

Dissertation Submitted in Partial Fulfilment of the Requirement for

The “Master” Degree in Audit and Management control

**The Accounting Audit’s effectiveness in improving
The enterprise’s financial performance
- Case Study Sonatrach (CP1/Z Complex) -**

Submitted by:

Koufi Mohammed el Amin

Supervised by:

Pr. Benzidane Hadj

Board of Examiners

M’hamed el Hadj Bourouba	President	Professor	Mostaganem University
Hadj Benzidane	Supervisor	Professor	Mostaganem University
Yacine Benzidane	Chair person	Conference Master A	Mostaganem University
Abdallah Mokred	Chair person	Conference Master B	Mostaganem University

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To everyone ...;

I never dreamed of success

I worked for it.

Estée lauder

Dedication

*I dedicate my dissertation to the most honorable person who I've ever known, who has meant and continues to mean so much to me; even though he is no longer with us, his memories still govern my life, My granddad, **Koufi Mohamed**, Allah rest his soul;*

Your love will live on in my heart forever!

I also dedicate this dissertation to my parents; no tribute could match the stimulation they gave me up; May Allah grants them good health and long life.

With all sincerity, love, gratitude, and the most honorable smiles. I love you, my dear mother.

My heartfelt gratitude goes to my gorgeous sisters.

To all the family and relatives from near and far;

(Koufi and Laabaoui).

Koufi Mohammed el Amin

Acknowledgement

*Before everything else, I thank **Allah** for providing me with the energy to continue my studies journey.*

*I would like to express my deepest gratitude to my supervisor, Pr. **Benzidane Hadj**, for his unaccountable guidance and patience in directing me throughout this journey, in particular, as well as the board of examiners, for assessing my humble work and providing me with valuable observations.*

I would also want to express my heartfelt gratitude to the members of the thesis jury for the interest they have kindly shown me by accepting to evaluate this work.

Additionally, I want to express my gratitude to Sonatrach "CPI/Z" employees and anybody else who provided me with the help I needed to finish my thesis.

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Abbreviations Table:

In the following table we will define all the abbreviations that has been used previously in the thesis:

Abbreviation	The Whole Word
PAP	Performance Appraisal Process
AP	Actual Performance
SP	Standard Performance
KPI	Key Performance Indicators
IFRS	International Financial Reporting Standards
CPAs	Certified Public Accountants.
AICPA	American Institute of Certified Public Accountants
AAA	American Accounting Association
ASB	Auditing Standards Board
GAAP	Generally Accepted Accounting Principles
FASB	Financial Accounting Standards Board

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Chapter One:
General Introduction

Chapter One:

General Introduction

1.1.Introduction

As the title suggests, this work proposes information about auditing and accounting as a method of betterment performance systems in enterprises, and where we will explore all of this in two theoretical and practical chapters.

1.2.Background of the study :

The enterprise is the economic unit that combines human and natural resources and financial and technical elements under a set of circumstances. This is to achieve goals that ensure its survival and continuity in a medium characterized by flexibility and daily changes. And its continuation does not mean the idea of survival only, but survival with increase and development. This is done by using effective management tactics and processes that improve its performance and qualify it for internal and external competition.

The concern of the institution's management is to determine the efficiency of the applied system and the extent of implementation of the approved plans and policies led to the need for an internal cell to conduct an audit. Which has become important and indispensable as an administrative function depended on carrying out the institution's control procedure to ensure the proper functioning of the operation smoothly and to maintain the available resources?

To keep pace with these developments, it must follow established policies in order to reach the set goals, but it may face obstacles and internal obstacles in an environment full of errors in which there are numerous operations completed and a large number of information flowing, which may result in various management deviations from the organization, planning, guidance, and control.

The accounting audit emerged as a result of the need to protect property, ensure the correctness of existing data, and work to discover errors, Especially after the economic downturns and financial crises that the world witnessed, that shook the economic institutions, This is what led to the search for ways and means to achieve effective control over the work of those people institutions and thus increasing recourse and paying more attention to the accounting audit process, Where it was characterized by a narrow scope limited to auditing accounting entries and financial records, But with the development of the capabilities of auditors and their contribution to providing administrative services in addition to their financial services, Accounting audit has become based on examining and evaluating all activities and operations to achieve the objectives of the institution.

Field studies conducted in many countries of the world indicate that there is a clear trend in the need to expand the scope of the work of the accounting auditor And that with the increasing importance and the rise of its organizational position in the institution. Some of

these countries have tended to oblige institutions to have an accounting audit activity. The USA was the first to follow this approach.

Where the accounting audit is the basis of the development and success of the institution in its various fields, especially the financial ones, Through its contribution to achieving the best financial performance, whether directly or indirectly, This is by clarifying the accounting auditor's strengths and weaknesses of the institution, Thus, you understand the strengths so that they can be used to the fullest degree, and know the weaknesses, so that the administration can take corrective measures and make recommendations and follow up on that.

As appraisal and improvement of financial performance occupy a very important place in most institutions, many accounting and administrative studies and research focused on it. This is due to the relative scarcity of the financial resources it adopts Institutions concerning the size of their large and competing financial needs. Hence, we find the need to obtain and achieve maximum returns for the sustainability, continuity, and development of the institution, exploiting all resources efficiently and effectively can only be done if there is an effective audit function in the organization that ensures this and makes the necessary recommendations when necessary.

Problematic:

Given the significant role that accounting audit plays in ensuring the continuity and growth of the institution and the improvement of its financial performance as one of the leadership functions for the services it provides to senior management through its permanent evaluation Objective and neutral for the various activities, To become more familiar with this topic and delve into it in more detail, we will try, through our memo, to answer the following problematic:

- ❖ *To what extent can an accounting audit affect the financial performance of an economic enterprise note that several other variables also have a direct impact on its financial performance?*

1.3. Research Questions & Hypothesis :

Research Questions :

This research will provide answers to the following questions:

- What is meant by accounting & auditing and what are their objectives & types?
- What is the relationship between accounting and auditing?
- Performance & financial performance : What does it mean?
- How does an accounting audit contribute to improving the financial performance of the institution?

Research hypothesis:

To analyze the previously suggested problematic, we shall examine the following hypotheses:

- ❖ The success of the accounting audit process depends on the auditor following a set of standards accepted by professionals.
- ❖ Accounting and Auditing are closely related to each other as auditing reviews the financial statements which are nothing but a result of the overall accounting process.
- ❖ Financial performance is the diagnosis of the financial health of the institution and the knowledge of its ability to create value to face the future.
- ❖ Improving the financial performance of the institution depends on the application of the suggestions, recommendations, and decisions of the accounting audit process.

1.4.Previous Studies:

In this section, we will be reviewing earlier research that has been published and has relevance to the research that we are studying.

- Performance management within the parameters of the PFMA, prepared by: **Mariaan Roos**, submitted in fulfilment of the requirements for the degree of master of commerce in the subject Auditing, **University(UNISA) of South Africa (November 2009)**;

The objective of this research is to describe the current state of research and knowledge on performance reporting and auditing, as well as how these two aspects of performance management can be used in South Africa's public sector while also complying with the Act on Public Finance Management's requirements.

The analysis demonstrates that limited performance audits are conducted and reported in the annual report. Although accounting officers made mention of performance data in their reports, the content varied, and audit committees also follow different procedures.

- The role of internal auditing in providing combined assurance: assessing internal financial controls, prepared by: **I. Lewis**, submitted in fulfilment of the requirements for the masters of commerce degree with specialisation in internal auditing, department of auditing faculty of economic and management sciences, at the **University of Pretoria (06 May 2013)**;

The objective of this study is to analyze the relevance and value of the written assessment regarding the effectiveness of internal financial controls in a combined assurance environment within the financial services industry from the chief audit executive's perspective.

The relevance and usefulness of the written assessment of the efficacy of internal financial controls should be tailored for and by each business based on the findings of

the research study; Second, the internal audit activity conducts a formal evaluation of the internal financial controls.

Furthermore, it was mentioned that internal audit is regarded by CAEs working in the financial services sector as one of the most crucial actors in an organization's overall assurance procedures. The written assessment of the effectiveness of internal financial controls is seen as the result and/ or outcome based on Principle 7.3.6 of the King III Report.

- The effect of Audit Quality on Financial Performance, prepared by: **Salihah Ahmed**, BSc Economics and Business, Economics and Financ, **University of Amsterdam (27th June 2017)**;

This research examines whether audit quality affects the financial performance of firms. Audit quality, which stems from earnings quality, is measured by the estimated discretionary accruals using the Modified Jones model. Furthermore, firm performance is measured by the stock returns. The findings suggest that there is a positive association between discretionary accruals and stock returns.

This implies that the stock market attaches a positive value to discretionary accruals. Furthermore, consistent with prior literature it is expected and also shown that clients of Big 4 auditors report lower discretionary accruals than clients of non-Big 4 auditors.

- The role of audit companies and frequency of auditing on quality of financial statement, prepared by: **Fatima Bagirova**, Azerbaijan State Economic Universit, **UNEC Sabah (june 2018)**;

This research aims to investigate the impact of audit firms and auditing frequency on the accuracy of financial statements. This thesis summarises the findings of the research conducted on the current study's significant issue, which has been explored in the past, To get to the conclusion, the auditing practices of the Big Four audit companies in Azerbaijan were looked at.

1.5.Importance :

This research gains its importance by clarifying the role that accounting audit plays in improving the financial performance of the institution, which is represented in :

- ✓ Financial Balance
- ✓ Liquidity
- ✓ Profitability

This is in light of a highly competitive environment between institutions to achieve their best performance, which enables us to ensure their continuity and achieve their goals.

Its importance is also to identify the field aspect of the accounting audit process by conducting a study at the Sonatrach economic institution in the complex CP1/Z and comparing the theoretical concepts and the extent of its application in practice.

1.6.General objectives:

The main goal of this research is to design a diagram that depicts the usefulness of accounting audits in boosting the enterprise's outstanding performance.

Our research will focus on the following objectives in particular:

- Make progress in the accounting auditing quality by applying a good performance.
- Highlighting the fundamentals of accounting auditing and financial performance, as well as their interrelationship.
- Demonstrate the efficiency of the accounting audit by understanding the auditing and accounting standards in the economic enterprise.
- Realize the need to pay attention to the profession of accounting auditing and work to develop it.

1.7.Methodology:

The technique methodology of our research study is divided into two parts:

Theory Corner	Practical Corner
In this part we will give a descriptive approach to our subject through explaining the coordination between the concept of accounting audits and the performance in the company.	In this stage, we will give an analytic approach by interviewing a statutory auditor in the Foundation of Sonatrach, the CP1/Z complex, about the accounting audit method and financial performance in an Algerian enterprise.

1.8. Structure of the study:

All of these things we will try to address through our study of the subject, as we attempted to cover all of the major points; Despite the fact that it is impossible to restrict a topic, such as accounting audits and its role in improving financial performance in a few pages, which necessitated that we follow the next plan through which we will address to the economic institution, and this is from the theoretical side. As for the practical side, We shall handle a case study via the Sonatrach Foundation, which is the main component of Algeria's critical mass.

Theoretical Part

- ❖ The first Chapter is entitled as “**General introduction of the study**”.
- ❖ The second Chapter is entitled as “**Literature review of the study**”.

Practical Part

- ❖ The third chapter represents “**The practical part of Sonatrach's CP1/Z complex**”.
- ❖ The fourth chapter is “**The study's conclusion**”.

1.9. Limits:

- Difficulty dealing with language "Translation" (from French to English and Arabic to English).
- The difficulty of limiting the subject.
- The complex in which the applied study was conducted does not have an internal audit.

Chapter Two:
Literature Review of the Study

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Literature Review of the Study

2.1. Introduction

This chapter of literature review of the study proposes information about auditing and accounting as a method of betterment accounting performance systems in enterprises. However, including such information would not be complete without first discussing their objectives, types, and the most important differences among them. In contrast, this chapter discusses the fundamentals of auditing, accounting, and the conceptual framework of performance. In the first part, we will deal with the aspects of auditing, then move on to accounting, and finally, we will talk about the facets of performance.

2.2. Overview about accounting audit:

The emergence and development of the audit profession were unavoidable as a result of the growth and expansion of activities. In light of these facts, the accounting audit's objectives shifted from detecting errors and manipulations to expressing a neutral technical opinion about the honesty and fairness of institutions' financial statements and the delivery of results to the process of auditing and examining stakeholders.

2.2.1. Origin of audit

When we think about the origins of the term “Auditing”, the following questions comes to our mind:

- What is the origin of word “Audit”?

The word "Audit" derives from Latin (audire, means hearing). This word has had several meanings and classifications over the years. In general, It is a synonym for control, checks, examine, and review.

- How and when did the term “Auditing” come from?

We understand how tough it is to respond to this question. However, it is possible to state that the auditing existed primarily as a method to maintain governmental accountancy, with record-keeping serving as its core. Auditing the accounts of public institutions has been practiced from the time of the ancient Greeks, Romans, and Egyptians. Back then, the primary purpose of auditing was to determine whether there were any frauds and whether the receipts and payments were properly documented by the person in charge¹.

The following table summarizes the historical development of audit goals, the scope of examination, and the effectiveness of internal control over them:

¹- Nazia Sultana(2021),Principles and Practice of Auditing, Walnut Publication, p.02.

Table (01) : the historical development of audit goals

Period	Audit ordinates	Auditors	Objectives of the audit
Up to 1700	Kings, emperors. Churches and the state	People of the state or scribes	The punishment of the thieves for the funds changing direction, Protecting assets
1700 – 1850	States, Courts, and shareholders	Accountants	Repressing fraud and punishment of the authors Protecting the assets
1850 – 1900	The state and the shareholders	Professional accountants or lawyers	Avoiding fraud and errors and attesting the viability of the balance sheet
1900 – 1940	The state and the shareholders	Professionals in audit and accounting	Avoiding fraud and errors and attesting the viability of the Financial Statements historic
1940 – 1970	The state and the shareholders	Professionals in audit and accounting and counseling	Attesting the honesty and regularity of the historical financial data
1970 – 1990	The state, the third and the shareholders	Professionals in audit and counseling	Attesting the quality of the internal control and respecting the accounting norms and the audit norms
1990+	The state, the third and the shareholders	Professionals in audit and counseling	The protection against international fraud

Source : Lionel.C Et Gerard.V, *Audit Et Controle Interne, Aspects Financiers, Opérationnels Et Stratégiques*, 4th Edition, Dalloze, Paris, 1992, p.17.

By looking at the previous outcomes in the table above:

The review's successive developments of were the outcome of the aims inspired by it on the one hand, and on the other, it must reconcile with substantial changes in the trade movement as it seeks progress. What the global and international economies in general, as well as economic institutions in particular, are going through.

2.2.2. The definition of accounting and auditing

The audit profession is considered complementary to the accounting profession, both of which attempt to provide financial statements that accurately reflect the institution's financial status, and given the importance of international accounting standards and international auditing standards in achieving quality financial information, their application together will contribute to strengthening the integrative relationship between accounting and auditing.

Hence, studies have concluded that there is a direct complementary relationship that contributes to enhancing the quality of disclosure of honest financial statements.

- **What exactly does accounting imply?**

Accounting was defined by the AICPA's Committee on Terminology, as follows:

“Accounting is the art of recording, classifying and summarising in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character and interpreting the results thereof.”¹

In the following definition, the (AAA) provides a broader perspective on Accounting:

"The process of identifying, measuring and communicating economic information to permit informed judgements and decisions by the users of the information."²

Based on the above definitions, the following is a thorough and meaningful definition of accounting: Accounting is a discipline that is well-equipped with tools and procedures for capturing data accurately and methodically and summarising all types of transactions measurable in terms of money or money's worth.

- **What exactly does auditing imply?**

It is difficult to provide a single and accurate definition of the term audit. Many authors, including **Lawrence R. Dicksee** and **Prof. Montgomery...**, have defined audit. The following are the most significant definitions:

“Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users”. **American Accounting Association (AAA)**³

“Audit such an examination of the books of accounts and vouchers of a business, as will enable the auditor to satisfy himself that the Balance Sheet is properly drawn up, so as to give a true and fair view of the state affairs of the business, and whether the profit and loss account gives a true and fair view of the profit or loss for the financial period according to the best of his information and explanations given to him and as shown by the books, and if not, in what respect he is not satisfied”. **Spicer & Pegler**⁴

The foregoing definitions make it very obvious that the audit is narrowly focused;

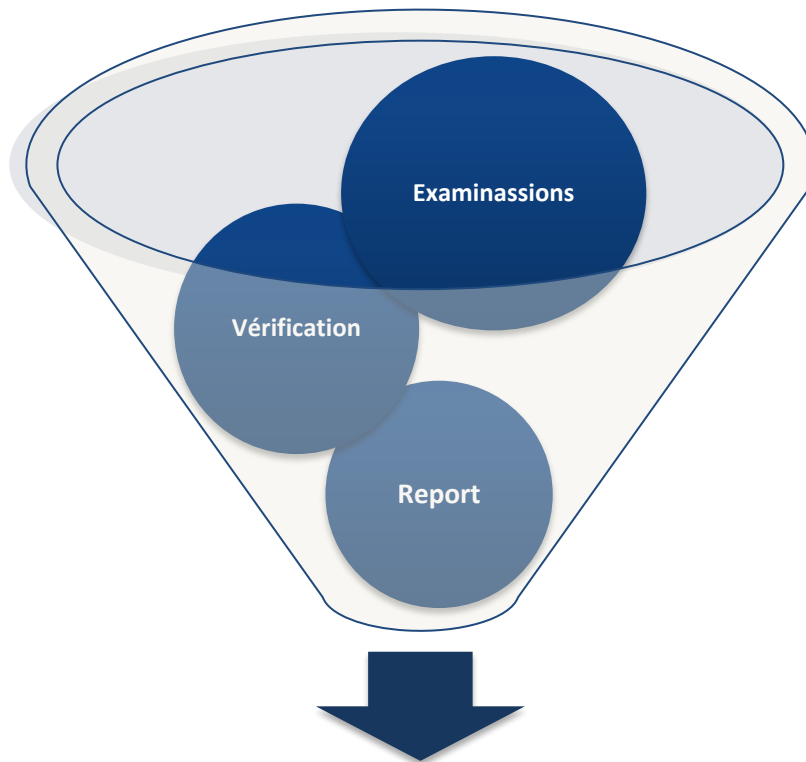
¹- A. Karim, S.S. Khanuja(2022), Financial Accounting - B.Com Semester II (According to Minimum Uniform Syllabus Prescribed by National Education Policy), SBPD Publishing House, Business & Economics, p. 03.

²- Ibid. p.04

³- American Accounting Association, Committee on Basic Auditing Concepts, A Statement of Basic Auditing Concepts(Sarasota, FL: American Accounting Association, 1973

⁴- Sanjay Gupta(2021), Auditing, Business & Economics, SBPD Publications, Business & Economics, p. 04.

Figure (01) : The fundamental components of the audit process



Source: Done by the student, The fundamental components of the audit process

2.3. Audit: Objectives and Types

Since there are many objectives and types of accounting auditing that many researchers have addressed owing to their relevance in the area of accounting and auditing in general, we will highlight the most significant of them below:

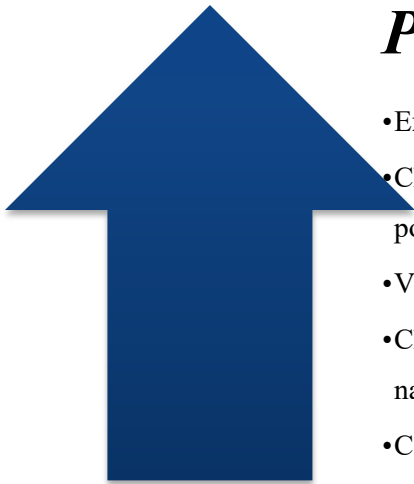
2.3.1. Objectives of Auditing

An audit's goal is to provide an opinion on financial statements. The auditor must verify the financial statements and books of accounts to guarantee the truth and fairness of the company's financial situation and operating results. As a result, the audit goals are divided into two categories:

- Primary objectives.
- Secondary objectives.

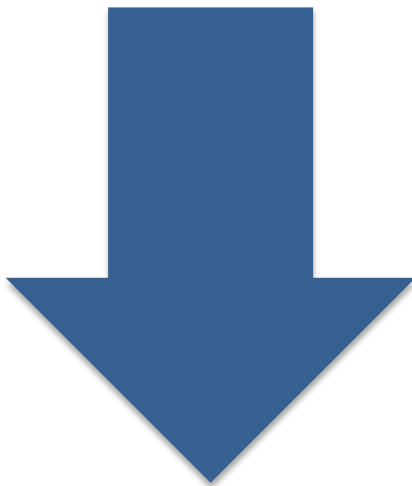
They are as follows:

Figure (02) : Objectives of auditing



Primary objectives

- Examining the system of internal check.
- Checking arithmetical accuracy of books of accounts, verifying posting, casting, balancing, etc...
- Verifying the authenticity and validity of transactions.
- Checking the proper distinction between capital and revenue nature of transactions.
- Confirming the existence and value of assets and liabilities.



Secondary objectives

- Detection and prevention of errors.
- Detection and prevention of fraud.
- Under-or over-valuation of stock.

Source: done by student, S.K Basu(2010), Fundamentals Of Auditing, Pearson Education India, p.06.

The audit process aims to review the elements of the financial statements and the internal control system under an audit program pre-established by the auditor, allowing him to express his opinion on the financial statements prepared by the company following the specific accounting policies, as well as whether the expenditures and amounts received are properly recorded in the books and whether the assets have been properly evaluated and on time.

- The role of the audit is to express an opinion more than it is a confirmation of facts or testimony.

2.3.2. Different Types of Audit

The sorts of audits performed may vary from one firm to the next. A construction business, for example, may conduct an audit to determine how much money they spent on a specific project (e.g: costs for contractors or supplies).

CPAs execute three types of audits:

Figure (03) : The three types of audits



Source: done by the student, The three types of audits

The latter two services are frequently referred regarded as audit activities, despite the fact that they are most closely related to assurance and attestation services.

Overall, audits assist in ensuring that your organization is running smoothly. So, what are the different sorts of audits?

Let us attempt to comprehend the three sorts of audits:

- **Financial Statements**

Financial audit, also known as external audit and statutory audit, is the examination of the truth and fairness of an entity's financial statements by an external auditor who is independent of the organization by a reporting framework such as the IFRS by an external

auditor who is independent of the organization. Generally accepted accounting principles (GAAP) as they are used in the United States¹.

- Most jurisdictions mandate an annual external audit of corporations of a particular size under company law.

- **Operational Audits**

Operational audits investigate all or a portion of an organization's operational processes in order to evaluate the operation's effectiveness and efficiency. Accounting may not be the only focus of operational evaluations. They may involve an assessment of the organizational structure, marketing, production processes, computer operations, or any other area in which the business believes an assessment is required.

- Effectiveness is a measure of whether an organization achieves its goals and objectives.
- Efficiency measures how effectively an organization uses its resources to achieve its objectives.
- Operational reviews may not be limited to accounting.

- **Compliance Audits**

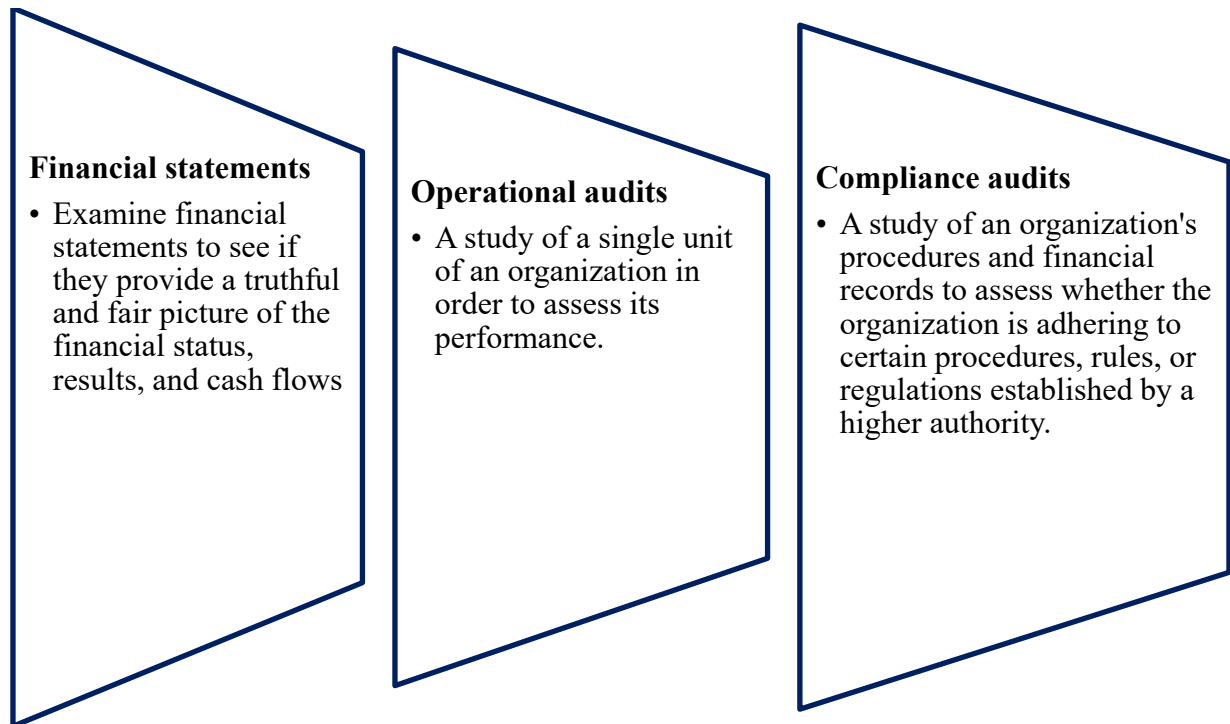
A compliance audit is an examination of an organization's activities to see whether it is following particular processes, rules, or regulations imposed by a higher authority. Other workers may be evaluated to see if they are adhering to management's rules and procedures².

Clarification :The following is a recap of what has as previously stated above.

Figure (04) : The three types of audit

¹ - Types of Audits: Compliance Audit, Operational and Financial Statement Audit
[:https://www.youtube.com/watch?v=XkfyG8mI9fs](https://www.youtube.com/watch?v=XkfyG8mI9fs) 07:30min – 10:00min,13/03/2022 , Youtube Chanel: Farhat's Accounting Lectures.

²- Ibid, 02:36min – 07:30min,13/03/2022.



Source: done by the student, the types of audit

2.4. Internal and external auditing: differences and Similarities

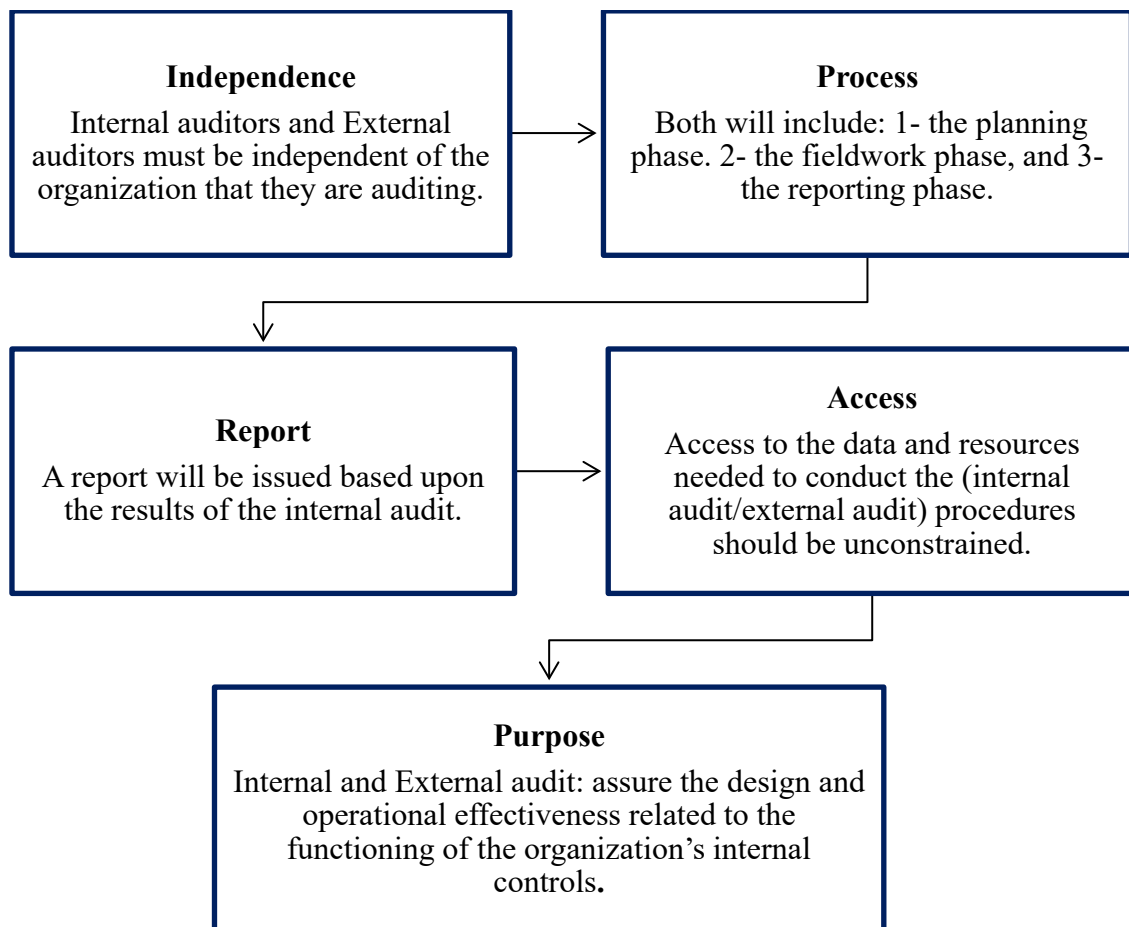
The following are the most significant differences and similarities between the two types:

2.4.1. What Are the Audit Similarities?

An internal audit and an external audit are similar in that they both follow a similar audit. Based on this, we will mention the most important similarities.

which are as follows:

Figure (05) : Audit Similarities



Source: done by the student, K. H. Spencer Pickett(2011), The Essential Guide to Internal Auditing, Second edition, John Wiley & Sons, Business & Economics, no.p.

2.4.2. What Are the Audit differences?

Table(02): The main differences between the internal auditing and external auditing

Criteria	Internal auditing	External auditing
Meaning	Internal Audit refers to an ongoing audit function performed within an organization by a separate internal auditing department.	the external Audit is an audit function performed by an independent body that is not a part of the organization.
Statute	Integrated to the trade company or an external specialized company.	External specialized company.
Who makes the appointment	The general assembly of shareholders or the board of administrators.	The general assembly of shareholders or the board of administrators.

Goals of auditing procedure	Surveillance of the management and check of the legal compliance of the financial statements; makes recommendations for the improvement of the governance process.	Certification of the financial statements; evaluates the internal control system, but only for financial – accounting elements.
Beneficiaries	The shareholders, the board of administrators, the employees	All that intend to certify the accounts: banks, shareholders, authorities.
Scope of the audit	The scope is larger, covering all the company's functions.	The verification is focused on the issues determining the financial standing and the company's performances.
Period of the audit	Permanent activity within trade companies according to the articles of association.	The targets are intermittently organized and at suitable moments for the certification of accounts.
Auditor's independence	Relative independence, or in case the internal auditing is performed by a third company, we have the independence specific to freelancers.	Independent to its client as representative of a free profession, legally and statutory regulated.
Methodology employed	Clearly set out and specific methodology.	Accurate, standardized methodology.

Source: done by the student, Gheorghe SUCIU, Similarities And Differences Between Internal Auditing, Internal Public Auditing And Other Services, Lecturer, Phd, Dimitrie Cantemir University Of Braşov, pp. 1436/1437.

2.5. Generally Accepted Auditing Standards

Because there are so many audit criteria, and they vary from one researcher to the next, we'll only go through the most important ones:

Generally accepted auditing standards is a collection of principles and procedures that serve as the foundation for how an auditor prepares for, performs, and reports audit results. The current GAAS was designed and released by the American Institute of Certified Public Accountants (AICPA) in 1972.

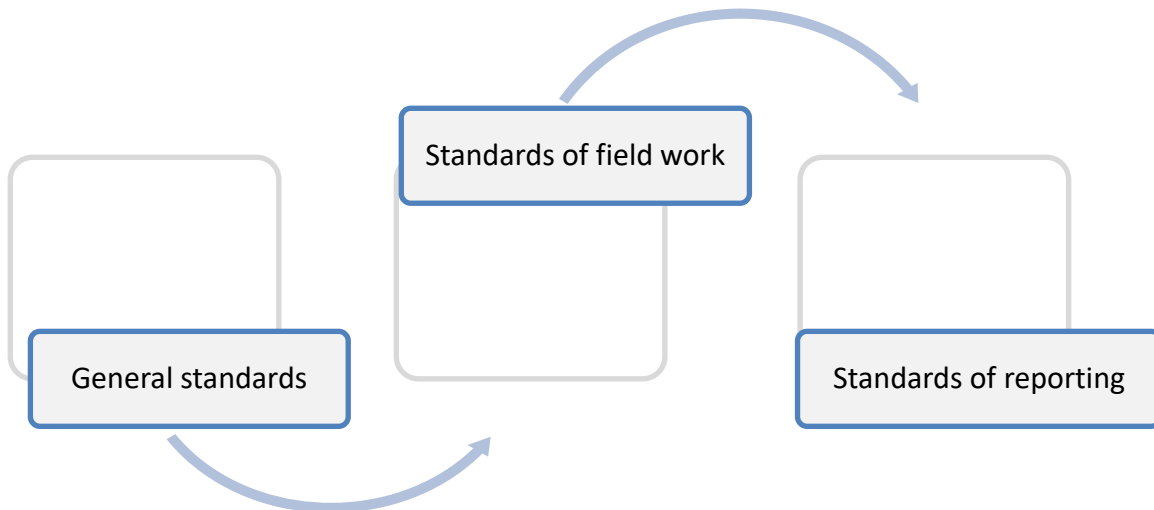
2.5.1. Fundamental audit standards

The American Institute of Certified Public Accountants said in Statement on Auditing Standards No. 95 “Auditing procedures are acts that the auditor performs during the course of an audit to comply with auditing standards”. (AICPA) ¹

¹- Generally Accepted Auditing Standards, (2001 December), New York, NY: American Institute of Certified Public Accountants, Auditing Standards Board, Statement on Auditing Standards No. 95, Supersedes SAS No. 1, section 150.

The ten standards authorized and adopted by the AICPA membership, as updated by the AICPA Auditing Standards Board (ASB), We will illustrate it for you in the diagram below:

Figure (06): Fundamental audit standards



Source: Done by student, Generally Accepted Auditing Standards

To learn more about them, We will give you an overview of each of them¹:

- **General Standards**

- The audit is to be performed by a person or persons having adequate technical training and proficiency as an auditor.
- In all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor or auditors.
- Due professional care is to be exercised in the performance of the audit and the preparation of the report.

- **Standards of field work**

- The work is to be adequately planned and assistants, if any, are to be properly supervised.
- A sufficient understanding of internal control is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed.
- Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.

¹- Stephen Gantz(2013), The Basics of It Audit, Syngress, 1st Edition, p.231.

- **Standards of reporting**

- The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles (GAAP).
- The report shall identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period.
- Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.
- The report shall contain either an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefore should be stated. In all cases where an auditor's name is associated with financial statements, the report should contain a clear-cut indication of the character of the auditor's work, if any, and the degree of responsibility the auditor is taking.

We conclude from the preceding that the standards contributed to achieving the following advantages of the auditing profession:

- Supports confidence in auditing as a recognized profession.
- These criteria contribute to the audit profession being an autonomous entity, without which the profession's work becomes a useless job.
- In the lack of standards, the audit profession is misplaced.

2.6. Introduction to accounting

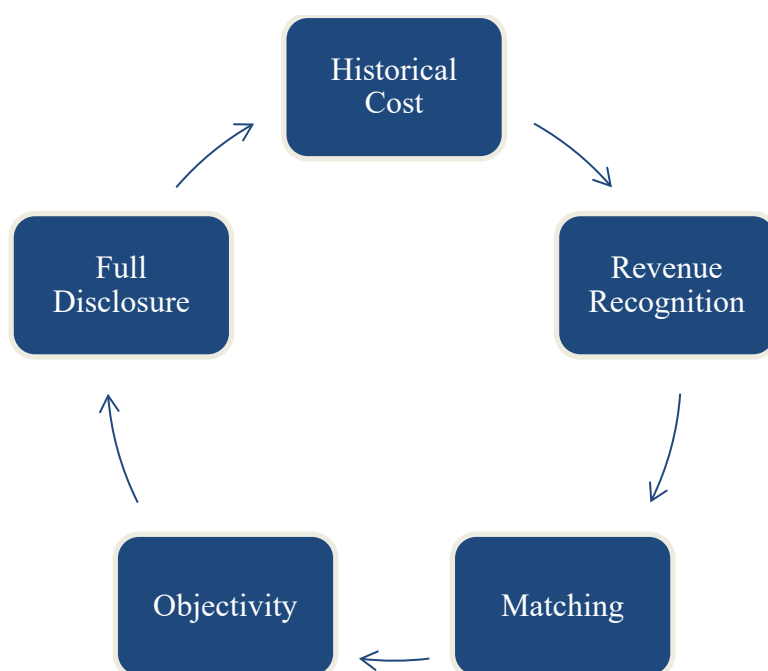
Accounting's primary goal is to protect the interests of the company, its owners, and anybody else involved in commercial operations. And everything is accomplished by delivering essential information to owners, creditors, shareholders, the government, financial institutions, and other interested parties.

2.6.1. Generally accepted accounting principles

Generally Accepted Accounting Principles (GAAP) refers to a common set of accounting principles, standards, and procedures issued by the Financial Accounting Standards Board (FASB).

There are ten generally accepted accounting principles, however we'll focus on the most significant ones here:

Figure (07): Accounting principles



Source: Done by student, Accounting principles

2.6.2. Accounting principles

At this point, we will concentrate on the most essential accounting principles, which are listed below¹:

➤ Historical Cost

The properties and assets acquired by an enterprise, as well as the expenses incurred by it, are generally recorded at cost (the cash or equivalent exchanged).

➤ Revenue Recognition

Revenues are realized when the market value of outputs can be determined and supported and the transaction is essentially complete.

Example: The timing of revenue recognition varies according to the type of transaction. In the case of merchandise sales, revenues are realized at the point of sales, when goods are delivered and title has passed.

➤ Matching

In determining net income, it is necessary to match related costs and expenses to revenues for the reporting period. The cost of the product sold and all expenses incurred in generating the sale should be matched against the respective revenues.

¹- Saoud Ch. Mshkooor(2013), Accounting In English, Second Edition, Dar Al-Dhiya For Printing And Designs – Najaf – Iraq, pp. 24-25.

➤ **Objectivity**

The financial statements generated by a business entity's books must be supported by evidence. When business documents showing the details of a completed transaction do not or cannot exist, estimates based on informed judgments which can be verified are included. Example: Company Babel purchased an electronic typewriter for IQD 400,000. Based upon their experience with similar machines and the experience of the typewriter vendor, it was decided to use eight years as the estimated life in the depreciation calculation. The depreciation expense would therefore amount to IQD 50,000 each year.

➤ **Full Disclosure**

For accurate interpretation, it is required that accounting reports include financial statements and accompanying notes which call attention to events and circumstances which may have a significant effect on potential future earnings and/or a company's position.

2.7. Accounting and auditing: What is the connection?

Accounting and auditing are two critical procedures that deal with an organization's financial activities and records.

2.7.1. Similarities between Accounting and Auditing

Some of the fundamental operations of accounting and auditing are identical. They are as follows:

- Accounting and auditing need a deep understanding of accounting fundamentals and principles.
- Both are also generally done by the persons with an accounting degree.
- Both use essential procedures and techniques of book-keeping, computation, and analysis.
- Both accounting and auditing strive to ensure that the financial statements and records provide a fair reflection of the actual financial position of an organization.
- All auditors are accountants but not all accountants are auditors¹.

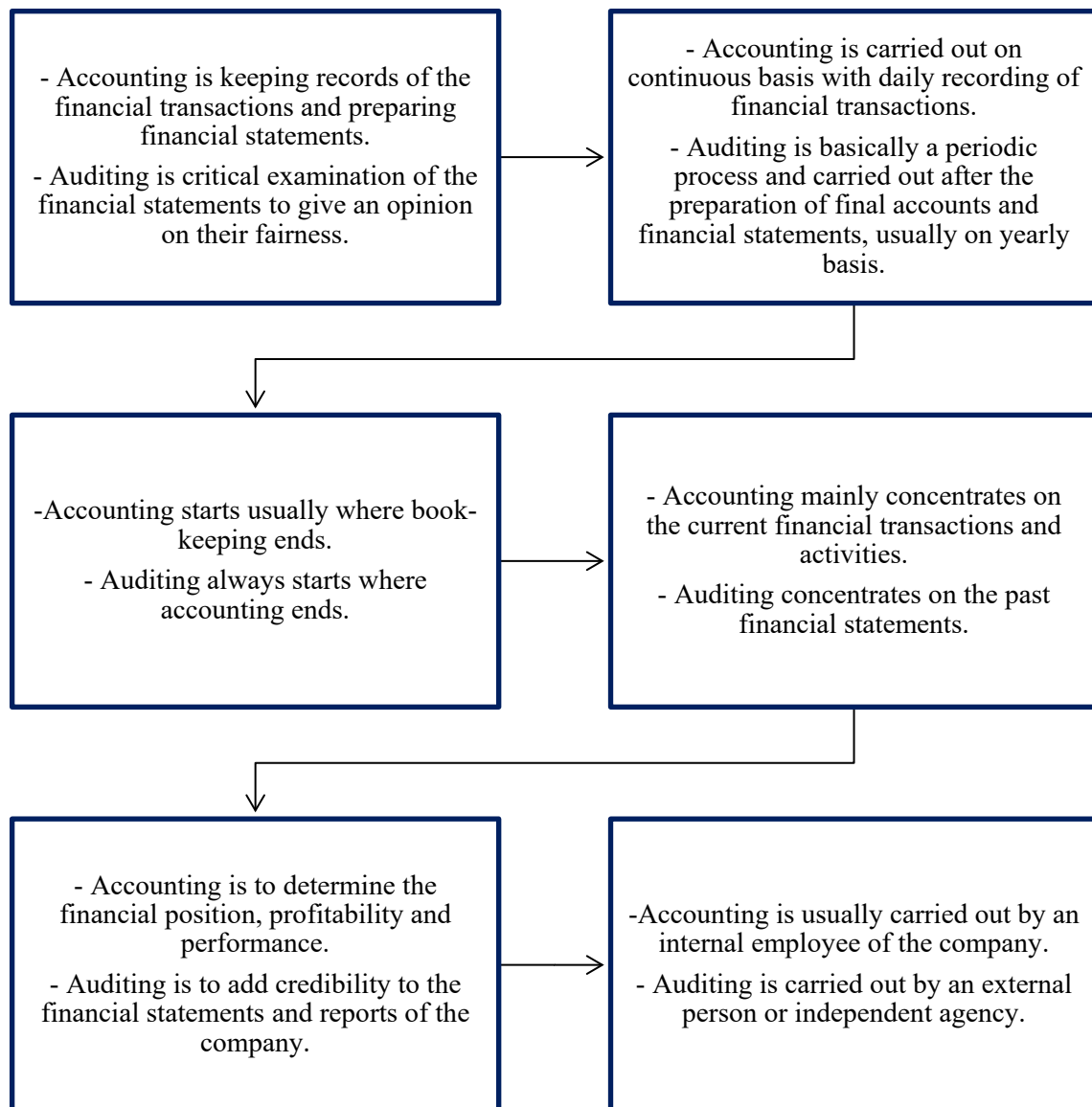
2.7.2. Difference between Accounting and Auditing

There are several distinctions between these two terms: accounting and auditing.

We will highlight the most significant ones, which are as follows:

¹- Prabhu TI(2021), Financial Auditing: All Fundamental Aspects Of Auditing, Nestfame Creations Pvt Ltd, Business & Economics, p.40.

Figure (08) : Accounting vs Auditing



Source: done by the student, Nazia Sultana (2021), Principles And Practice Of Auditing, Walnut Publication, pp. 09/10.

➤ **Synopsis of difference between Accounting and Auditing**

Accounting and auditing are both critical for every firm. It is handled independently by internal staff and an impartial third party.

There are several distinctions between them:

- Accounting is a continuous activity that focuses on accurately documenting and combining all financial activities and statements.
- Auditing is a fully independent procedure that focuses on critically reviewing financial statements and providing an unbiased opinion on their accuracy.

However, they complement one other in several ways. Accountants can benefit from an auditor's professional knowledge and use best practices in their accounting job. Accountants can assist auditors in gaining a complete understanding of an organization's accounting system and the technical elements of the firm. If any fraud or error remains undetected, the auditor will be kept liable.

2.8. Performance: Origin and Definition

The concept of performance is distinguished by its breadth and evolution. Its contents are dynamic as a result of the change and development of institutions' positions and circumstances as a result of the volatility of their internal and external environments.

On the other hand, despite the enormous amount of research and studies dealing with this subject, this dynamic has contributed to a lack of unanimity among management writers and researchers regarding the definition of performance, this is owing to the various criteria and standards used in each writer's study and performance measurement.

2.8.1. The origin of performance

Etymologically, performance derives from the old French performer (Petit Robert) which meant "to accomplish, to execute" in the 13th century. The English verb to perform appeared in the 15th century with a broader meaning¹. The verb "to perform" which refers to the following terms: "to complete, carry out, accomplish, execute, achieve, fulfill". Also, to perform = to accomplish means "the idea of successful, often triumphant, completion of an act or attainment of an objective, especially one involving some difficulty"²

2.8.2. Definition of performance

One of the most challenging things to attain is defining and agreeing on specific meanings and concepts of terminology. The term "performance" is one of those that did not get a single, comprehensive definition. "Since the year 80, many researchers have attempted to define it (Bouquin, 1986; Bescos et al, 1993; Bourguignon, 1995; Lebas, 1995; Bessire, 1999...), and more recently, this concept has been mobilized in the managerial literature to assess the company's implementation of the announced sustainable development strategies (Capron and Quairel, 2005)"³.

The following question arises as a consequence of the preceding:

- ✓ What exactly is performance?

¹- Stéphane Jacquet, membre du CREG, (2011), Management De La Performance : des concepts aux outils, p.02, https://creg.ac-versailles.fr/IMG/pdf/Management_de_la_performance_-_des_concepts_aux_outils.pdf.

²- Hassane Amaazoul (2018), Synthèse Des Principales Approches Définitives Du Concept De Performance En Sciences De Gestion, Université Ibn Zohr Agadir (Maroc), Revue Du Consolidation Comptable Et De Management De La Performance (RCMP), p.04.

³- Angèle Renaud & Nicolas Berland (2010), Mesure De La Performance Globale Des Entreprises. "Comptabilité Et Environnement", Poitiers, France, p.03.

Performance has always been an ambiguous notion in management, rarely defined precisely. As a consequence, it may be formulated as having:

“such as the achievement of organizational objectives, regardless of be the nature and variety of these objectives. This realization is understandable in the strictest sense (result, outcome) or in the broad sense of the process that leads to the result (action)..”¹ .

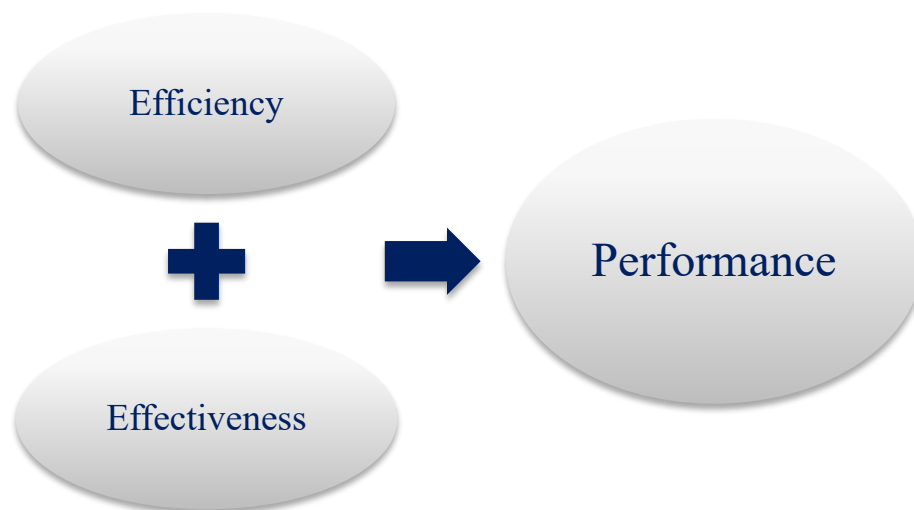
_Bourguignon (2000)

In the field of business, Today's corporate motto is very obvious: You must perform to ensure your organization's survival and sustainability, and also boost your competitive advantage, which is very important in these periods of increased rivalry, globalization, and internationalization of markets. Thus, a corporation can define the concept of performance as:

Marion & al (2012) point out that in the business world, performance can be defined as "the result of an action" (Bouquin, 2004), (Bourguignon, 1995), or from the methods of obtaining the result (Baird, 1986), The selection of one of these three definitions of performance has an impact on the technique used to evaluate overall performance and/or the performance of the actors who contribute to its attainment ².

Based on the preceding, It is possible to offer the following definition: The institution's performance is defined as its capacity to accomplish outcomes that correspond to the goals and objectives established by making the best use of the resources at its disposal. In contrast, performance refers to a combination of:

Figure (09) : Components of performance



Source: done by the student, Components of performance

¹- Ibid, p.04 .

²- Sébastien Payre & Al (2013), Lru Et Nouveau Modele De Contrôle De Gestion Dans Les Université : Quelle Efficacite ?, Centre De Recherche Iseor, Université Jean Moulin Lyon 3, France, p.03.

- In general, performance is a numerical result obtained during a competition.
- At the corporate level, performance expresses the degree of attainment of the goals sought.

2.9. Areas of performance

There are several areas where an accurate assessment of multiple activities taken in various areas of operations may improve an enterprise's performance. Performance areas are a whole other name for operating zones.

The following are the most crucial elements on which we shall concentrate¹:

✓ **Service Production**

The most significant area of performance is service production, and productivity is a systematic study for assessing the service production function. It is possible to compare data on service output to that of other banks' competitors in the banking business. The service production performance of the banking industry can be compared with competing branches in different years.

✓ **Profitability Performance**

Profitability is an enterprise's capacity to generate profits. Profit is significant to bank executives since it is frequently used as a performance measure. Profitability measurement is the total performance measurement. Financial institutions, bankers, and creditors all value profit. Furthermore, even a nonprofessional evaluates the effectiveness of a company firm based on its potential to generate profit. Profitability performance may be calculated and interpreted by using several profitability ratios.

✓ **Liquidity Performance**

The researcher can assess liquidity performance by looking at the most likely swings in current assets.

✓ **Working Capital Performance**

working capital is the money that can be used more effectively elsewhere: e.g., in growth through acquisitions, debt reduction, or raising the dividend. In general, the Working Capital management is responsible for the commercial and financial aspects of inventory, credit, and purchasing the policy².

¹- Kirtiba LVaghela(2017) Financial Performance Analysis Of Pharmaceutical Industry, Phd Thesis, Department of Commerce, Saurashtra University, Rajkot, India, pp. 106-107.

²- András Farkas, Benchmark Of Working Capital Performance, Institute For Entrepreneurship Management, Budapest Tech, p.01. <https://kgk.uni-obuda.hu/sites/default/files/Farkas.Andras.pdf>.

✓ **Fixed Assets Performance**

“That part of the capital of the farmer which is employed in the instruments of agriculture is a fixed.”¹ **Adam Smith**

Based on this, it appears to us that fixed assets are inherently linked to term physical assets, they should be funded with long-term funds. In this case, the fixed asset to net worth ratio can be used to investigate fixed asset financing. This ratio is critical because it indicates whether or not the owners have contributed sufficient cash to finance fixed assets.

✓ **Social Performance**

The term "social performance" refers to the total worth of all resources related to the banking business. Men, materials, money, and machines are all possible candidates. To measure social performance, all of these resources, which are to be used for the benefit of society and the banking sector, are included. The government, depositors, financial institutions, investors, account holders, and workers can all be included when evaluating a bank's social performance. All of these groups are part of society. Some key accounting ratios can be useful in determining the banks' contribution to society².

2.10. Financial Performance

Financial performance is a subjective indicator of a company's ability to earn revenue from its principal way of operation. The term is also used to assess a company's overall financial health over a given time period.

2.10.1. Financial Performance: What Does It Mean?

In general terms, financial performance refers to the level to which financial goals are being or have been achieved. It is the process of measuring company policies and operating results in monetary terms. It is used to measure the overall financial health of a company over some time and can also be used to compare similar companies in the same industry or to compare industries or sectors in general. Financial performance is a subjective measure of how well a company uses its primary business assets and generates revenue. It is the process of determining the operational and financial characteristics of a company based on the company's accounting and financial statements.³

2.10.2. Concept of performance appraisal

There are multiple definitions of performance appraisal, and we will try to confine ourselves to a more comprehensive concept to clarify its meaning.

¹- Adam Smith, on The Nature, Accumulation, And Employment of Stock, 18/04/2022,

<https://www.marxists.org/reference/archive/smith-adam/works/wealth-of-nations/book02/ch01.htm>

² - Kirtiba L Vaghela(2017) Financial Performance Analysis Of Pharmaceutical Industry,Phd Thesis, Department Of Commerce, Saurashtra University, Rajkot, India, p.107.

³- Reshma Dhingra(2016), Financial Performance of Public Sector Enterprises A Case Study of Sail, Phd Thesis, Faculty of Commerce, Banaras Hindu University, Varanasi, Uttar Pradesh, India, p. 03.

Performance appraisal has been described as «the process of identifying, observing, measuring, and developing human performance in organization»

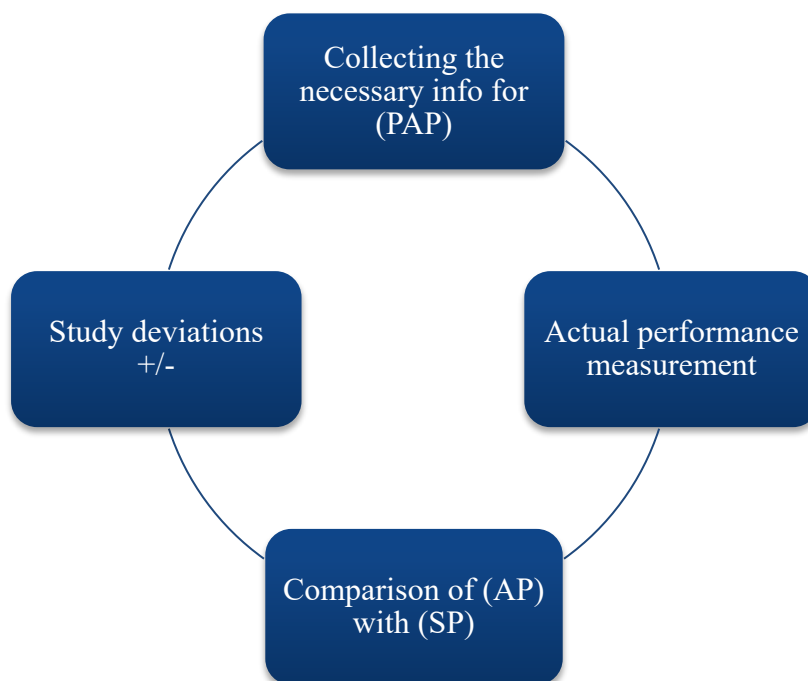
This definition is critical, because it comprises all important components needed for the well-performed appraisal process. The observation part means that the supervisor must frequently observe the identified characteristics. The measurement component indicates that the superior has to translate the observations into a judgmental rating. By development component, the definition shows that the performance appraisal should not only be the evaluation of the past. The supervisor, who makes the appraisal, should focus on the future and on the improvement of the results.¹

2.10.3. Performance appraisal process

The stages of the performance appraisal process for economic institutions have not been entirely agreed upon because of the nature of the subject to be assessed, for example, the performance appraisal process of individuals at some stages is different from the process of appraisal's productive performance.

In general, the stages of the appraisal process can be limited to four basic complementary stages. The lack of one of them impedes the entire process; We will list them in the following order:

Figure (10) : The stages of the performance appraisal process



Source: done by the student, The stages of the performance appraisal process.

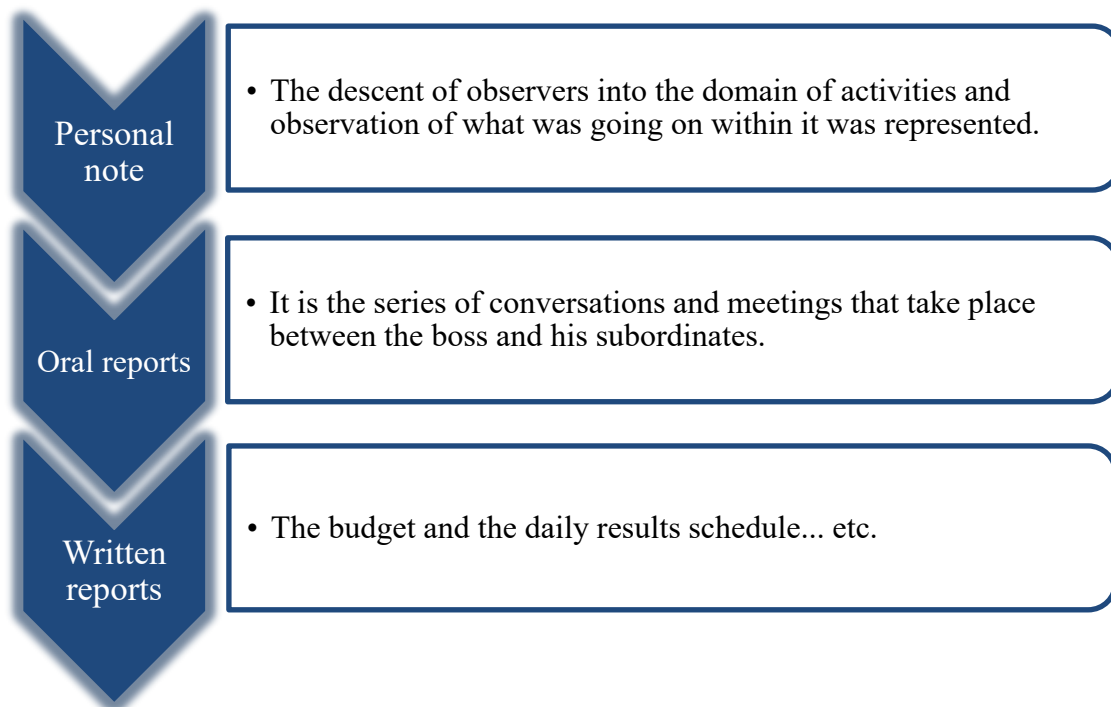
¹- Zachary Deche(2010), Effective Performance Appraisal – A Study Into TheRelation Between Employer Satisfaction And OptimizingBusiness Results, Faculty of Economics of Busines, Departmentof Economics, p.08.

- **Collecting the necessary information**

At all levels of management, information is a critical resource; there can be no planning without information, no decision-making without information, and no control without information. Information is a necessary thing in management, but the availability of information is not enough, rather the institution must obtain it with high quality, and at the appropriate times. Competitive advantages, and achieving sustainable competitiveness for the enterprise.¹

It has three sources:

Figure (11) : Information Sources



Source: George R.Terry, Stéphan. G Franclin(1985), Les Principes Du Management. Ed Economica, 8 Ed Paris ,pp.501/502.

- **Measuring actual performance**

This stage enables the institution to measure its competencies and effectiveness, through its selection of a set of indicators and criteria, and includes measuring performance in its quantitative and qualitative aspects.²

✓ Performance measurement aims to diagnose and can show us deviations.

- **Comparing actual performance with desired performance**

¹- Humbert Hesca, Elisabeth Lessa(1995), Gestion De L'information. Edition Litec, Paris, p.20.

²- Brigitte Dariath(2000), Controle De Gestion Dunod, Paris, p.124.

At this stage, the institution compares the actual (achieved) performance with the desired performance, whether there is a match between them or there is a difference. The comparison process depends on both the time factor and the performance of units and objectives.¹

- **Study deviation and pass judgment**

This process is the last step in the process of determining the deviation and the type of this deviation, whether it is positive or negative. If the deviation is positive, then it is in favor of the institution, but if the deviation is negative, it is against the institution, and the deviation is non-existent and does not affect the results of the institution. Therefore, officials should analyze the deviation and identify the reasons for this deviation in order to encourage what is positive and address what is negative.²

¹- Michel Gervais(2000), Contrôle De Gestion. Ed Economica, 7 Ed, Paris, pp.609-611.

²- Laurent Belanger & Al(1984), G.R. H Une Approche Globale Et Intégrée , Ed Gaetan Morin, 3 Impression, Quebec,1984,pp:175-177.

Conclusion

Based on the foregoing, we tried to clarify the broad lines of the accounting and auditing by highlighting the generalities of auditing contained in this chapter, which are the pillars for the accounting audit process and the review of financial statements, which would respond to the recognized standards and achieve the objectives set by the auditor on the one hand and the general objectives, On the other hand, auditing has become very important in light of the current economic conditions.

Despite the critical importance of the audit process in making decisions for various parties, it may include some risks that result from the possibility of expressing a wrong opinion on the part of the auditor.

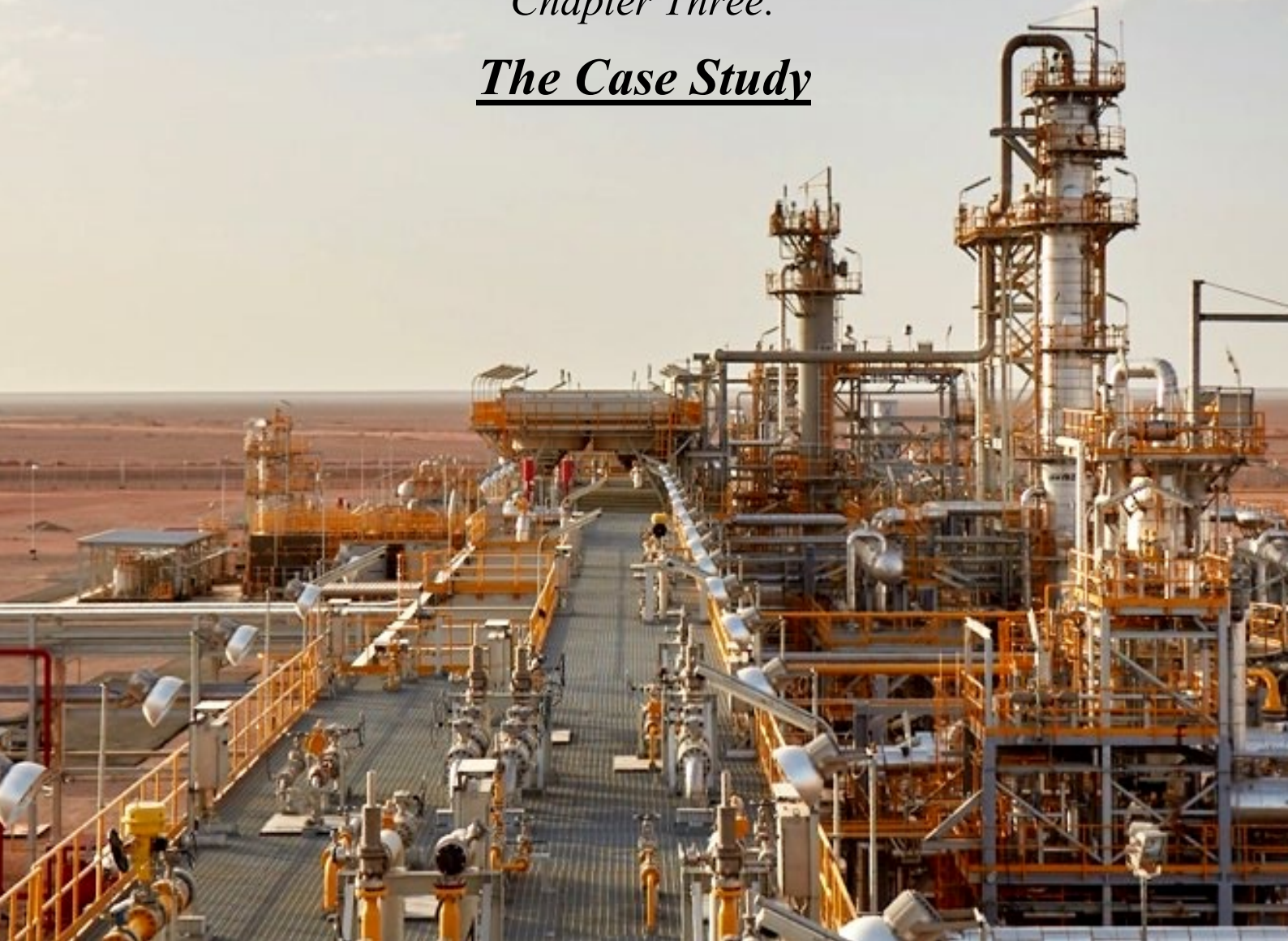
It may be stated that the purpose of each economic enterprise is to strive for the highest financial performance possible, since this is the primary engine for extending its operations, obtaining financial independence, and continuing to carry out its activities. All of them are predicated on the institution's numerous functions being tightly regulated by stringent control procedures that cover all of its activities and operations. That is done through accounting and auditing, which works in the best interests of the company by making advice on reviewing the financial situation and eliminating financial corruption, as well as addressing operations in terms of efficiency and effectiveness. It also contributes to achieving maximum efficiency in economic projects for financial performance.

سوناطراک



sonatrach

Chapter Three:
The Case Study



Chapter Three:

The Case Study

3.1 Introduction

In the theoretical study, the accounting audit was addressed as an indispensable tool and means due to the information and services it provides to the institution regarding the extent to which it controls the accounting operations that it performs, as well as its role in improving financial performance, to enrich what was stated in the theoretical section in strengthening this. The research is an applied study to know the extent to which what is theoretical and what exists in reality, and to reach the goal, we shed this study on one of the economic institutions.

We highlighted a Sonatrach Economic Corporation by identifying a petrochemical compound CP1/Z to know the role of accounting audit in improving financial performance.

3.2. General presentation of Sonatrach

The National Corporation for Research, Exploration, Production, Transportation, Transfer, and Marketing of Hydrocarbons, known as Sonatrach, was established.

A full explanation of the acronym in French:

SONATRACH: Société National de Transport et de Commercialisation des Hydrocarbure.

Under Decree No. 491/63 dated 31/12/1963, and in 1966 its activity expanded and included everything related to oil and natural gas.

Company introduction:

Sonatrach is considered the most important resource for reviving the national economy and bringing in hard currency, as hydrocarbons contribute 23% of the national raw production, and represent 50% of the national budget. It ranks tenth in the world.

Sonatrach is a huge company employing 3,700 workers, including 13,280 tires and high-profile tires, which represent 40% of the total.

It is also concerned with petrochemistry and mines works. It is the first African institution and ranks eleventh in the world in the field of petroleum, producing annually about 222 million tons of oil, and the second gas exporter company in the world, which constitutes the critical mass for the Algerian economy.

According to Article 07 of Law 98/48 of 11/02/1998, we can limit its activities as follows:

- Research, discovery, and exploitation.
- Development and management.
- Methods of transportation, storage, shipping, refining and liquefaction.

- External marketing through the export process.
- Marketing in the national market.
- Disperse liquefied petroleum gas.

As for Sonatrach's activity in terms of repetitive industry, it is carried out by "Naftal", which distributes and markets the petroleum product in the national market.

Presentation of the Cp1/z complex

Description and History

The CP1/Z complex of the national company "SONATRACH" called (ENIP) in the political framework, created by decree N ° 84- 257 of 01- 09- 1984 modifying decree N ° 83- 410 of 06- 06- 1983 .The Methanol and Derivatives Complex, unique in Algeria, occupies an area of 27 hectares on the plateau of El MOHGON, overlooking the bay of the city of Arzew, located 2 km from the latter and north of the refinery of Arzew.

- Commissioning of the Methanol unit in 1976
- Commissioning of Formaldehyde and Glue units in 1978.
- From 1976 to 1984 SONATRACH PGR.
- From 1985 to 2010 ENIP Spa subsidiary SH.
- From 2011 to date, CP1/Z falls under the Petrochemical Division (SH. RPC).

3.3. The complex specializes in the following product industry:

✓ Methanol Production	100.000 T/An.
✓ Formalin Production- FORMUREE	16.000 T/An.
✓ Production of Liquid Urea Resins For Glue	16.000 T/An.
✓ Production of urea resins molding powders	2.500 T/an. At a standstill
✓ Production of phenolic resins for soothing	3.000 T/An. At a standstill
✓ Production of phenolic resins for foam	2.000 T/An. At a standstill
✓ Production of atomized resins for glue	2.600 T/An. At a standstill
✓ Production of phenolic resins molding powder	1.900 T/An. At a standstill
✓ Production of melanic resins for Formica	1.000 T/An. At a standstill

The utilities necessary for the operation of the production units of the above products are; boiler water, cooling water, steam generation and electricity backup (generator), and compressed air.

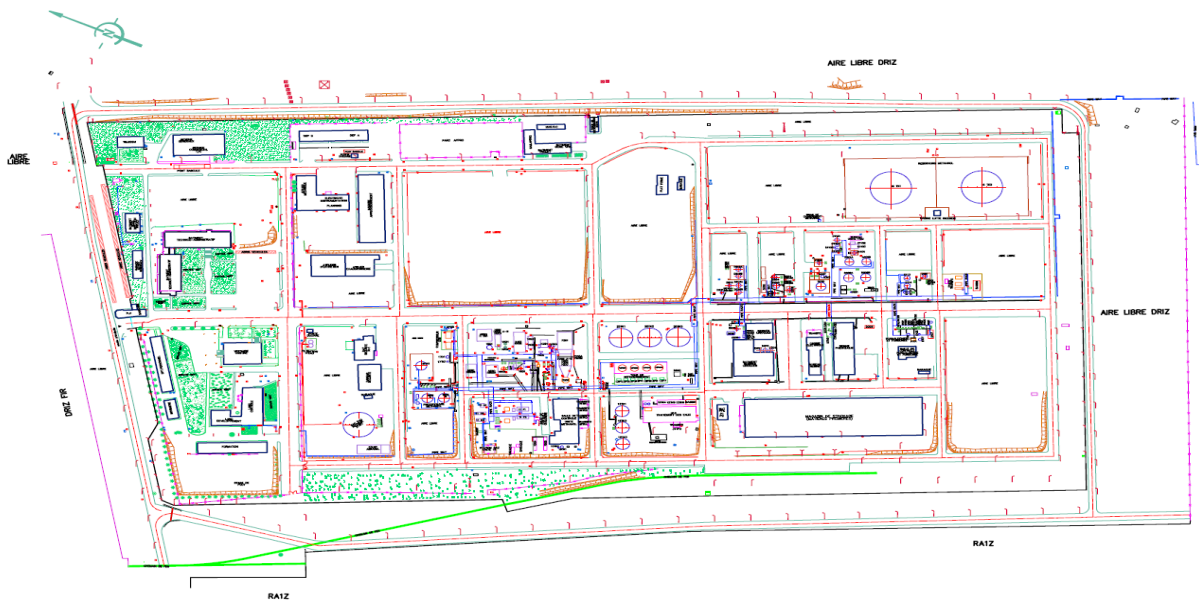
Resins are semi-finished materials that are very malleable and can give rise to a multitude of finished products.

GENERAL PLAN OF CP1/Z

Plan (01)



Plan (02)



Current Production:

- **Methanol:** primary alcohol "CH₃OH", produced in an annual quantity of 113,000 TM.
- **Formaldehyde:** formic aldehyde 36% or formalin "HCHO", produced in a daily quantity of 55 Tons.
- **Formuaged:** formaldehyde + urea, UFC Condensate, produced in daily quantity of 35 Tons.
- Part of UFC 80 is self-consumed for the production of liquid and solid glues.
- Liquid glue: urea-based resin, produced in a daily quantity of 30 tons. Used in applications related to the wood industry.

Main Raw Materials:

The main raw materials of the complex are natural gas for the production of methanol and urea for the production of the Formuée and glues.

- Natural gas is supplied by SONATRACH
- Urea is supplied by SORFERT (started production in 2013)

Production facilities:

Methanol Unit

Installed Capacity: 113,000 T/Year Methanol Grade A.

Process: ICI Low pressure

-95% of Methanol production is exported

-4.5% self-consumed in the production of Formaldehyde and Formuée.

-0.5% in sales nationwide.

USES

The utilities are composed of the following facilities:

- ✓ **Steam generator :** 02 boilers of 25 T/H each.
01 boiler of 30 T/H installed in 2013.
- ✓ **Cooling tower:** 04 cells with a capacity
Totale de 4000 M³/H.
- ✓ **30 KV shut-off station,** Transformer section, and emergency power generator section.
- ✓ **Supply of air instrument and service:** (capacity: 4 x 1000 NM³/H).
- ✓ **Nitrogen storage** (capacity: 20,000 L),
- ✓ Distilled water supply provided by the new
Line Ø 4" from the KAHRAMA unit commissioned in 2012.

UNITS: FORMALDEHYDE AND GLUES

Formaldehyde Unit – Formuée

Capacity:

Formaldehyde 36 : 16.500 T/An
Formuatted UFC 80 : 12.000 T/An

Process: MONTEDISON

✓ Liquid Urea Resin Unit (Liquid Glue)

Capacity: 10.000 T/An

Process: MONTEDISON

Storage Areas

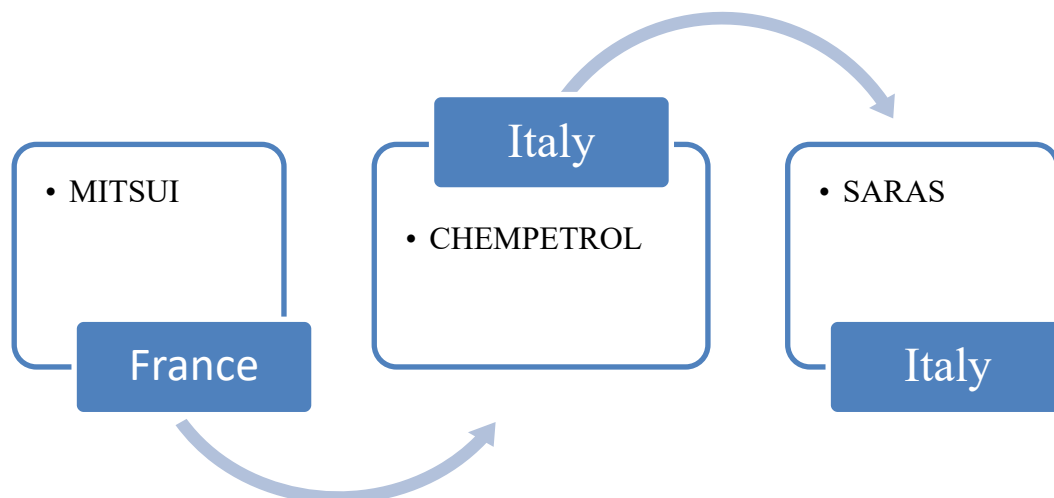
Storage capacities

- ✓ Refined methanol: 24,000 m3 (02 storage tanks)
- ✓ Demined water: 13,000 m3
- ✓ Formaldehyde: 250 m3
- ✓ Formuée : 1250 m3
- ✓ Liquid urea resins: 120 m3
- ✓ Solid raw materials storage warehouse
- ✓ Storage warehouse finished products.
- ✓ Formuée storage: 500 m3 in progress

Destination of Products

The production of Methanol is mainly for export. whose main European customers are:

Figure (01): European customers



- ✓ The production of Formaldehyde F36 is intended for the local market.
- ✓ The production of the Formuée Ufc80 Form is intended mainly for SORFERT (Urea production) and the rest self-consumed for the production of liquid glues dedicated to the national wood processing company: TRANSBOIS BEJAIA.

Finally the complex has a Unit Utilities for the manufacture of demineralized water, compressed air, steam, nitrogen

Methanol is used in the manufacture of the following products:

Formalin - Acetic Acid - Proteins (Animal Feed) - Special Fuels - Solvents (Paints and Varnishes) - various other products.

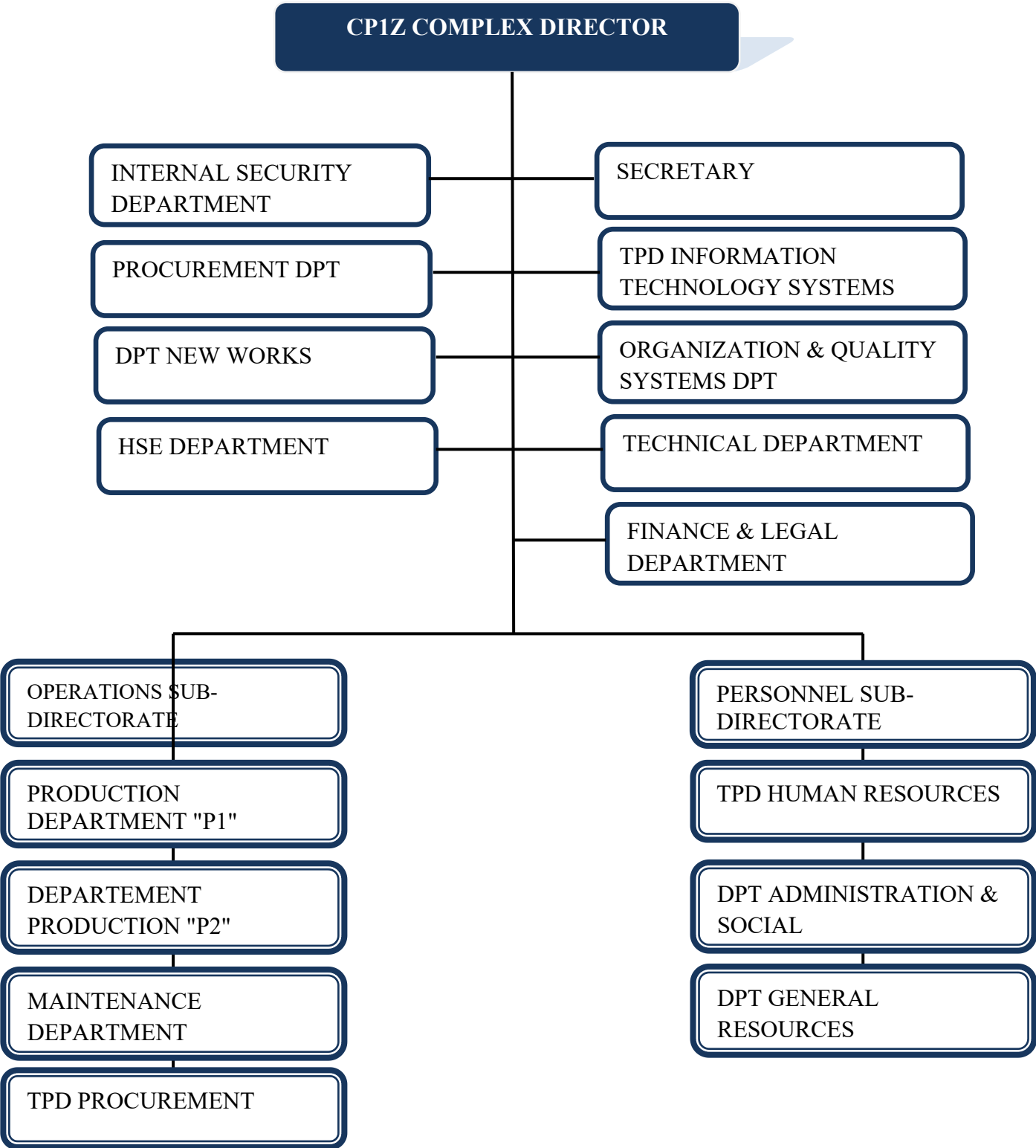
Formalin is used to manufacture the following products:

Thermosetting resins – Pharmaceuticals – Disinfectants – Deodorants – Textiles and other products.

3.4. Description of the departments of the CP1/Z Complex

At this stage we will touch on the sections of the CP1/Z complex through this chart below:

Figure (02): The sections of the CP1/Z complex

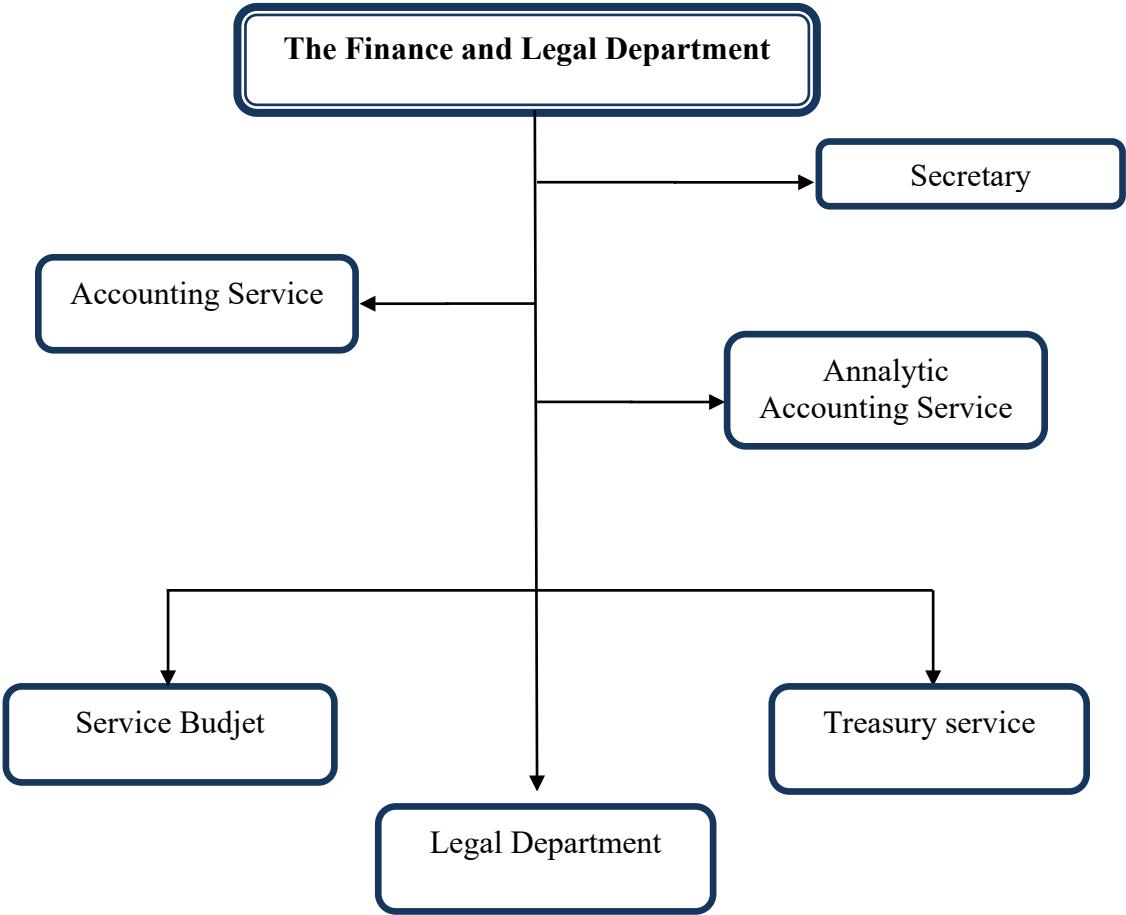


Source: done by the student, Depending on the enterprise documents

3.5. The Finance and Legal Department

As we will see in the figure, the Department of Finance and Legal Affairs is divided into numerous departments:

Figure (03): The Finance & Legal Department



Source: done by the student, Depending on the enterprise documents

1. General Accounting Department

The service consists of three sections whose main task is the daily recording of accounting entries for supporting documents, and by means of input documents. Its objective is to draw up the balance sheet at the end of the year.

A- Suppliers Section

The supplier's section, dependent on the general accounting department, monitors and manages the management of third-party accounts for all purchases made in Algeria, or abroad.

B- Stock Section

Its activity is:

- Management of inventory accounts.
- Management of purchasing accounts.

C- Investment Section

The activity of this section is:

- Investment account management
- Calculation and accounting for depreciation.

D- Centralization Section

The latter is the finalization section, its role is the final control of all accounting documents.

Its purpose is to process and account for transactions that are not processed at the level of the other sections, these operations are:

- 1- The accounting of various operations (imputation of payroll withheld from staff etc. ...).
- 2- The follow-up of the balance sheet accounts.
- 3- The preparation at the end of the year summaries such as the tables of management expenses table of income statements and balance sheet.

2. Treasury department

The cash flow of a company can be analyzed as all of its payment possibilities considered in relation to all the commitments it has contracted. et that this cash flow policy is based on the control of the evolution of the financial situation of the firm in all its aspects.

The tasks of the service

Manage banking relationships, Monitoring the application of the conventions, Ensure reporting / group to ensure the proper functioning of the treasury system.

The main tasks of legal entities:

Manage the centralizing account, Perform daily reconciliation, Ensure group reporting.

The tasks of the operational units:

The Complex and in particular the Treasury Department will have to perform tasks daily or monthly, namely:

- ✓ Payment of suppliers on the due date.
- ✓ Management of bank balances as of value date.

- ✓ Cash reconciliation on different bank accounts.
- ✓ Control and proper application of banking conditions.
- ✓ The necessary reporting for managers.

3. budget department

- Coordinate and supervise the activity of the Budget and Research Contracts Department
- Evaluate and consolidate the institution's revenue and expenditure forecasts
- Participate in budget programming
- Fill in the budget module in the financial and accounting SI
- Monitor and report on budget implementation
- Conduct annual activity interviews of budget and research contracts staff
- Monitor and analyze the evolution of financial regulations

4. Cost accounting department

- Calculate the costs of the different functions of the company and the different products
- Provide a basis for evaluation for certain balance sheet items
- Propose methods to calculate these costs and evaluate stocks
- Explain the results, comparing costs and selling prices
- Make a forecast of expenses and revenues
- Give a basis to management control

5. Legal Department

It is divided into:

- **Taxation**

She has the following tasks:

Preparation of the monthly tax return G 50 of:

- Tap business tax
 - Value added tax TAV
 - Stamp duty
- ✓ Establishment of TVA exemption certificates with TVA-exempt companies such as SONATRACH.
 - ✓ Accounting for all tax-related entries.
 - ✓ Analysis of the accounts and sub-annexes balance sheet.
 - ✓ Relationship with the tax authorities. (Taxes).

- **INSURANCE**

Make insurance of all branches with an insurance company (CAAR)

- ✓ Car insurance.
- ✓ Production equipment insurance.
- ✓ Building insurance.
- ✓ Group of persons insurance.
- ✓ Liability insurance.

Legal Unit :

The role of the legal unit can be summarized in 2 parts:

- ✓ The legal aspect.
- ✓ The secretariat of the committees.

Summary about Sonatrach

Sonatrach is an institution with a historical extension and is one of the largest institutions in Algeria, contributing to development, which made us do an applied study of the effectiveness of auditing in one of these economic institutions, and from it, we concluded the importance of auditing accounts in evaluating the performance of the institution to maintain its position as it is one of the largest institutions on which the national economy as a whole depends.

3.6. Accounting audit method and financial performance in a complex CP1/Z

During our field visit to the CP1/Z complex in our study, We acquired some information on the subject of our research on the reality of auditing and financial performance in the complex.

3.6.1. Accounting audit method in a complex

The audit is carried out by concluding a contract with the statutory auditor.

The governor of the accounts is fully independent within the company, where he operates under his authority, after the Board of Directors has agreed to appoint him, the Board sends a letter of request appointing the governor of the accounts, to propose to him the work of the governor of the accounts for a period of three years renewable once, They are waiting for him to accept;

The account governor then responds to the letter either by acceptance or rejection and in the event of acceptance he cannot stop or withdraw from work before three years ago unless something sudden or an obstacle to his task occurs;

First: The approval report on the CP1/Z complex account

It contains the following items:

- ✓ Analysis of major accounting and financial transactions.
- ✓ Accounting and financial data for the vehicle's infrastructure.
- ✓ Compound audit process.
- ✓ Inferred notes.
- ✓ Authenticating accounts social for the financial year 2019.

Analysis of key accounting and financial transactions for the financial year 2019

3.6.2. Accounting and financial data structures for the complex

Accounting and financial data for the CP1/Z complex, On 31/12/2019, Schematically as follows:

Accounting budget

The accounting budget of the company's records, Registered in its assets and liabilities in the information below:

Assets = Liabilities = 11,555,990,844.31DA

Financial year Result

The tax result for the fiscal year is equal to the normal pre-tax result for the financial year as follows:

Normal pre-tax result = 559,204,327.46DA

Net result for the financial year

- ✓ After deducting corporate profits tax in the amount of : **20,360,013.00 DA.**
- ✓ Normal pre-tax result for the financial year is : **559,204,327.46DA.**
- ✓ The accounting result for the financial year is : **538,844,314.46 DA.**

The company's audit operation

In 31/12/2019, the compound's accounts are monitored as follows:

- ✓ Permanent file update.
- ✓ Opening a work file for the fiscal year.

At the end of the work, for verification covering all financial statements of the opened work file, it is necessary to make different observations either in form or content.

Inferred notes:

They are divided into:

Notes on the shape :

- **Organization and internal control body:**

It should be noted that to improve the management of the compound, management must adopt a manual of management procedures to strengthen the internal control system;

Management procedures must be based on the internal accounts plan in the way the accounts work as well as the accounting principles manual following the accounting and financial system.

- **Notes on content**

At this stage, we provide you with the data below, according to the main item in the budget and the results calculation schedule, in accordance with the accounting framework set out in the provisions of the decree on 01/01/2010.

The approval of the financial year 2019 accounts

After investigations, monitoring of the institution and supervision of the financial statements for the fiscal year 2019 by the governor of accounts, which are carried out following due diligence any conformity with the law, and sometimes in a systematic way, sometimes in the form of samples, excluding the above observations and reservations, does not include the nature of exclusion;

In our view, we can conclude that composite accounts, discontinued on December 31, 2019, and those total assets equal total liabilities at the amount: **11,555,990,844.31 DA**.

- ✓ Honest, organized, and gave an honest picture of the company's situation.

Prepared on: 17/05/2019, by statutory auditor.

Special Investigations

- ✓ Special report on internal control procedures (Chapter 07), Stopped on 27/06/2019, determining the criteria for statutory auditor reports.
- ✓ Special report on the total amount of the highest 05 wages.
- ✓ Special report on special privileges granted to users.
- ✓ Special report on verifying the veracity of the information contained in the management report.
- ✓ Special standards on the evolution of the result of the last 05 years of the financial year.
- ✓ Special report on the company's net assets (Article 589 of the Commercial Act).

The company has not provided us with any report on internal control procedures, and in that our opinion cannot be expressed in it.

Prepared on: 17/05/2019, by statutory auditor.

Special report on the total amount of the highest 05 wages

Concerning the wages allocated to the best 05 wages in the company, the company has not provided us with any document that we can express.

by statutory auditor.

Special report on special privileges granted to users

As for the special report on the special benefits granted to users, the company has not provided us with any document that we can express.

Prepared on: 17/05/2019, by statutory auditor.

Special report on verifying the veracity of the information contained in the management report

The content of the management report, in our opinion, is the status and activity of the CP1/Z compound in the period 02/01/2019 to 31/12/2019, As shown in the financial statements ending on 31/12/2019.

Prepared on: 17/05/2019, by statutory auditor.

Special standards on the evolution of the result of the last 03 years of the financial year

We will Show to the results of CP1/Z Complex, during the past 03 years.

Table (01) :The Net Result over the past 03 years

Naming	Financial Year	Sums
Net Result	2017	515,432,958.64
Net Result	2018	455,931,017.18
Net Result	2019	538,844,314.46

Prepared on: 17/05/2019, by statutory auditor.

Special report on the company's net assets (Article 589 of the Commercial Act).

According to Article "589" of the Commercial Act, the assets of the complex are presented on 31 December 2019, Positive balance.

Net Assets =538,844,314.46 DA

Reality of the financial performance of the CP1/Z complex

At the following points, we will view the budget and the complex's results schedule during the period 2018/2019.

Table(02) : Detailed Financial Budget for Composite Assets

HEADING	Net (2018)	Net (2019)
NON-CURRENT ASSET		
Goodwill		
intangible assets	239,893.44	166,734.28
Fixedassets	7,537,965,722.24	5,968,723,078.98
Assets in progress	-	141,143,262.49
Financial fixedassets	185,020,336.19	176,308,400.05
Equitysecurities – associates	-	-
Other equity and related claims	-	-
Other fixed securities	-	-
Loans and other non-current financial assets	185,020,336.19	176,308,400.05
Deferred taxes assets	29,128,935.48	8,768,922.48
TOTAL NON-CURRENT ASSETS	7,752,354,887.35	6,295,110,398.28
CURRENT ASSET		
Inventory In progress	4,443,364,533.40	4,689,861,515.76
Receivables and similar uses	431,702,154.49	439,749,356.28
Clients	-	37,440.00
Other debtors	261,776,084.69	281,171,228.06
Taxes	169,926,069.80	158,540,688.22
Other current assets	4,430,958.47	131,269,573.99
Availability and similar	-	-
Investments and other current financial assets	-	-
Treasury	4,430,958.47	131,269,573.99
TOTAL CURRENT ASSETS	4,879,497,646.36	5,260,880,446.03
TOTAL ASSETS	12,631,852,533.71	11,555,990,844.31

Source: done by the student, Depending on the enterprise documents

Table (03): Detailed Financial Budget for enterprise Liabilities

HEADING	Net (2018)	Net (2019)
Clean Capital		
Issued capital	-	-
Uncalled capital	-	-
Premiums and reserves (Consolidated reserves (1))	-	-
Revaluation	-	-
Equivalence difference(1)	-	-
Net income (Net income Group share)	4,559,310,17.18	538,844,314.46
Other equity - Retained earnings	-	-
Link accounts	11,241,859,345.89	9,849,532,659.99
Share of the consolidating company (1)	-	-
Share of minorities (1))	-	-
TOTAL CAPITAUX PROPRES	11,697,790,363.07	2,610,271,239.03
NON-CURRENT LIABILITIES		
Borrowing and financial debts	-	-
Taxes (deferred and provisioned)	-	-
Other non-current debts	-	-
Provisions and deferred income	126,641,722.29	49,333,976.29
TOTAL NON-CURRENT LIABILITIES	126,641,722.29	49,333,976.29
CURRENT LIABILITIES		
Suppliers And linked accounts	435,784,278.30	778,267,650.32
Taxes	-	-
Other debts	371,636,170.05	340,012,243.25
TOTAL CURRENT LIABILITIES	807,420,448.35	1,118,279,893.57
TOTAL LIABILITIES	12,631,852,533.71	11,555,990,844.31

Source: done by the student, Depending on the enterprise documents

Table (04): Table of results calculations according to the nature of the compound

Compte	Designation	2018	2019
		Totals	Totals
70	Sales and related products	9,580,946,266.93	11,346,086,341.89
72	Change in inventories of finished and work-in-progress	-1,715,314,400.73	-1,430,296,916.00
73	Immobilised production	-	-
74	Operating grant	-	-
1. Production of the exercise		7,865,631,866.20	9,915,789,425.89
60	Consumed purchases	893,496,610.77	2,260,062,173.26
61	External services and other consumption	1,606,753,190.81	1,545,228,945.75
62	Other Field Services	1,429,757,580.85	1,554,224,349.55
2. Exercise consumption		3,930,007,382.43	5,359,515,468.56
3. Added value (1-2)		3,935,624,483.77	4,556,273,957.33
63	Staff costs	2,249,943,675.01	2,297,472,621.58
64	Taxes other and payments	40,412,661.95	36,119,974.01
4. Gross operating surplus		1,645,268,146.81	2,222,681,361.74
75	Other operating income	627,442,809.41	39,480,303.93
65	Other operating expenses	17,012,987.84	31,660,369.59
68	Depreciation, provisions and impairment losses	1,984,743,358.13	2,035,589,660.53
78	Reversals of impairment losses and provisions	223,228,270.84	402,720,061.82
5. Operating result (Operation)		494,182,881.09	10,023,715,329.03
76	Financial products	416,549.27	75,355.06
66	Financial expenses	44,154,782.18	38,502,724.97
6. Financial result		-43,738,232.91	-38,427,369.91
7. Ordinary profit before tax (5+6)		450,444,648.188	559,204,327.46
695+8	Taxes payable on ordinary results	-	-
692+3	Deferred taxes (variations) on ordinary results	-5,486,369.00	20,360,013.00
TPAO	Total Revenue from Ordinary Activities	8,716,719,495.72	10,358,065,146.70
TCAO	Total Expenses of Ordinary Activities	8,260,788,478.54	9,819,220,832.24
8. Net income from ordinary activities		455,931,017.18	538,844,314.46
77	Income from extraordinary items	-	-
67	Expenses on extraordinary items	-	-

	9. Résultat extraordinaire	-	-
	10. Net income for the year	455,931,017.18	538,844,314.46

Table of results calculations according to the nature of the CP1/Z complex for the period; (2018/2019).

3.7. Study Results (Positives / Negatives)

When we visited the complex and conducted an interview with the account keeper to obtain the necessary information to try to apply the theoretical side to the practical side, our evaluation of the auditor's work was as follows:

Positives

The auditor prepares the necessary reports and expresses an impartial technical opinion on them, where he keeps a copy with him, and submits a copy to the general assembly/general of the parent organization RPC Skikda.

The results of the directorate's financial indicators in 2019 indicate an improvement in the activity and performance of the complex compared to the year 2018, despite the volume of debts incurred by the complex;

- ✓ The scale of the significant investments had a detrimental impact on the institution's financial performance and KPIs.

After interviewing the statutory auditor, we can say that the institution can achieve positive results and significant profits in the coming years because the compound has received good support.

Negatives

There is a lack of workers and employees, which causes work to pile up on the few available people.

Although there is a central internal audit in Sonatrach, the absence of branches of internal audit in the units of the institution at the national level leads to the lack of continuous and permanent follow-up of the work that takes place in the complexes; As audits are carried out through the programming of field and inspection visits.

The lack of possible objectives to assess the compound's performance and effectiveness.

3.8. The role of accounting audit in improving financial performance

In this topic, we will discuss the role of accounting audits in improving the financial performance of the compound.

3.8.1. Financial budget audit:

Through this requirement, we will shed light on the financial budget from the audit side, and from it, we will address the audit of the financial budget; as follows:

Table (05): Private funds

Liabilities	(2018)	(2019)
Clean Capital		
Net income (Net income Group share)	455,931,017.18	538,844,317.46
Link accounts	11,241,859,345.89	9,849,532,659.99
TOTAL CAPITAUX PROPRES	11,697,790,363.07	10,388,376,974.45

Our study shows, through our analysis of these accounts, the following observations:

Shareholders' equity

It will be detailed in several sub-accounts based on each contributor's contribution, as specified in the compound's articles of association.

Block of non-current assets

Table (06): The block of non-current assets of the compound is planned for 31/12/2019 as follows:

ASSET	Net (2018)	Net (2019)
NON-CURRENT ASSET		
Intangible Assets	239,893.44	166,734.28
FixedAssets	7,537,965,722.24	5,968,723,078.98
AssetsIn Progress	-	141,143,262.49
Financial FixedAssets	185,020,336.19	176,308,400.05
Loans And Other Non-Current Financial Assets	185,020,336.19	176,308,400.05
Deferred Taxes Assets	29,128,935.48	8,768,922.48
TOTAL NON-CURRENT ASSETS	7,752,354,887.35	6,295,110,398.28

Through our study and analysis of various accounts of non-current assets, we reached the following observations:

Inventory operations

At the end of each financial year, companies make a comprehensive and detailed inventory of in-kind fixes, and their file must be kept constantly;

- ✓ The inventory will identify the destination of assets owned by the complex, as well as those legally owned and exploited by other companies in the group.

3.8.2. Auditing of financial indicators

We will present the financial ratios in terms of auditing; that is, we will audit the financial ratios of the complex.

Table (07): Financial ratios

	2017	2018	2019
(1) Financial Independence Ratio: Total Debt/Total Budget	0.12	0.10	0.13
(2) Financial Independence : Financial Debt/Private Capital	0.08	0.04	0.05
(3) Debt Ratio: Financial Debt / Total Budget	0.07	0.04	0.04
(4) Financial Balance Ratio: Own Capital / Fixed Assets	1.40	1.54	1.68
(5) Solvency Ratio: Total Debt / Own Capital	0.14	0.11	0.15
(6) General Liquidity Ratio: Current Assets / Short Term Debt	3.32	5.03	4.12

Financial Independence Ratio

We note a low financial independence ratio. This indicates that the compound has financial independence.

Debt Ratio

The decrease in the debt ratio in the compound, and this is due to the compound's repayment of part of its debts; as it was audited as follows:

- Ensure that the company's articles of association do not prohibit borrowing.
- Reviewing the Board of Directors' decision approving the loan contract.
- Request statements of account names.
- Matching statements with the ledger.
- Ensure that all purchase invoices have been entered into the warehouse.

General Liquidity Ratio

Table (08): General Liquidity Ratio

	2017	2018	2019
Circulating Assets	2,177,725,185.00	2,732,011,067.00	4,096,158,809.00
Short Term Debts	271,778,110.00	774,819,048.00	77,558,958.00
General Liquidity Ratio	8.02	3.53	5.09

We note that the compound achieved high general liquidity in 2017 and decreased in 2019 due to the good management of the administration, but the accounting audit provides it with greater liquidity when following the recommendations and suggestions.

- ✓ Here, the role of accounting audits in improving public liquidity appears, as, in 2017, it was **8.02**, and it became **5.09** in 2019.

The ready liquidity ratio witnessed a continuous increase in the year 2019. and this means an increase in the volume of frozen funds in the institution's treasury; this means that the institution can cover its fixed assets with its funds.

3.8.3. Auditing Financial Balance Indicators

Table (09): Indicators of Financial Balance Indicators

	Calculation Method	2018	2019
Permanent Working Capital	Permanent Funds - Fixed Assets	842.99	2,218.13
WorkingCapital Needs	Cycle Needs - Cycle Resources	241.51	1,243.33
Treasury	Working Capital - Working Capital Needs	601.48	974.80

The table represents permanent working capital, working capital needs, and treasury. In the period 2018/2019, it was not evaluated by the auditor throughout the period. Which led to fluctuation and irregularity of these values and the lack of financial balance; This is because there is no internal audit.

- ✓ We conclude through the results obtained using some indicators of financial balance; that the financial performance of the compound is in good condition.

Chapter Four:
Generaln Conclusion

Chapter Four:

General Conclusion

4.1. Introduction

At this point, we will analyze and interpret the results of the study by giving a broad conclusion to the data; and we will summarize the theoretical and practical aspects of the study in the form of a general conclusion.

4.2. The Study's Results : Analysis and Interpretation

After carrying out the accounting audit of some financial performance indicators for the compound CP1/Z, intending to study the extent of the impact of accounting audit on financial performance and how to improve it. Through this we conclude; some notes from the study, also from the auditor's experience in analyzing the institution's activity despite the lack of financial performance indicators, And not relying on them, we made some suggestions after this field study, which were as follows:

- As for the financial equilibrium of the compound, the compound has no capital, as it is subordinate to the parent company it depends on the net result; Here, we note that it decreased from 2018 to 2019, and this indicates the improvement in the financial performance of the enterprise and its ability to maintain financial balance;

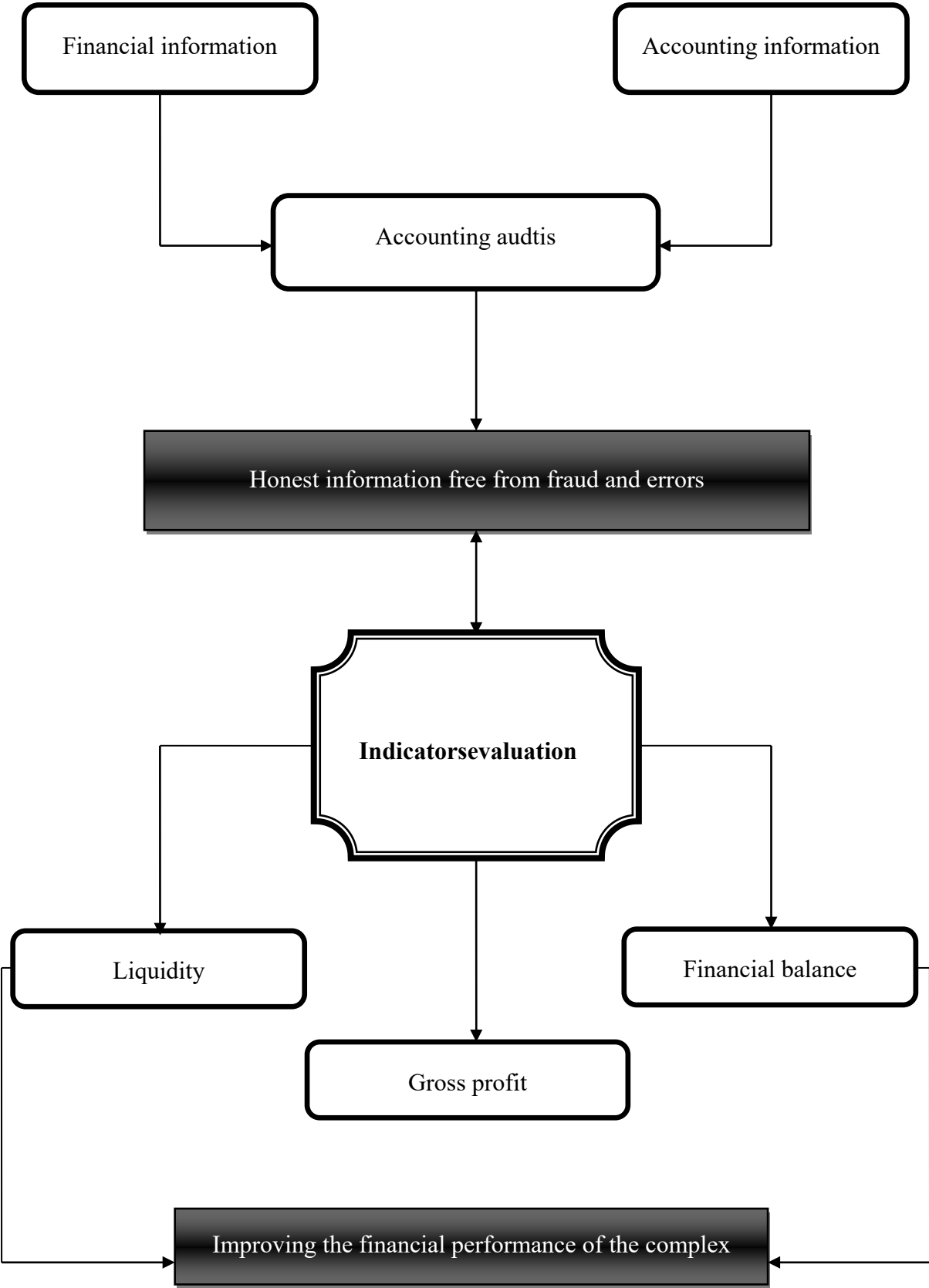
However, if accounting audits were applied in all aspects other than traditional auditing, it would have achieved a greater balance.

- As for the treasury, we note that it recorded a significant increase from 2018 to 2019, and this is due to the compound's policy on which it relies on collecting funds.

Through the compound study, we concluded; that the accounting audit contributes significantly and effectively to improving the financial performance as it enables it to achieve the existing goals, by relying on the financial indicators that are a clear picture of its financial situation; and the role of the accounting audit is manifested in correcting and monitoring operations, as the institution avoids theft, Fraud and manipulation, as well as unintended errors, in addition to directing workers' efforts towards achieving the latter's goals; and everything that is in the interest of the financial performance of the institution and its position in the market in general.

The following figure shows the role of accounting audits in improving financial performance:

Figure (01): The role of accounting audit in improving financial performance



Source: done by the student, Depending on the enterprise documents.

4.3. General Conclusion :

Any enterprise, whether service, industrial or economic, seeks to preserve its life and continuity in the field of competition; by focusing on achieving its established objectives by relying on administrative functions such as planning, control, auditing ..., etc.

Through our study of the topic; of the accounting audit's effectiveness in improving the enterprise's exceptional performance, we have transformed the treatment of the problem whose features revolve around;

- To what extent can an accounting audit affect the financial performance of an economic enterprise note that several other variables also have a direct impact on its financial performance?.

It was addressed, in the theoretical chapter on accounting audits, by showing us the importance of auditing being a job that works to detect cases of fraud and errors and to compete with the laws, it also shows us the importance of the role played by the auditor and the importance of his commitment to the duties stipulated by the laws regulating the profession and the most important steps that he takes through the audit process.

As for the financial performance, it is considered an essential matter through which it is possible to monitor the activity of the institution and take the necessary corrective decisions by following the steps and indicators of restricted ratios to be adhered to by the analyst to reach the results and to identify the strengths and weaknesses.

While we addressed a study of the reality of the accounting audit profession and its role in improving financial performance in the Economic Institution Sonatrach in the practical part, this has been focused on the financial and accounting aspect and the selection of accounting audits as a means of improving performance within the CP1/Z complex.

After we dealt with the various aspects of the subject, we reached the results of testing the hypotheses and general results with a set of suggestions.

In terms of hypothesis testing, the study procedure produced the following results:

- As for the first hypothesis, which is that the success of the audit depends on the auditor following a set of generally accepted standards; the significance of these standards resides in the fact that they represent a measure of the auditor's performance in his implementation of the audit process.
- As for the second hypothesis, which is that Accounting and Auditing are closely related to each other, as auditing reviews the financial statements which are nothing but a result of the overall accounting process.
- The division of financial performance is that the management of the institution examines and diagnoses the financial position and compares the results of what it has achieved and missed opportunities from year to year, and gives plans to challenge the future. To create value for the future.

- Finally, the fourth hypothesis to improve the financial performance of the enterprises depends on the application of the proposals, recommendations, and decisions of the accounting audit process. After the study, we concluded that following the recommendations advice; and decisions of the auditor positively affects the improvement of the quality of the accounting and financial information and data, which reduces the chances of fraud, forgery, and errors, Which contributes to improving financial performance.

Results:

Through the study we discussed, we reached the following results :

- ✓ Auditing has gone through several developments and a set of concepts, so it is a science in its own right.
- ✓ The audit includes several criteria that the auditor uses to perform his profession, and it also includes different types.
- ✓ The necessity of having auditing in the enterprise, whatever it is the type of activity.
- ✓ Internal control is the basis for the auditor when developing a work plan.
- ✓ Improving performance is a goal that the organization seeks to achieve.

Study Suggestions:

Through our study of this topic, we were able to reach some suggestions and recommendations that will help the institution in the future:

When we conducted our field investigation: we faced several difficulties; because this research contains a topic that prompts the institution to inform us of the most confidential documents; This deprives the student of knowing what is going on in the application, so it must try to help him reach his studies, This helps him in his field of work in the future.

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Abstract:

Recent studies have proven; that the accounting audit has evolved enormously, It is no longer this limited operation that deals with accounting entries or financial statements, but much more than that; the accounting audit has become an essential function today, as it is a vital function within the company.

The objective of our study is to know what role the accounting audit plays in improving financial performance within the economic enterprise" in Algeria (Sonatrach Economic Enterprise (complex CP1/Z) place our study, And to achieve our objective we conducted a series of interviews with "The director of finance and accounting".

We concluded by the results of our study that the accounting audit within the company is characterized by independence; and contributes to the improvement of the financial performance of the company.

Keywords: Accounting audit, Financial performance, The enterprise.

ملخص الدراسة:

أثبتت الدراسات الحديثة على أن التدقيق المحاسبي قد تطور بشكل كبير فلم يعد تلك العملية المحدودة التي تقتصر على تدقيق القيود المحاسبية والقوائم المالية، بل وصل إلى أبعد من ذلك حيث أصبح اليوم وظيفة لا يستغني عنها، باعتباره وظيفة حيوية تقوم بها جميع أنشطة المؤسسة.

وتهدف الدراسة التي بين أيدينا إلى معرفة الدور الذي يلعبه التدقيق المحاسبي في تحسين الأداء المالي للمؤسسة الاقتصادية في الجزائر ، وبالضبط المؤسسة الاقتصادية سوناطراك خصصنا (مركب CP1/Z)، حيث قمنا بإجراء عدة مقابلات مدير المالية والمحاسبة.

حيث توصلنا لأهم نتائج الدراسة، أن التدقيق المحاسبي بالمؤسسة يتسم بالاستقلالية والموضوعية التامة وتوصلنا أيضا أن التدقيق المحاسبي يساهم في تحسين الأداء المالي للمؤسسة.

الكلمات المفتاحية: التدقيق المحاسبي، الأداء المالي، المؤسسة.