477 and 0.355, respectively. As for the value of the R coefficient, it reached 0.108 for the sixth paragraph and 0.80 for the first paragraph, respectively.

t-test for one sample

Through this element, a t-simple test will be conducted with the aim of analyzing the opinions of the study sample by determining the difference between the sample mean and the opinions of the study sample, and the confidence level will also be determined.

-Internal Audit Charter

Table No. (9): t-test for the paragraphs of the first axis

# Study of the Extent of the Impact of Internal Audit on Disclosure and Transparency in the Economic Institution

relative importance	Statistical significance	t	Standard deviation	Arithmetic mean	n
ok	.000	17.074	0.405	4.20	01
ok	.000	7.850	0.814	3.78	02
ok	.000	8.061	1.129	3.95	03
ok	.000	9.698	0.938	4.04	04

By using the t-test to analyze the paragraphs of the first axis, where if the calculated t-value is greater than its tabular value and the level of significance is less than 0.05, most of the study sample's answers are positive, i.e. agree with the statement presented, but if the calculated t-value is less than the tabular value and the level of significance is less than 0.05, the study sample members tend to disagree with the questionnaire paragraphs.

-Independence and objectivity

**Table No. (10): T-test for the paragraphs of the second axis**

relative importance	Statistical significance	t	Standard deviation	Arithmetic mean
Ok	.000	7.054	1.108	3.82
ok	.000	13.634	0.503	4.07
ok	.000	13.681	0.443	4.01
ok	.000	6.769	0.776	3.66
ok	.000	13.458	0.471	4.02
N ok	.000	10.194	1.201	1.77
Ok	.000	6.801	0.744	3.65
ok	.000	11.615	0.565	3.96
ok	.000	8.742	0.738	3.83
ok	.000	9.403	0.670	3.86
ok	.000	8.354	0.903	3.88

Source: SPSS output

### Study of the Extent of the Impact of Internal Audit on Disclosure and Transparency in the Economic Institution

By analyzing the data for the second axis of the questionnaire related to independence and objectivity and by calculating the arithmetic mean of the axis estimated at 3.67 and a standard deviation of 0.695, it can be concluded that the study sample agrees with the questionnaire paragraphs, which is confirmed by the t-coefficient of 8.119 and a significance level of 0.000, with the exception of paragraph No. 06, the position of the Chief Executive Officer of Internal Audit is subordinate to an organizational level in the institution that ensures the internal audit activity performs its responsibilities to the fullest extent, as most of the sample of the paragraph did not agree with this statement, meaning that the Chief Executive Officer of Audit is either not subordinate to an organizational level that allows him to perform his responsibilities to the fullest extent, or there are other variables that affect the tasks of the Chief Executive Officer in the institution.

**Table No. (11): T-test for the paragraphs of the third axis**

relative importance	Statistical significance	t	Standard deviation	Arithmetic mean
Ok	.000	7.694	0.836	3.78
ok	.000	7.620	0.684	3.70
ok	.000	13.389	0.435	3.98
ok	.000	10.837	1.180	4.02
ok	.000	12.323	0.596	3.99
ok	.000	13.315	0.559	4.04
Ok	.000	17.191	0.658	4.17
ok	.000	12.015	0.335	3.94
ok	.000	20.542	0.526	4.60
ok	.000	10.781	0.448	3.95
ok	.000	6.882	0.368	3.80

Source: SPSS output

By analyzing the data of the third axis of the questionnaire related to professional affiliation and through the arithmetic mean of the various paragraphs of the axis, it can be concluded that the study sample agrees with the paragraphs of the questionnaire, which is confirmed by the t-coefficient of 8.119 and a significance level of 0.000.

-1 Testing the hypotheses:

Through this element, the various hypotheses that were put forward in the introduction to the research will be tested:

The first hypothesis:

## Study of the Extent of the Impact of Internal Audit on Disclosure and Transparency in the Economic Institution

-H0 = There is a statistically significant relationship between the internal audit charter, transparency and disclosure at a significance level of 0.05

-H1 = There is no statistically significant relationship between the internal audit charter, transparency and disclosure at a significance level of 0.05

**Table No. (12): Analysis of the correlation between the internal audit charter, transparency and disclosure**

Dependent variable	t-test for the model		Fixed part	Independent variable coefficient	coefficient of determination	Correlation coefficient	independent variable
	Moral e level	t					
Transparency and Disclosure	0.000	4.133	1.457	0.670	0.175	0.419	Internal Audit Charter

Source: SPSS output

From the table, it is clear that the value of the correlation coefficient reached 0.419, while the coefficient of determination reached 0.175, which explains the direct relationship between the independent variable, the internal audit charter, transparency and disclosure. Since the significance level of 0.000 is less than the approved significance level of 0.05, we accept the alternative hypothesis and reject the null hypothesis, which indicates the existence of a statistically significant relationship between the internal audit charter, transparency and disclosure.

Second hypothesis:

-H0 = There is a statistically significant relationship between the independence and objectivity of the internal audit function, transparency and disclosure at a significance level of 0.05

-H1 = There is no statistically significant relationship between the independence and objectivity of the internal audit function, transparency and disclosure at a significance level of 0.05

**Table No. (13): Correlation analysis of the independence and objectivity of the internal audit function, transparency and disclosure**

Dependent variable	t-test for the model		Fixed part	Independent variable coefficient	coefficient of determination	Correlation coefficient	independent variable
	Moral e level	t					

# Study of the Extent of the Impact of Internal Audit on Disclosure and Transparency in the Economic Institution

Transparenc y and Disclosure	0.022	2.34 4	2.79 6	0.393	0.064	0.254	Independenc e and objectivity of the internal audit function
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Source: SPSS output

From the table, it is clear that the value of the correlation coefficient reached 0.254, while the coefficient of determination reached 0.064, which explains the direct relationship between the independent variable, the independence and objectivity of the internal audit function, transparency and disclosure. Since the significance level of 0.022 is less than the approved significance level of 0.05, we accept the alternative hypothesis and reject the null hypothesis, which indicates the existence of a statistically significant relationship between the independence and objectivity of the internal audit function, transparency and disclosure.

The third hypothesis:

-H0 = There is a statistically significant relationship between skill and necessary professional care, transparency and disclosure at a significance level of 0.05

-H1 = There is no statistically significant relationship between skill and necessary professional care, transparency and disclosure at a significance level of 0.05

**Table No. (14): Analysis of the correlation between skill and necessary professional care, transparency and disclosure**

Dependent variable	t-test for the model		Fixed part	Independen t variable coefficient	coefficient of determinatio n	Correlatio n coefficient	independent variable
	Moral e level	t					
Transparenc y and Disclosure	0.016	2.46 8	2.72 2	0.408	0.070	0.266	Independenc e and objectivity of the internal audit function

Source: SPSS output

From the table, it is clear that the value of the correlation coefficient reached 0.266, while the coefficient of determination reached 0.070, which explains the direct relationship between the independent variable of skill, necessary professional care, transparency and disclosure. Since the significance level of 0.016 is less than the approved significance level of 0.05, we accept the alternative hypothesis and reject the null hypothesis, which indicates the existence of a statistically significant relationship between skill, necessary professional care, transparency and disclosure.

## Study of the Extent of the Impact of Internal Audit on Disclosure and Transparency in the Economic Institution

### 4. Conclusion:

Internal audit is considered one of the mechanisms for activating corporate governance, as it is an independent oversight activity affiliated with the board of directors, as independence is considered one of the features that distinguish internal audit from other functions in the economic institution, as it provides protection for shareholders and various parties dealing with the economic institution through the oversight procedures that are applied within the institution, which contributes to enhancing the degree of credibility and transparency of financial information, as the components of a strong internal control system allow for the effectiveness of implementing policies and various decisions. The Audit Committee is considered one of the basic pillars of the internal audit function, which is assigned by the board of directors and defining its tasks and responsibilities through a charter that guarantees the committee's effectiveness in performance. It is formed according to two basic inputs, one of which is optional and the other is mandatory, as it is formed according to a set of controls in the members of the Audit Committee with experience and professional skill. Audit committees work to activate corporate governance through the added value of financial reports by enhancing trust and credibility in various financial reports, and they also seek to find a mechanism to supervise the work of internal audit and external audit and achieve integration between them. This was stated in Internal Audit Standard No. 2110 that The internal audit must evaluate the governance processes in the organization and propose a set of measures to improve it.

-The internal audit activity is characterized by independence and objectivity, and matters that threaten independence are managed individually, as the audit activity is safe from any interference that may affect independence;

-The internal auditor enjoys integrity and impartiality, as the internal auditor must disclose various violations that may affect independence and objectivity;

-In the event of the lack of professional knowledge and skill, the chief audit executive can obtain assistance from qualified persons, provided that they are not related to the audit mission being carried out;

-It is not possible to practice the internal audit profession without the auditor having sufficient knowledge of information technology and the various risks that affect various processes and objectives;

-Through the applied treatment of the research topic, the extent of the impact of various variables related to the internal audit function on transparency and disclosure in the economic institution is shown.

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