



University of Ghardaia



Faculty of Economic, Marketing, and Management Sciences

Submitted to the Department of Finance and Accounting

A thesis presented in the partial fulfillment of obtaining an academic master degree
in Finance and Accounting

Major: Audit and Control of Management

Title :

**The degree of the Stationary Auditor's commitment to
the Algerian Standard on Auditing 570 “Going
Concern” and his role in predicting financial failure in
Algerian Corporates.**

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Submitted on September 15th, 2020

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2019- 2020



جامعة غرداية

كلية العلوم الاقتصادية و التجارية و علوم التسيير

قسم المالية و المحاسبة

مذكرة مقدمة ضمن متطلبات تحصيل درجة ماستر اكايمي في العلوم المالية و المحاسبة

تخصص: تدقيق و مراقبة تسيير

عنوان:

مدى التزام محافظ الحسابات بمعيار الجزائري للتدقيق 570 "استمرارية الاستغلال" و دوره في التنبؤ بالفشل المالي للمؤسسات الجزائرية

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رئيسا	جامعة غرداية	استاذ محاضر أ	شرع مريم
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خبير	جامعة غرداية	استاذ مؤقت	قبلي حسين

2020- 2019

Acknowledgment:

I am grateful to the Merciful, the Almighty Allah for the straight guidance.

I would like to express my appreciation and gratitude to my supervisors Dr Bouhafs ROUANI and Dr Malika KOUTI for their supervision and guidance. Many thanks go to the University of Ghardaia and the faculty of Economics, particularly the department of Finance and Accounting. Sincere gratitude goes to the auditors, accountants, employees, teachers, and principals that had a role in performing this thesis.

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Dedication :

Firstly, I thank Allah for giving me passion, patience, and the will to perform my thesis and for enlightening my life with knowledge and paving my way to success.

I dedicate this thesis to my parents who taught me perfection in doing anything and appreciation to the gift we have which is knowledge. Also, I dedicate this fruit to my sibling, my big family, my friends, my relatives, and to all those who had a role either in performing this thesis or influence in perfecting it.

Abstract :

The audit field has encountered a regular development since a decade. In this area, many standards have been set in the last couple of years; one of these is the Algerian Standard on Auditing 570 Going Concern. This study deals with the commitment of the stationary auditors with this standard, and provides the role of auditors in predicting financial failure within the basis of this standard.

The thesis is divided into two parts: theoretical and practical. The theoretical part includes the theoretical framework that defines the stationary auditor in the Algerian regulation, the Algerian Standards on Auditing particularly 570 Going Concern that has been set to work in 2018, and the prediction of financial failure, its concepts and models. Besides, the theoretical framework has been enhanced with previous studies in this area of research. The practical part of the thesis includes the empirical study and analysis. This consists of the methodology adopted in this study which is a survey that is based on a questionnaire distributed to 30 individuals.

The findings of the research demonstrated that the stationary auditors are committed with the Algerian Standard on Auditing 570 Going Concern, and the stationary auditor has a significant positive role in predicting financial failure within the basis of the Algerian Standard on Auditing 570 Going Concern.

Key Words: Stationary Auditor, Algerian Standard on Auditing 570 Going Concern, Predicting financial failure.

المخلص:

يعيش مجال التدقيق في الجزائر تطوراً منتظماً منذ عقد من الزمان ، في هذا المجال تم وضع العديد من المعايير في العامين الماضيين، أحدها المعيار الجزائري للتدقيق 570 استمرارية الاستغلال، تتناول هذه الدراسة التزام محافضي الحسابات بهذا المعيار، وتدرس دور محافظ الحسابات في تنبؤ بالفشل المالي في إطار هذا المعيار. تنقسم المذكرة إلى إطارين، الإطار النظري الذي يتوفر على محافظ الحسابات في التنظيم الجزائري، والمعايير الجزائرية للتدقيق خاصة 570 استمرارية الاستغلال الذي بدأ العمل به في 2018. وكذلك التنبؤ بالفشل المالي والمفاهيم والنماذج. بالإضافة إلى ذلك، تم تعزيز الإطار النظري بدراسات سابقة في مجال البحث. علاوة على ذلك، تضمنت المذكرة على الدراسة و التحليل التطبيقي، والتي تضمنت طريقة الدراسة وهي الاستقصاء باستخدام الاستبيان، وشملت الردود 30 فرداً.

وخلص البحث إلى أن محافضي الحسابات ملتزمون بالمعيار الجزائري للتدقيق 570، و لهم دور ايجابي في التنبؤ بالفشل المالي في إطار المعيار.

الكلمات المفتاحية: محافظ الحسابات، معيار الجزائري للتدقيق 570 استمرارية الاستغلال، التنبؤ بالفشل المالي.

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Table of Abbreviations:

Abbreviations	The complete form
AN	Artificial neurons
ASA	Algerian Standard on Auditing
IA	Internal Auditor
IAS	International Auditing Standard
JCPA	Jordanian Certified Public Accountants
MDA	Multiple Discriminant Analysis

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I. Introduction

1. Background :

The audit field in Algeria has developed since 2010, for the aim of modernizing it, in this area the regulations are updated regularly but the process of scoping the auditing effectiveness is not widely spread in Algeria. a body research has studied the Stationary Auditor's commitment with the Algerian Standards on Auditing, and the prediction of financial failure. However; no research has studied Stationary Auditor, Algerian Standard on Auditing 570 Going concern, and prediction of financial failure in the same research, or the same period. In this research, we shall shed some light on the aforementioned variables.

2. Problem :

What is the role of the Stationary Auditor's commitment with the Algerian Standard on Auditing 570 Going Concern in predicting the financial failure in Algerian Corporates?

3. Semi Question :

- To what extent are the auditors committed with the Algerian Standard on Auditing 570 Going Concern?
- Do auditors apply the prediction of financial failure?
- Do auditors have a role in predicting financial failure within the basis of Algerian Standard on Auditing 570 Going Concern?

4. Hypotheses :

- The Auditors are committed with the Algerian Standards on Auditing;
- The auditors apply the prediction of financial failure;
- The auditors have a role in predicting financial failure within the basis of Algerian Standard on Auditing 570 Going Concern:
H₀: Regression test: R square > 0.50 , Sig < 0,05;
H₁: Regression test: R square > 0.50 , Sig > 0,05.

5. Objectives :

- To show the auditor commitment with the Algerian Standards on Auditing particularly the Algerian Standard on Auditing 570 Going Concern, and the deep objective in these area is to know the satisfaction of auditors on the Algerian Standards on Auditing.
- To show the significant role of the Stationary Auditor in the continuity of the enterprise as going concern, which is the main goal of the enterprise.

- To make a basis for the auditor to rely on, which is to predict the financial failure not only in private enterprise but also the public ones. This can assist the governance, and enhances the economy in general.

6. The importance of the study :

This study is important for the audit function in Algeria, for it allows the Stationary Auditor to be committed with the regulations that are molded in standards. Also, it is very important to the Algerian economy because the prediction of financial failure is a process that can keep the enterprise safer of financial failure, which makes a basis of safety, and enhances the principles of governance. Besides, the use of such basis in all the enterprises will make a difference; in the other words, there will be a great improvement in the whole economy. In this case, the auditor can have a great role in the enterprises in particular, and the economy in general.

7. Limitation :

The thesis was conducted in 2020, there was a difficulty in distributing the questionnaire. The sample consisted of 30 individuals.

8. Structure of the thesis :

This thesis consist of two part, the theoretical part and the empirical part. We have devided it into four big titles: the Introduction that includes the background, problem, questions, hypotheses, objectives, significance, and the lemitation. The second title is the theoretical framework that consists of the main concepts of the research area which are the Stationary Auditor, the Algerian Standards on Auditing particularly 570 Going Concern and the prediction of financial failure. Moreover, the thesis includes empirical study (the third title) that includes the research method, results, discussion and interpretation. The last title is the conclusion that consist of the result of the research.

II. Theoretical Framework:

The Stationary Auditor and the prediction of the financial failure within the basis of the Algerian Standards on Auditing 570 Going Concern

1. The Auditor and the prediction of the financial failure according to the Algerian Standards on Auditing 570 Going Concern:

1.1. The Auditor in the Algerian regulations :

Definition of Stationary Auditor:

The Stationary Auditor in the Algerian law is the person who regularly examines the authentication of the companies, and organisations accounts whether correct, regular, or compliant with the provisions of the applied legislation.

The functions of the auditor:

The Stationary Auditor has the following duties:

- certifies that the annual accounts are regular, correct and in full conformity with the results of the operations of the previous year, as well as concerning the financial situation and the property of companies and organisation;
- examines the validity of the annual accounts and their conformity with the information shown in the steering report provided by the directors to shareholders, partners or share barriers;
- expresses his opinion in the form of a special report on internal control procedures approved by the Board of Directors or the manager;
- estimates the conditions for concluding agreements between the company that he monitors and the enterprises and organisations in which the directors or managers of the company in question have direct or indirect interests;
- informs the managers and the general assembly or the qualified deliberating body of every deficiency that they may discover or view, and it is by its nature to hinder the continued exploitation of the enterprise or body.

These tasks examine the values and documents of the company or body and monitor the conformity of the established accounting rules without interfering in management (المادة 23-22، قانون 10-01، الجريدة الرسمية الجزائرية، العدد 42، سنة 2010).

When the company or the commission prepares merged accounts or subsidized accounts, the Stationary Auditor also validates the validity and regularity of the subsidized or merged accounts, based on the accounting documents, and the report of the Stationary Auditor at the branches or entities of the same decision centre. (المادة 23-22، قانون 10-01، الجريدة الرسمية الجزائرية، العدد 42، سنة 2010).

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The tasks of the Auditor is to prepare:

- a certification report ,with or without reservation, on the regularity and validity of the annual documents, or, if necessary, the justified refusal of ratification;
- an approval report for supported accounts or merged accounts ,when necessary;
- a special report on organised agreements;
- a special report on the details of the top five compensations;
- a special report on special privileges granted to users;
- a special report on the evolution of the results of the last five years and the result by shares or social shares;
- a special report on internal control procedures;
- a special report in case potential threat on continuous exploitation was noticed.

The criteria for the report and the forms and deadlines for sending reports to the General Direction and the committee concerned shall be determined by regulation .

The general direction or the body responsible for the deliberations, after their approval in writing, and based on the conditions book, appoint the Stationary Auditor from among the accredited professionals registered in the list of the National Chamber of Stationary Auditors. *(المادة 23-26، قانون 10-01، الجريدة الرسمية الجزائرية، العدد 42، سنة 2010)*

The Stationary Auditor term is limited to three years, which can be renewed once. The same auditor can be appointed after two consecutive terms only after three years have passed. If the accounts of the company or the oversight body is not approved during two consecutive financial years, the Stationary Auditor must inform the prosecutor representative of the republic, in this case the custody of the Stationary Auditor will not be renewed. *(المادة 27، قانون 10-01، الجريدة الرسمية الجزائرية، العدد 42، سنة 2010)*

When a company or a body appoints an Stationary Auditing Company as an Stationary Auditor, the latter appoints from among its members who are registered in the National Chamber's list an Stationary Auditor to act under its name .

When a company or agency decides to appoint more than one Stationary Auditor, each of them exercises his mission by Law 10-01.

II. Theoretical Framework

The Stationary Auditor, the manager of a company, or the committee of accountants must inform the Quality Control Committee of his appointment as the Stationary Auditor by a letter stipulated within a maximum period of (15) fifteen days.

The Stationary Auditor can access at any time and place the accounting records, budgets, correspondences, and in general all the documents and writings of the company or body, he can also ask the administrators, agents and affiliates of the company or the authority for all clarifications and information and make all the inspections he deems necessary.

The Stationary Auditor can request to eligible devices for the company to obtain information related to the enterprises associated with them or other enterprises that have a contributory relationship.

The company's management shall submit to the Stationary Auditor at least every six months an account statement prepared according to the chart of the outcome or the accounting documents.

In case his mission is obstructed, the Stationary Auditor shall inform in a letter the governing organisations to implement the provisions of commercial law.

Taking into consideration the auditing standards and professional duties approved by the finance minister, the stationary auditor determines the scope and modalities for performing the task of legal control of accounts and their process within the framework of a reference letter determined by the conditions book that he undertook.

The Stationary Auditor attends the general meetings whenever they are called to deliberate, based on his report, and he reserves the right to interfere in the association related to the performance of his mission.

The fees of the Stationary Auditor at the beginning of his mission are determined by the general committee or the qualified body in charge of the deliberations. The Stationary Auditor cannot receive any wages or benefits in whatever form, except for fees and compensation spent within the framework of his mission. The fees cannot be calculated, in any case, based on the financial results achieved by the company or the concerned authorities. *المادة 28-37، قانون 10-01، (الجريدة الرسمية الجزائرية، العدد 42، سنة 2010)*

The Stationary Auditor can resign without discharging his legal obligations, and he must abide by a 3-month advance notice and submit a report on the observations and evidence taking place.

The presence of the internal structure of the audit, the company, or the body is not exempt from the statutory obligation to appoint the Stationary Audit .

The Stationary Auditor shall keep the files of his clients for ten (10) years, starting from the first of January following the last fiscal year of custody. المادة 38- (40، قانون 10-01، الجريدة الرسمية الجزائرية، العدد 42، سنة 2010)

1.2. The Going Concern concept and Algerian Standards on Auditing:

Before providing the Going Concern basis according to Algerian Standard on Auditing 570, it is important to provide the Algerian Standards on Auditing which were set in four decisions.

1.2.1. Algerian standards on Auditing:

FIRST DECISION 002 OF FEBRUARY 04TH, 2016:

i. Algerian Standard on Auditing 210: Agreeing on the Terms of Audit Engagements.

This Algerian Standard on Auditing addresses the auditor's duties to agree with the management and, as appropriate, with the persons in charge of the judgment in the organisation, on agreeing on the terms of audit engagements.

The standard is concerned with all auditing tasks of historical or partial financial statements as well as related tasks with some characteristics concerning recurrent audits or audits of small entities.

ii. Algerian Standard on Auditing 505: External Confirmations:

The Algerian Standard 505 Auditing addresses the auditor's use of external verification procedures to obtain corroborating evidence.

The goal of the auditor who resorts to external confirmation procedures is to visualise and put into effect these procedures to obtain evidence that is significant and credible.

iii. Algerian Standard on Auditing 560: Subsequent Events.

This standard addresses the auditor's obligations towards events after the closure of the accounts in the context of the audit of the financial statements.

iv. Algerian Standard on Auditing 580: written statements.

In this standards, the auditor receives written statements by the administration in the context of a review of the financial statements.

The duties required in other Algerian Auditing standards related to written statements do not restrict the application of this standard.

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SECOND DECISION 150 OF OCTOBER 15TH, 2016:

i. Algerian Standard on Auditing 300: Auditing Planning for the Financial Statements.

The Algerian Auditing Standard 300 studies the auditor's duties of the commitment to planning the auditing of the financial statements. This standard deals with repeated audits.

The additional issues are specifically addressed in the preliminary audit task.

ii. Algerian Standard on Auditing 500: Disguised Items.

This standard explains the concept of "disguised elements" in the framework of the audit of the financial statements and addresses the duties of the auditor concerning how to put into effect auditing procedures to obtain sufficient and appropriate convincing elements to reach a reasonable outcome based upon the founding of his opinion.

This standard applies to all disguised elements collected during the audit.

Other Algerian auditing standards address:

- certain aspects of the audit;
- persuasive elements collected for their relationship to specific subjects ;
- special procedures for collecting disguised elements;
- The estimation of the adequacy and suitability of the disguised assembled elements.

iii. Algerian Standard on Auditing 510: The Opening Balances

This standard addresses the auditor's duties of the commitment to the *Initial Balances* under the preliminary audit task.

The opening balances also contain the amounts included in the financial statements, the elements present at the beginning of the period based on which information must be provided, such as accounting methods in presenting accounts of previous years, probabilities, and liabilities recorded, especially off-budget.

The initial audit task is the task in which the financial statements for the prior period are:

- not the subject of the audit, or
- it has been audited by the former auditor " above."

The duties required in this standard are added to those mentioned in Algerian Standards on Auditing 300 and 710.

iv. Algerian Standard on Auditing 700: Establishing an opinion and audit report on the financial statements.

This standard addresses the auditor's obligation to form an opinion on the financial statements; the form and content of the auditor's report when the audit is conducted under Algerian Standards on Auditing and the report must result in a formulation of an unmodified opinion.

The unamended opinion is that expressed by the auditor when he concluded that the preparation of the financial statements in all its important aspects was done according to the applicable accounting reference.

THIRD, DECISION 23 OF MARCH 15TH, 2017:

i. Algerian Standard on Auditing 520: Analytical Procedures

This standard deals with the auditor's use of analytical procedures as substantive procedures and the commitment of the auditor to perform the analytical procedures during disclosing the reliability of the accounts at the end of the audit mission.

ii. Algerian Standard on Auditing 570: Going Concern

This Algerian Standard on Auditing deals with the auditor's commitment in the audit of financial statements relating to the administrations hypotheses of going concern in the financial statement.

iii. Algerian Standard on Auditing 610: Using the Work of Internal Auditors

This Algerian Standard on Auditing deals with the external auditor's responsibilities of using the work of the Internal Auditor if the internal auditing was necessary for the external auditor.

This standard does not deal with the case when the members of internal audit give direct assistance to the external auditor in performing his task.

iv. Algerian Standard on Auditing 620: Using the work of an auditor's expert.

This standard deals with the auditor's duties when he resorts to an expert or organisation to perform a supervisory role that require expertise in an other field other than accounting or auditing, in addition to the procedures that are necessary to use the expert conclusions.

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FOURTH, DECISION 77 OF DECEMBER 27TH, 2018:

i. Algerian Standard on Auditing 230: Audit Documentation

This standard deals with the auditor's responsibility to prepare audit documentation for an audit of financial statements.

The specific documentation requirements of other Algerian Standard on Auditing do not limit the application of this standard. Law or regulation may establish additional documentation requirements.

ii. Algerian Standard on Auditing 501: Audit Evidence – Specific Considerations

This standard deals with the auditor's degree of consideration in obtaining sufficient, appropriate evidence according to the standard 330, standard 500, and other specific standards.

iii. Algerian Standard on Auditing 530: Audit Sampling

This standard on auditing applies when the auditor has decided to use audit sampling in performing audit procedures. It deals with the auditor's use of statistical and non-statistical sampling when designing and selecting the audit sample, performing a test of controls and test of details, and evaluating the results from the sample.

The standard 530 complements Algerian Standard on Auditing 500 and deals with the auditor's duties to design and perform audit procedures to obtain sufficient appropriate audit evidence. This will enable him to draw reasonable conclusions that form his opinion. Algerian Standard on Auditing 500 provides the auditor ways of application such as sampling.

iv. Algerian Standard on Auditing 540: Auditing Accounting estimates, including fair value accounting estimates, and related disclosures.

The standard 540 deals with the auditor's responsibility relating to accounting estimates, including fair value accounting estimates and related disclosures in an audit of financial statements.

Specifically, it expands on how Algerian Standard on Auditing 315 and Algerian Standard on Auditing 330 and other relevant Algerian Standard on Auditing to be applied concerning accounting estimates.

1.2.2. Going Concern Basis Algerian Standard on Auditing 570:

It has already been mentioned that the Algerian Standard on Auditing 570 deals with the responsibility of the auditor's in auditing the financial statements relating

II. Theoretical Framework

to going concern and the administrations hypotheses of going concern of the financial statements. The standard provides all about going concern concept .

Going Concern Hypotheses :

Under the going concern hypotheses, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future.

Financial statements are prepared using the hypotheses except when administration intends to either liquidate the entity or cease operations, or when it has no realistic alternative.

When the going concern hypothesis is applied, assets and liabilities are recorded considering that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Using the going concern by the administration is applied also in the public sector's bodies that do not apply the commercial law.

The going concern risks may be derived from the use of business practices in the public sector, or in case when the government contributions decrease or in case of privatisation.

Responsibility for assessment of the entity's ability to continue as a going concern:

Financial reporting frameworks continue on the explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern.

The management must assess a going concern, and a judgment in some phase, on the result of adequate events or conditions.

The following factors are relevant that judgment:

- the degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs.
- the size and complexity of the entity, the nature and condition of its business, and the degree to which it is affected by external factors affect the judgment regarding the outcome of events or conditions.
- any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events may result in outcomes that

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are inconsistent with judgments that were reasonable at the time they were made.

Auditor's responsibility :

The auditor's responsibilities are:

- to obtain sufficient appropriate audit evidence regarding. And conclude on, the appropriateness of management's use of the going concern basis in the preparation of the financial statements.
- conclude, based on the audit evidence obtained, whether a *material uncertainty* exists about the entity's ability to continue as a going concern.⁶

However, as described in Algerian Standard on Auditing 200, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern.

The auditor can not predict such future events or conditions. Accordingly, the absence of any reference to a material uncertainty about the entity's ability to continue as a going concern in an auditor's report can not be viewed as a guarantee as to the entity's ability to continue as a going concern.⁷

Objectives :

The objectives of the auditor are (مقرر 23 مؤرخ 15 مارس 2017):

- to obtain sufficient appropriate audit evidence regarding, and conclude on the appropriateness of management's use of the going concern basis in the preparation of the financial statements;
- to conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern or not;
- to estimate the influence of it on the auditor's report

Requirements:

Risk assessment procedures and related activities :

When performing risk assessment procedures as required by Algerian Standard on Auditing 315, the auditor shall consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern.

In so doing, the auditor shall determine whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern.

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- if such an assessment has been performed, the auditor shall discuss the assessment with management and determine whether management has identified events or conditions that individually or collectively may cast significant doubt on the entity's ability to continue as a going concern and, if so, management's plans to address them;
- if such an assessment has not yet been performed, the auditor shall discuss with management the basis for the intended use of the going concern basis of accounting, and inquire of management whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.

The auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Evaluating Management's Assessment:

The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern, in addition to the procedures that the management has performed to estimate it.

Small Entities case :

The management may not make a detailed assessment of the small entity's ability to continue as a going concern, instead, it may rely on the activities and prospects.

When there is a significant portion of the entity's funds through a loan from the owners, it is important to do not withdraw this portion. In this case, the auditor can estimate their ability to guarantee financial support. Moreover, the auditor may request a written statement confirming the terms and the conditions associated with this financial support as well as the intention of the owner-manager on his understanding of these terms and conditions.

When the auditor estimates the evaluation performed by the management of the entity's ability to continue as a going concern, he must consider taking, for his evaluation, the same period that the management takes, only if this period were less than (12) twelve months, in this case, the auditor should request an extension to his period for at least (12) twelve months.

Period Beyond Management's Assessment:

The auditor shall inquire of management about events or conditions beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern.

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Except the information demand to the management, the auditor is not obliged to do any other audit procedures to highlight events or conditions that may make doubt to the body to going concern in a period. after the specified one by the management before the assessment. This period is estimated in twelve (12) months at least starting by the financial statement date. (مقرر 23 مؤرخ 15 مارس 2017).

Additional Audit Procedures When Events or Conditions Are Identified :

If events or conditions have been identified and that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern through performing additional audit procedures, including consideration of mitigating factors. Those procedures shall include:

- where management has not yet assessed the entity's ability to continue as a going concern, requesting management to make its assessment;
- evaluating management's plans for future actions in relating to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances;
- considering whether any additional facts or information have become available since the date on which management made its assessment;
- requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans.

Where the entity has prepared a cash flow forecast and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions (مقرر 23 مؤرخ 15 مارس 2017) :

- evaluating the reliability of the underlying data generated to prepare the forecast;
- determining whether there is adequate support for the assumptions underlying the forecast.

Auditor conclusions and report:

based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgment, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.

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A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for:

- assuring a fair presentation in financial reporting;
- assuring the compliance of the financial statements.

Adequacy of disclosures when a material uncertainty exists:

If the auditor concludes that management's use of the going concern basis is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statement:

- adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions;
- disclose clearly that there is material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

If some significant information exists in financial statements the auditor shall disclose an opinion that includes notes in the auditor's report:

- Shed the light on the existing *Material Uncertainty* that related to events or conditions that may cast doubt on the entity's ability to continue as a going concern;
- to pay attention to the notes that previously has been mentioned.

Use of going concern basis inappropriate:

If the financial statements have been prepared using the going concern basis but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion.

If management chose to perform the financial statement when the going concern is unappropriated the financial statement may be performed on the way (eg: on the liquidation values basis).

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Management unwilling to make or extend its assessment:

If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall consider the implications for the auditor's report.

Communication with those charged with governance:

Unless all those charged with governance are involved in merging the entity, the auditor shall communicate with those charged with governance events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern. Such communication with those charged with governance shall include the following:

- whether the events or conditions constitute a material uncertainty;
- whether management's use of the going concern basis is appropriate in the preparation of the financial statements;
- the adequacy of related disclosures in the financial statements.

A significant delay in the approval of financial statements:

If there is a significant delay in the approval of the financial statements by management or those charged with governance after the date of the financial statements, the auditor shall inquire as to the reasons for the delay. If the auditor believes that the delay could be related to events or conditions relating to the going concern assessment, the auditor shall perform those additional audit procedures necessary, as well as considering the effect on the auditor's conclusion regarding the existence of a material uncertainty. (مقرر 23 مؤرخ 15 مارس 2017).

1.3. The Prediction of Financial Failure:

1.3.1. the concept of the prediction of financial failure:

It is very important to defer among the different concepts of financial failure and the equivalent concepts :

Edward I Altman and Edith Hochkiss said in their book “*Corporate Financial Distress and Bankruptcy*” that the unsuccessful business enterprise has been defined in numerous ways in attempts to depict the formal process confronting the firm and/or to categorise the economic problems involved. Four generic terms that are commonly found in the literature are a failure, insolvency, default, and bankruptcy. Although these terms are sometimes used interchangeably, they are distinctly different in their formal usage.

Failure, by economic criteria, means that the realised rate of return on invested capital, with allowances for risk consideration, is significantly and continually lower than prevailing rates on similar investments. Somewhat different economic criteria have also been utilised, including insufficient revenues to cover costs and where the average return on investment is continually below the firm’s cost of capital. These economic situations make no statements about the existence or discontinuance of the entity. Normative decisions to discontinue operations are based on expected returns and the ability of the firm to cover its variable costs. It should be noted that a company may be an economic failure for many years, yet never fail to meet its current obligations because of the absence or near absence of legally enforceable debt. When the company can no longer meet the legally enforceable demands of its creditors, it is sometimes called a legal failure. The term legal is somewhat misleading because the condition, as just described, may exist without formal court involvement.

Edward I Altman and Edith Hochkiss also said that the term business failure was adopted by *Dun & Bradstreet (D&B)*, which for many years until recently supplied relevant statistics on businesses to describe various unsatisfactory business conditions. According to D&B, business failures included: businesses that cease operation following assignment or bankruptcy; those that cease with a loss to creditors after such actions or execution, foreclosure, or attachment; those that voluntarily withdraw, leaving unpaid obligations, or those that have been involved in court actions such as receivership, bankruptcy reorganisation, or arrangement; and those that voluntarily compromise with creditors.

Insolvency is another term depicting negative firm performance and is generally used more technically. Technical insolvency exists when a firm cannot meet its current obligations, signifying a lack of liquidity. Walter (1957) discussed the measurement of technical insolvency and advanced the theory that net cash flows relative to current liabilities should be the primary criterion used to describe

II. Theoretical Framework

technical insolvency, not the traditional working capital measurement. Technical insolvency may be a temporary condition, although it often is the immediate cause of formal bankruptcy declaration.

Insolvency in a bankruptcy sense is more critical and usually indicates a chronic rather than a temporary condition. A firm finds itself in this situation when its total liabilities exceed a fair valuation of its total assets. The real net worth of the firm is, therefore, negative. Technical insolvency is easily detectable, whereas the more serious bankruptcy insolvency condition requires a comprehensive valuation analysis, which is usually not undertaken until asset liquidation is contemplated. Finally, a relatively recent concept that has appeared in judicial courts concerns the condition known as deepening insolvency. This involves an eventually bankrupt company that is alleged to be kept alive unnecessarily and to the detriment of the estate, especially the creditors.

Another corporate condition that is inescapably associated with distress is a default. Defaults can be technical and/or legal and always involve the relationship between the debtor firm and a creditor class. Technical default takes place when the debtor violates a condition of an agreement with a creditor and can be the grounds for legal action. For example, the violation of a loan covenant, such as the current ratio or debt ratio of the debtor, is the basis for a technical default. In reality, such defaults are usually renegotiated and are used to signal deteriorating firm performance. Rarely are these violations the catalyst for a more formal default or bankruptcy proceeding. When a firm misses a scheduled loan or bond payment, usually the periodic interest obligation, a legal default is more likely, although it is not always the result in the case of a loan. Interest payments can be missed and accrue to the lender in a private transaction, such as a bank loan, without a formal default being declared. For publicly held bonds, however, when a firm misses an interest payment or principal repayment, and the problem is not cured within the grace period, usually 30 days, the security is then in default. The firm may continue to operate while it attempts to work out a distressed restructuring with creditors and avoid a formal bankruptcy declaration and filing. It is even possible to agree upon a restructuring with a sufficient number and amount of claimants and then legally file for bankruptcy.

Mostly there is a confusion of using the concepts of financial failure or financial distress:

Financial failure “As a concept was used by John Argentini 1986, he defined it that it is the process in which the enterprise start going in a way that leads in the end to financial distress” *Yaser Aouad and Bachir Assmani said*, “It is when the company or enterprise is unable to settle down their positions because the total liabilities are more than the total assets” *Hicham Arrifai Said*.

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Financial distress: According to *Yaser Aouad and Bachir Assamani* a firm is considered in financial distress when its cash flow is not sufficient to cover current obligations. Firms need not be declared bankrupt at the moment this situation occurs.

The difference between financial failure and financial distress is that distress is the phase that precedes the failure.

Financial Failure Prediction according to *Yaser Aouad and Bachir Assamani* is a group of procedures, estimations and results that have a relation with the future, it relies on a practical, mathematical, statistical basis. And the previous financial data is used to reach future data that have a relation with decision making, According to *Dean Paxon and Douglas Wood's dictionary* financial forecasting is the general idea of the process whereas Financial Failure Prediction is the particular process.

Financial Prediction Models: Corporate failure prediction models can be divided into two categories: quantitative models and qualitative models. The following sections discuss the two broad groups of models.

1.3.2. The models for predicting Financial Failure :

FIRSTLY, QUANTITATIVE MODELS :

Quantitative models mostly rely on published financial statements to identify the coefficients and type of financial ratios that differentiate between surviving and failing companies, based on which prediction of business failures can be made. Based on the number of variables included in the models, Quantitative Models can be further subdivided into Univariate models and Multivariate Models (*Tibebu Girma, February 2018. Page 9*).

Univariate Models :

Univariate models are quantitative approaches to predicting the financial situation of companies using a single financial ratio that is selected to best explain the status of the companies.

Patrick (1932) & Beaver (1966) :

Patrick (1932) is considered to be the author who used ratio analysis to predict corporate failure, which was then followed by studies of Beaver (1966) that pioneered the use of the Univariate Model for corporate failure prediction. With a sample of 79 failed firms and 79 non-failing firms, Beaver (1966) investigated the predictive power of 30 financial ratios, of which he found out that the ratio of Cash Flow to Total Debt is the main factor to predict business failure having 78% success rate for five years before the bankruptcy.

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The univariate approach is favored for its simplicity. However, as a company's financial situation can be too complex to be identified by a single ratio, and as inconsistent results may appear with different ratios, more powerful methods of business failure prediction were sought for, which created multivariate approaches.

Multivariate Models :

The multivariate approach uses a combination of two or more financial ratios in predicting bankruptcy. Multiple Discriminant Analysis (MDA) is a typical type of multivariate approach, which is defined as a statistical technique used to classify an observation into one of a several prior dependent groups upon the observation's characteristics; and it attempts to derive a linear (or quadratic) combination of these characteristics which best discriminates between the groups.

A lot of researches made on business failure prediction has developed a linear combination of ratios that best-distinguished groups of failing companies from non-failing companies. Where two groups are identified and the dependent variable can only take two values, the MDA technique is an appropriate technique for classification. MDA is favoured as it in enterprise multiple financial ratios that cover the characteristics common to specific companies, provides appropriate coefficients for each independent variable. MDA relieves classification problems by simultaneously analysing the entire variable profile of an object, instead of sequentially examining individual characteristics of the object. MDA is also easy to apply once the model is developed (*Tibebu Girma, Febraury 2018. Page 10*).

In comparing the two groups of quantitative models, Altman and Hotchkiss (2006) indicated that a multivariate model can provide improved results than any Univariate (single-variable) type models.

From the Multivariate models, the most common and widely researched bankruptcy models are the Altman's and Springate's Z-Score models, details of which are provided in the following sections.

A. Altman's Business Failure Prediction Model :

The initial Altman's Z score model was developed in 1968 for manufacturing companies. Subsequently, the model has mainly revised twice: the first revision (Revised Z' Score model) was made to suit the model for companies whose stocks are not publicly traded, and the second revision (Adjusted Z" Score model) was made to customise the model for non-manufacturing companies, such as financial enterprises.

The adjusted Altman's Z'' score :

The earlier two versions of Altman's Z score models were developed to predict the likelihood of bankruptcy for manufacturing firms. To apply the prediction

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model to non-manufacturing business companies, another modification of the model was made, where one of the variables, X_5 (Sales/ Total Assets), was excluded from the model, so that the effect of industry sensitive variable of Asset Turnover can be minimized according to Altman,1993.

The new model has different coefficients for the remaining four variables, with the form:

$$z'' = 6.56x_1 + 3.26 x_2 + 6.72 x_3 + 1.05 x_4$$

Where,

Z'' = Overall Index

X_1 = (Current Assets – Current Liabilities) / Total Assets

X_2 = Retained Earnings / Total Assets

X_3 = Earnings before Interest and Taxes / Total Assets

X_4 = book value of equity / total liabilities

The cutoff point is also amended for the new model, where companies with Z'' scores of 2.6 and greater are considered to be safe, while companies with scores below 1.1 are predicted to be bankrupt; and scores ranging from 1.1 to 2.6 represent the Gray Area, where no clear prediction can be made on the financial situation of the firm.

This particular model is also useful within an industry where firms have different types of financing of assets and where no major accounting adjustments, such as lease capitalization, are necessary (Tibebu Girma, Febraury 2018. Page 13).

B. Springate's Business Prediction Model :

With insights from Altman's MDA model developed in the USA, Gordon Springate developed a new accounting-based business failure prediction model that is based on financial data of companies operating in Canada.

Springate developed the model using a sample of the manufacturing sector that comprised 20 failed companies matched with 20 non-failed companies, and using stepwise multiple discriminate analysis, Springate selected four out of 19 common financial ratios. The four financial ratios are Working Capital scaled by Total Assets, Earnings before Interest and Taxes scaled by Total Assets, Sales scaled by Total Assets, and Net Profit before Taxes scaled by Current Liabilities. Springate's model has the following form:

$$Z = 1.03A + 3.07B + 0.66C + 0.4D$$

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where:

Z= Overall Index

A= Working capital / Total Assets

B=Profit before Interest and Tax / Total Assets

C=Profit before taxes / Current Liabilities

D=Sales / Total Assets

The cutoff point for Springate's model is 0.862, where companies of Z score of less than 0.862 are classified as 'failed', and companies whose score is below the cutoff point are classified 'non-failed'. Prediction accuracy of the model is 92.5%, for prediction made one year before the year of bankruptcy (*Tibebu Girma, February 2018. Page 15*).

C. Martin (1977) & Ohlson (1980) :

Martin (1977) used the logit model for bank failure prediction. Subsequently, Ohlson (1980) also used the logit model to predict business failure with a sample of 105 bankrupt firms and 2,058 non-failing firms. The nine financial ratios included in the model were the firm size (log of a price-level deflated measure of total assets), total liabilities/total assets, working capital/total assets, current liabilities/current assets, a dummy variable indicating whether total assets were greater or less than total liabilities, net income/total assets, funds from operation/total liabilities, another dummy variable indicating whether net income was negative for the last two years and change of net income. Ohlson used a relatively unbiased sampling procedure because the failure/non-failure ratio in his study was more realistic. However, the model did not perform as well as MDA, which suggested that previous researchers might have overstated the discriminatory power of their models.

D. Zmijewski (1984) :

Zmijewski (1984) examined the "choice-base" sample bias and "sample selection" bias typically faced by financial distress researchers. Contrary to the common 1:1 failure/non-failure matching, he used the probit model on six sets of data where the ratio of failure/non-failure varied from 1:1 to 1:20. The results indicated that the choice-based sample bias decreased as the failure/non-failure ratio approached the population probability. Also, concerning the sample selection bias, the results indicated a significant bias existed in the majority of the tests

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conducted. However, for both issues, the results did not indicate significant changes in the overall classification and prediction rates.

E. Neural computing :

Neural computing has generated considerable research interest and has been applied in various areas, including the prediction of corporate bankruptcy or financial distress. Neural computing is a computer system that consists of a network of interconnected units called artificial neurons (AN). AN is organised in layers inside the network. The first layer is the input layer, and the last is the output layer. Hidden layers exist between the input and output layers, and there can be several hidden layers for complex applications. Computer programs process the training sample to identify the relationships between input and output data. Neural computing is more adaptive to the real-world situation because it is not subject to distribution constraints. This advantage makes neural computing an appealing tool for developing prediction models because the variance-covariance matrices of failed/non-failed firms are often not equal, and financial data seldom follow the multivariate normal distribution, each of which is a violation of the MDA assumptions (*Li-Jen Ko & Edward J. Blocher, P. Paul Lin, page 72*).

SECONDLY, QUALITATIVE MODELS :

As financial measures may not solely explain the performance of companies, Quantitative models are exposed to limitations in totally predicting business failures. Hence, qualitative models that use non-accounting or qualitative variables are also used in the prediction of bankruptcy (*Tibebu Girma, Febraury 2018. Page 14*).

Argenti's 'A score' :

Of the Qualitative models, Argenti's 'A score' model is the most commonly used model of business failure prediction developed by Argenti in 1976. The model indicates that the business failure process follows a predictable sequence that starts with Defects, followed by Mistakes Made and finally reaching Symptoms of Failure.

'Defects' are described by the model with two elements: Weaknesses of Management and Deficiencies in Accounting. Weaknesses of management of a company include, in descending order of their importance, poor response to change, autocratic chief executive, failure to separate the role of chairman and chief executive, lack of balanced skills in the management team, a passive board of directors, and weak finance director. Deficiencies in Accounting are explained by inadequacy in cash flow plans, budgetary control, and costing system. Each weakness/deficiency is given a mark or given zero if the problem is not present in the company. The total mark for 'Defects' is 45, and Argenti considers that a company with a mark of 10 or less is considered to be in a satisfactory status.

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The suggested pass mark for ‘Mistakes’ is 15, from a total mark of 45 that is equally distributed to the three elements of ‘Mistakes’; namely, High Gearing, Overtrading, and Entering into Unmanageable Big Projects.

The final stage of the model is reached when ‘Symptoms’ of failure become visible. The symptoms are classified into four categories with a total of 12 marks, which are, in their descending order of importance: Financial Signs, Creative Accounting, Non-financial Signs, and Terminal Signs.

The ‘Argent’s A’ model has an overall pass mark of 25; where companies with an overall score well above 25 (often 35–70) are usually classified as risky, while companies not at risk have fairly low scores (commonly between 0–18). The predictive accuracy of the model has not been adequately tested, though a 5 % misclassification rate is expected” (*Tibebu Girma, Febraury 2018. Page 15*).

2. Previous Studies:

2.1. Domestic Studies :

Sarah Sibany's Study, 'دور محافظ الحسابات في التنبؤ بالفشل المالي للمؤسسات الاقتصادية، 2016-2017 :

The study had provided the responsibility of the auditor in performing analytical procedures in audit and detecting errors, misstatements, deviations in the financial statements, and searching for the reasons and correcting it. The research tool that was used is the questionnaire. It was concluded that the analytical procedures are the most important method that the auditors use to increase the trust and the validity of financial statements. Moreover, it was concluded that the prediction of financial failure is very important to the enterprise to avoid the risks. But the results of the survey showed that auditor did not rely on the models of financial failure prediction, they did not know the new Algerian standards on auditing particularly the Algerian Standard on Auditing 570 Going Concern, and they did not use it in audit (سارة شيباني، 2016-2017).

Sasia Msahel's study, 'دور مكاتب المراجعة في التنبؤ بالتعثر المالي للمؤسسات، 2016-2017 :

The problematic of the study was about how the audit boards in Algeria play a role in predicting the financial failure of the enterprise by applying the warning procedures in the enterprises that encounter difficulties that threat its ability to continue as a going concern, and the factors that influence that, the study adopted the analytical descriptive method in study basing on a survey to collect data.

The study concluded that the Algerian auditors use the warning procedures in private enterprise to predict financial failure, and the reasons most obvious. The factors that assist is the financial analysis that they use, the managements provide them the pieces of evidence they need, and the last factor that does not help that they do not use statistical instruments (مساهل ساسية، 2016-2017).

2.2. Arab and foreign Studies :

، قدرة المدقق على اكتشاف مؤشرات الشك باستمرارية العملاء، الاردن 2004:

The study empirically examined the ability of the Jordanian Certified Public Accountants (JCPA) in detecting "Uncertainty Indicators" that increase the likelihood of going-concern problems. This was when they conduct their audit in Jordanian Corporate companies, and therefore, the adherence of the JCPA's to International Auditing Standard IAS 570 Going-Concern. The objectives of the study were to recognise the Stationary Auditor's ability to detect 'uncertainty indicators' that influence the client's continuity.

The population of the study consisted of Jordanian auditors (n=284) from which a random sample (n=142, 50%) was selected. (142) questionnaires were sent to auditors with a return rate (102) and response ratio (71%). Data gathered were put to an analysis by using descriptive statistical and other appropriate tools.

Findings reveal that:

1. 76% of JCPA are capable of identifying financial uncertainty indicators that might cause going-concern problems. They rated repetitive operating loss as the highest indicator that might affect the going-concern of their clients.
2. 73.4% of JCPA are capable of determining the operating uncertainty predictors; their views revealed that losing a target market, franchise, and a major supplier were the most important elements of the indicators that influence the going-concern of their clients.
3. Legal lawsuit cases with financial commitments were rated as one of the most important elements of the other uncertainty indicators that might affect going-concern. It has been found out that 75.6% the respondents of the study are capable of specifying other uncertainty indicators.
4. Self-perceived overall adherence to the IAS n° (570) of going concern is as high as 70.40%, since the JCPAs subject of this study exerts their due professional care to bring their client's attention to financial, operating, and other uncertainty indicators that influence their going concern (منذر المومني و زيار شويبات، 2008)

، "نموذج مقترح للتنبؤ بالتعثر للمنشآت المصرفية العاملة في فلسطين 2011:

This study aimed to find the best set of financial ratios that can be used to predict the faltering of bank enterprises and the distinction between a stable and an unstable one in order to identify the conditions of those enterprises earlier, allowing interested parties and regulators to intervene to take appropriate corrective action on time. The researcher used the method of statistical analysis of

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linear multi-discriminatory variables (Stepwise analysis) to find the best set of financial indicators that can be used in building this model so that he could distinguish between the hundred banking enterprises and other ones two years ahead. Financial ratios have been calculated for a sample of eight banks, the years 1997- 2007. The following proposed model was reached: $Z = 326,940A_8 + 37,810A_{11} - 14,905A_1 - 7,261A_{22} - 2,347$. Test of the model has been done by using financial ratios derived from sample data analysis and it was found to be able to predict the distinction between stumbling and non-stumbling banking enterprises with accuracy (75%, 75%, 62.5%) in the first, the third and the fourth year, prospectively before faltering (علي شاهين و جهاد مطر، 2011).

François Van Der Colff, 'Company Financial failure and Distress', 2012:

The research had two principal objectives. The first one was to determine whether a model utilising non-financial variables, either alone or in conjunction with a model based on financial variables, can predict company financial distress more accurately than a model based entirely on financial variables. The second objective was to consolidate and reinforce the theoretical foundation of company financial distress and failure through an examination of existing studies to enhance insight into the company's financial distress and failure phenomenon.

The study was explanatory and was broadly relied on the research of Keasey and Waston (1987). The financial ratios to be used in models 1 and 3 comprised six ratios, covering various aspects of company performance such as profitability, liquidity, and gearing. The non-financial information to be used in models 2 and 3 which comprise 14 questions, utilising financial ratios only designed to serve as a benchmark by which to compare the results obtained from model 2 and 3. Model 3 in enterprise both financial and non-financial information and was designed to test whether the two information was setted in working in conjunction with each other were able both to produce superior results to those obtained from either of the individual information sets.

A limited test result in favour of a strengthening relation slip was insufficient to prove that the primary objective of this study has been achieved. The secondary objective was achieved in view that this was an explanatory study. It is, against this background, that empirical research is recommended to prove that a model combining financial variables with true non-financial variables should provide a more accurate company distress prediction model (François Van der Colff, 2012).

Rami Bassam Bakker Kandous's study, 'درجة التزام مدققي الحسابات القانونيين بمعيار 570 التدقيق الدولي فرض الاستمرارية و اثره على التنبؤ بالفشل المالي للشركات الاردنية' 2017:

The study aimed to investigate the extent to which the certified public auditors in Jordan comply with the International Standard on Auditing ISA 570 Going Concern and the influence of this compliance on predicting the financial failure.

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The study population consisted of all Jordanian Industrial public shareholding companies listed on Amman Stock Exchange.

The study was based on a survey using a questionnaire that was given to 81 workers in those companies, six of them were rejected because of the people's unseriousness; The descriptive statistical analysis was based on the mean, the deviation, and Alpha Crombach for estimating the internal consistency and for testing the hypothesis, the multiple regression was used.

The study concluded that there is a significance to the degree of auditor's compliance with ISA 570 going concern by detecting the distress risks (financial risks, exploitation risks,...) in a group or individually on the prediction of the financial failure of the Jordan industrial public shareholding companies (رامي بسام بكر (قنوس، كانون الأول 2017).

Tibebu Girma, 'Applicability of Business Failure Prediction Models to the insurance sector of Ethiopia', February 2018 :

This thesis provided the applicability of Business Failure Prediction in an insurance sector in Ethiopia. The general objective of the study was to assess the capability of the four bankruptcy prediction models (Z score model of Altman, Springate, Wondim, Fufa) in predicting a non-failed status of Ethiopian insurance companies in 2017.

An explanatory research design was adopted in this study to establish the cause and effect relationship between the derived Z scores of the prediction models and the failure or non-failure status of the sampled insurance companies. The secondary sources were used in the study, mainly quantitative financial data from the audited financial statements of the sampled insurance companies.

The study concluded that from the four models researched, the adjusted Altman's Z score models can be a suitable model for the Ethiopian insurance sector (Tibebu Girma, February 2018).

Hamza Mohamed Dib Chaalan, 'تباين نموذجي كيدا و التمان للتنبؤ بالفشل المالي في شركات المساهمة العامة الاردنية' 2020 :

The study aimed to discover whether there is a contrast between Kida and Altman's models of predicting financial failure in the Jordanian public shareholding companies in 3 sectors: industrial, service and finance.

The analytical descriptive method was adopted based on financial statements of the Jordanian public shareholding companies in the stock exchange that was not listed from 2015 to 2018. The study population was 19 companies of 3 sectors. The test Whitney Mann U was used to examine the hypothesis.

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The study concluded that Kida's prediction ability is more than Altman in the industrial and service sectors in the studied period. Also, there was a failure in these models in predicting financial failure in the finance sector. Furthermore, there was a significant contrast between Kida and Altman's Models in predicting the financial failure in the industrial companies, and non-significant contrast between the Kida and Altman models in predicting financial failure in service and financial companies (حمزة محمد نيب شعلان، كانون الثاني 2020).

2.3. Discussion:

The previous studies included domestic, Arab and foreign studies. A lot of researches were founded in the area of this research. Some of these researches were chosen to be provided in this thesis as previous studies because they have a lot of common factors, but all researches were considered as a background of the study, and they helped to make a general idea to this research.

The present study differs from previous studies in various areas:

- It differs from Sarah Shibany's study دور محافظ الحسابات في التنبؤ بالفشل المالي للمؤسسات الاقتصادية , firstly, in the factors of the research. Her research had provided the second part of this study which is the role of the Stationary Auditor in predicting financial failure, without providing the degree of the Stationary Auditor's commitment with the Algerian Standard on Auditing 570 Going Concern. It also differs in the period of study, as Sarah Sibany's study was in 2016 – 2017 whereas, this study is in 2020. This previous study concluded that the Algerian Standard on Auditing 570 was not well-known in that period.
- It differs from Sasia Msahel's study مكاتب المراجعة في التنبؤ بالتعثر المالي للمؤسسات الاقتصادية . Initially in the factors of the audit committees and the prediction of financial distress besides the period of the study (2017). Sasia Msahel's had in commoned one of the objectives of our study which is providing the role of audit committees in predicting financial failure of the enterprise by applying the warning procedures in the enterprise that encounter difficulties that threat its ability to continue as a going concern.
- It differs from the Monder Moumen and Ziar Shouiat's study قدرة المدقق على اكتشاف مؤشرات الشك باستمرارية العملاء، الاردن 2004, in the following factors Auditor and uncertainty indicators. Second, it differs in the area and the period of the research (Jordan 2004).
- It differs from the François Van Der Colf's study 'Company Financial Failure and Distress' in the Financial failure and distress factor's, the period and area South Africa.
- It differs from Rami Bassam Bakker Kandous's study 'درجة التزام مدققي الحسابات القانونيين بمعيار التدقيق الدولي 570 فرض الاستمرارية و اثره على التنبؤ بالفشل المالي للشركات الاردنية', in one factor ISA 570 Going concern, the area(Jordan) and the periodof study.

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- It differs from Tibebe Girma's study 'Applicability of Business Failure Prediction Models to the insurance sector of Ethiopia' as follows: the Tibebe Girma's research did not study the part of the degree of the auditor's commitment with the Algerian Standard on Auditing 570 Going Concern and his role in predicting the financial failure. Moreover, it provided only the applicability of business failure prediction models in a certain sector. Furthermore, it differs in the area(Ethiopia) and the period (2018) of the study.
- It differs from Hamza Mohamed Dib Chaalan's research, 'تباين نموذجي كيدا و التمان 2020 للتنبؤ بالفشل المالي في شركات المساهمة العامة الاردنية' as follows: it studied the financial failure prediction models in the enterprise in Jordan only.

In conclusion, the previous studies have provided the models of financial failure prediction, the role of the auditors in predicting financial distress, the degree of the auditor commitment with ISA 570 Going Concern, but none of these research has provided the three factors in the whole context or the same area (Algeria) in the same period (2020).

**III. Empirical Study and Analysis:
The degree of Stationary Auditor's commitment with
the Algerian Standard on Auditing 570 Going
Concern, and his role in predicting financial failure**

1. Research Method:

1.1. Research Design:

The researcher used a secondary data consists of books, theses, reports, law and regulations for setting the theoretical framework, illustrating the concepts, explaining the factors and setting the hypotheses of the study.

For examining the hypotheses, a prior data have been used and which consist of a questionnaire. The paragraphs of the questionnaire were designed based on semi-questions, hypotheses, and the objectives of the research.

The first part of the questionnaire is an introduction to the thesis problem that includes the objectives of the research and its significance. The second part includes the personal data their positions and experience. The third part includes the questions and it is divided into four parts.

The first part is about the Algerian Standard on Auditing 570 Going Concern, whether it is applied by the auditor in Algeria or not, whether the managements use the auditor's report of the continuity as a going concern or not. The questions are:

- Do you apply all the Algerian Standards on Auditing?
- Do you apply the Algerian Standard on Auditing 570 Going Concern?
- In case the enterprise encounter a threat to continue as a going concern, do you write a report of the continuity as a going concern?
- Do you write the report of the enterprise's continuity as a going concern by your choice?
- Does the management take the report of the enterprise's continuity as a going concern in consideration?
- Does the board of directors rely on your report of this case?

Generally, these questions are important to know whether the auditors apply all the Algerian Standards on Auditing, particularly Algerian Standard on Auditing 570 Going Concern or not. It is also important to know whether the management uses its report in decision making or not, thesis essentially for knowing the auditor's role in the management in predicting the financial failure, for if the management does not use it, that will make one do not know his role in it.

The second part is about the application of financial failure prediction by the auditors. the questions are :

- Have you already done the prediction of the financial situation?
- Have you already done the prediction of financial failure?
- Do you use the models of predicting the financial failure in the audit?
- Do you use these models in preparing the report of the enterprise's continuity as a going concern?
- Do you estimate financial failure using the market situation?

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- Do you estimate financial failure using the enterprise's commitment with the bank and tax direction?
- Do you estimate financial failure using the financial leverage?
- Do you estimate financial failure by experience?
- Do you estimate financial failure by simulating the international models?
- Do you estimate financial failure using statistical models?
- Is the kind of prediction models you use quantitative?
- Is the kind of prediction models you use qualitative?
- Do you use both qualitative and quantitative models to predict financial failure?

These questions are meant to know whether the auditors know about or use the financial failure prediction or not, whether they use a simple method to estimate financial failure or they learn new methods, whether they use quantitative or qualitative models or both of them, it is so important to know the auditors's role in the enterprise based on those models because the quantitative models cover the technical part only, the qualitative model covers the behaviour of the employees and other factors that can affect the enterprise performance. using them both is more effective to cover the whole areas of the financial failure prediction.

The third part of the questionnaire is about whether the auditor writes a detailed illustration of the financial failure prediction in his report or not, whether the auditor's way of estimating had change over the last 10 years (after the law 10-01), and whether the management accepts using the financial failure prediction in the auditor's report to know his influence on the management or not. The questions are:

- Has your method of estimating the threat on the enterprise's continuity as a going concern changed?
- Does your report of this situation include detailed ratios that give a sincere confession of the financial situation?
- Does the report include scores of the models of financial failure prediction?
- Did the use of the prediction of financial failure make a change in the enterprise's situation?
- Was that change positive?
- Was the degree of management acceptance to that use good?

The fourth part is about whether the auditor never used the prediction of financial failure or does not know about it or even whether he knows about it but never uses it. The auditor reveals about his opinion on using the financial failure prediction in audit:

- Is the degree of your acceptance on using the prediction of financial failure in audit good?

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- Do you prefer to add the prediction of financial failure to the auditor programmes?
- Does the refuse of the other auditor's use of the prediction of financial failure make you hesitate to use it?
- Do you frequently update your knowledge about the international models of the financial failure prediction?
- Does the Algerian environment drives you to use the prediction of financial failure?
- Does the Algerian environment drives you to use only one or two of the models of the financial failure prediction?
- Does the Algerian environment drives you to use the quantitative models more than the qualitative models?
- Do you think the models of the financial failure prediction draw a sincere picture of the enterprise situation?
- Would you use the models of the financial failure prediction within the basis of the Algerian Standard on Auditing 570 Going Concern? (in case you have never used it).

These are the parts of the questionnaire used in the research. The questionnaire used a scale of three because the research problem does not accept a lot of opinions only yes, no, or somehow (approximately yes).

1.2. The research population :

The research population consists of auditors, employees in audit firms, and academics in Algeria. As a first measure, the researcher prepared an electronic questionnaire. It was distributed to 100 emails of auditors in Algeria, and some community groups in social media (Facebook). 10 replies has been received. As a second measure, and because there were no significant responses of the electronic questionnaires, a 30 questionnaires were distributed in 3 cities in Algeria: 10 in Ghardaia, 5 in Ourgla, and 15 in Tougourt.

Zone	Population	Distribution	response	No response	Not accepted
Ghardaia	18	10	8	2	0
Ourgla	29	5	3	2	0
Tougourt	18	15	11	4	1
Electronic	-	100+	10	80+	1

Table 1: Questionnaire distribution

1.3. Analysis Method :

To reach the research goals, we have used the SPSS₂₀ in data analysis :

The descriptive Analysis :

- frequency descriptive analysis for describing the collected data;
- the mean to know whether the responses focused on a certain choice among the individuals;
- deviation to estimate the extent of dispersion of responses among the sample or from their mean;
- variance to highlight whether there is a harmony among the responses or not;
- centre tendency.

The inferential statistics :

- Alpha Cronbach to determine the validity and the reliability of the data;
- Correlation to know whether there is a relationship between variables;
- The regression to highlight the influence of the variables on each other.

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2. Results :

2.1. Description of the sample :

The table below describes the frequency of the responses, 93% of the responses are valid, 06% are not valid because the individuals did not finish filling the questionnaires up.

		N	%
Cases	Valid	30	93.8
	Excluded	2	6.3
	Total	32	100.0

Table 2: responses frequency

Functions:

	F	Percent	Valid Percent	Cumulative Percent
Stationary Auditor	18	56.3	56.3	56.3
External Auditor	1	3.1	3.1	59.4
Certified Accountant	6	18.8	18.8	78.1
Academic in Audit field	5	15,6	15.6	100.0
Total	32	100,0	100,0	-

Table 3: function frequencies

The table above describes the distribution of the sample according to the function: 56.3% of the sample are Stationary Auditors, 3.1% External auditors, 18.8% are Certified Accountant, 6.3% an employees in an institution responsible for oversight and audit, 15.6% academic in Audit field. Accordingly, the majority of the individuals are Stationary Auditors, who have a great experience with the focus of the present research, the rest of the individuals are those that have a certain knowledge of the area of the research.

II. Theoretical Framework

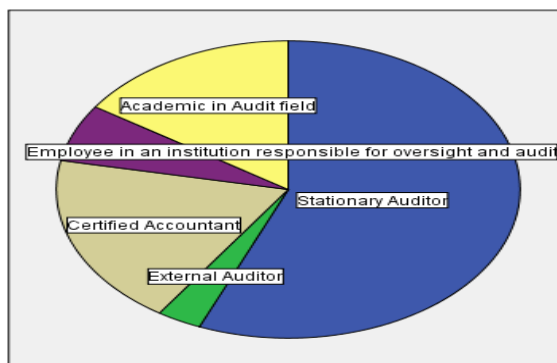


Figure 1: pie-chart of functions

Experience :

Experience	Frequency	Percent	Valid Percent	Cumulative Percent
Less than 3 years	4	12.5	12.5	12.5
3 years to 10 years	15	46.9	46.9	59.4
More than 10 years	13	40.6	40.6	100.0
Total	32	100.0	100.0	-

Table 4: Experiences Frequency

46.9% of the individuals have an experience of 3 to 10 years, which is the highest percentage. 40.6% have more than 10 years of experience and the rest have less than 3. This means that the individuals must have encountered a case that needs a report of the Stationary Auditor of the corporate's continuity as a going concern.

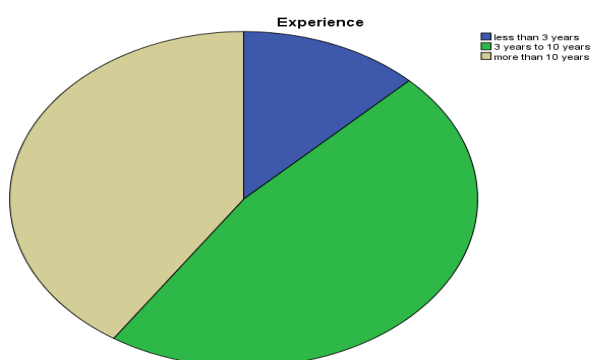


Figure 2: Experiences Frequency

II. Theoretical Framework

1.2. Mean, variance, Deviation:

P	Mean	Variance	Std Deviation	N° of items
1	11.81	8.561	2.926	6
2	28.23	22.185	4.710	13
3	13.87	11.430	3.381	6
4	21.10	7.886	2.808	9

Table 5: Mean, Variance, Deviation

The table above describes the responses: the variance of the first part was 8.56%, and the deviation 2.92, which means that the responses are convergent. The responses give a sincere picture to the auditors opinions . The part number two with the variance 22.18% shows that the responses differ slightly from one to the other, but there is no deviated responses (Std deviation 4.71). The third part with 11.43% variance and 3.38 deviation means that the responses slightly differ, but there is no deviation, only a few. the last part with a 7.88% variance and 2.80 Std deviation shows that the responses are completely convergent.

Cronbach's Alpha :

P	Mean	Variance	Std Deviation	Cronbach's Alpha	N° of items
1	11.81	8.561	2.926	0.711	6
2	28.23	22.185	4.710	0.706	13
3	13.87	11.430	3.381	0.856	6
4	21.10	7.886	2.808	0.470	9

Table 6: Cronbach's Alpha of each part

For estimating the reliability of the data, Cronbach's Alpha has been used. As the table above describes the Cronbach's Alpha is more than 0.7 in the three parts which means that the data are reliable.

The last part, Cronbach's Alpha did not exceed 0.7, but the variance was 7.88% and the deviation 2.80. this means that there is missing data. The Cronbach's Alpha of all the questions of the questionnaire shows 0.856 which reflect the reliability of the responses.

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Mean	Variance	Std. Deviation	Cronbach's Alpha	N° items
75.03	112.723	10.617	0.856	34

Table 7: Cronbach's Alpha of all the questions

Frequencies:

Question N°	No f	Some how f	Yes f	Total
Q2	9	14	8	31
	28.1%	43.8%	25%	100%
Q3	13	10	8	31
	40.6%	31.3%	25%	100%
Q8	9	5	17	31
	28.1%	15.6%	53.1%	100%
Q9	6	10	15	31
	18.8%	31.3%	40.9%	100%
Q10	4	14	13	31
	12.5%	43.8%	40.6%	100%

Table 8: Frequencies

In the table above, we display the frequencies of the answers in the questions 2,3,8,9, and 10. We have noticed that in question 2, the answers are 25% “Yes”, 43.8% “Some how” and the rest of the answers is 28% “No”. In question 3, 25% of the answers are “Yes”, 31.3% “Some how”, and 40.6% are “No”.

In Q8, Q9 and Q10 the answers on “Yes” are between 40% and 53%, the answers on “Some how” are 15% to 43%, and the answers on “No” are 12% to 28%.

1.3.The relation and influence of variables:

Correlation :

Test One:

In order to know whether there is a relationship between applying the Algerian Standard on Auditing 570 Going Concern and using the prediction of financial failure, we calculate the correlation. Pearson correlation was 0.48 significance was 0.006 this means there is a significant relationship between applying the Algerian Standard on Auditing 570 Going Concern and using the prediction of financial failure.

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		Q2	Q8
Q2	Pearson Correlation	1	,483**
	Sig. (2-tailed)	-	,006
	N	31	31
Q8	Pearson Correlation	,483**	1
	Sig. (2-tailed)	,006	-
	N	31	31

Table 9: correlation Q2, Q8

Test Two:

To know whether there is a relation between using the prediction of financial failure in audit within the basis of Algerian Standard on Auditing 570 Going Concern and the management use of the special report of the corporate's continuity as a going concern, a correlation has been used. Pearson correlation was 0.28, significance was $0.125 > 0.05$, which means there is no significant relationship between using the prediction of financial failure in audit within the basis of Algerian Standard on Auditing 570 Going Concern and the management use of the special report of the corporate's continuity as a going concern.

		Q5	Q10
Q5	Pearson Correlation	1	,282
	Sig. (2-tailed)	-	,125
	N	31	31
Q10	Pearson Correlation	,282	1
	Sig. (2-tailed)	,125	-
	N	31	31

Table 10 correlation Q5, Q10.

Regression :

Test one:

Test one is about the influence of Q8, Q9, Q10, Q22, Q23, Q24, Q25 on the dependent variable Q2.

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,779 ^a	,608	,483	,550

Table 11: Regression(Model summary 1)

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In table 11, R square is 0,608 which means that the independent variables affect the dependent variables positively by 60%.

ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	10,309	7	1,473	4,866	,002 ^b
	Residual	6,658	22	,303		
	Total	16,967	29			

Table 12: Regression(ANOVA 1)

Table 12 provides a significance $0,002 < 0,05$ which means the effect among variables is significant.

Coefficients						
Model		Unstandardized Coefficients		Std Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	,589	,441		1,334	,196
	Q8	,369	,165	,423	2,230	,036
	Q9	-,362	,167	-,376	-2,160	,042
	Q10	,190	,228	,174	,832	,415
	Q22	1,031	,293	,915	3,522	,002
	Q23	,303	,197	,301	1,536	,139
	Q24	-,245	,178	-,261	-1,375	,183
	Q25	-,750	,311	-,655	-2,407	,025

Table 13: Regression(coefficients 1)

Table 13 consists of the effect of each variable. Q8, Q9, Q22, Q25 are significant. Q10, Q23, Q24 are not significant solely, but they are significant among the group.

The tables above (11, 12, 13) express the regression among the variable Q2, and the variables Q8, Q9, Q10, Q22, Q23, Q24. Significance is 0.002 and R square 0.60, which means there is a significant positive influence of Q2 on Q8, Q9, Q10, Q22, Q23, Q24 with the rate 60%. When we look at each variable, we notice that Q8, Q9, Q22 significantly affect Q2, unlike Q10, Q23, Q24; However, among a group, there is a significant effect on Q2.

Test Two:

Test two is about the influence of Q11, Q12, Q13, Q14, Q15, Q16, Q17, Q18, Q19 on the dependent variable Q5.

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Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,523 ^a	,274	-,053	,713

Table 14: Regression(Model summary 2)

In table 14, R square is 0,274 which means that the independent variables affect the dependent variables positively by 27%.

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3,831	9	,426	,837	,592 ^b
	Residual	10,169	20	,508		
	Total	14,000	29			

Table 15: Regression(ANOVA 2)

Table 15 provides a significant $0,592 > 0,05$ which mean the effect among variable is not significant, it is by coincidence.

Coefficients						
Model		Unstandardized Coefficients		Std Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,022	,775		1,318	,202
	Q11	,023	,157	,029	,144	,887
	Q12	-,308	,265	-,331	-1,162	,259
	Q13	,167	,240	,166	,698	,493
	Q14	,088	,241	,101	,366	,718
	Q15	,346	,229	,339	1,513	,146
	Q16	-,295	,226	-,309	-1,301	,208
	Q17	,060	,210	,067	,284	,779
	Q18	,226	,234	,248	,968	,345
	Q19	,213	,193	,246	1,103	,283

Table 16: Regression(coefficients 2)

Table 16 consists of the effect of each variable. Q11, Q12, Q13, Q14, Q15, Q16, Q17, Q18, Q19 are neither significant solely nor among the group.

II. Theoretical Framework

The tables above show the regression among the variable Q5, and the variables Q11, Q12, Q13, Q14, Q15, Q16, Q17, Q18 and Q19. Significance is $0.59 > 0.05$ and R square 0.27. This means there is no significant among the variables.

Test Three:

Test three was about the influence of Q8, Q9, Q10, Q22, Q23, Q24, Q25 on the dependent variable Q5.

Model Summary				
	R	R square	Adjusted R square	Std. error of the estimate
1	,708	,502	,398	,576

Table 17: Regression (Model summary 3)

In table 17, R square is 0,502 which means that the independent variables affect the dependent variables positively by 50%.

ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8,026	5	1,605	4,831	,003 ^b
	Residual	7,974	24	,332		
	Total	16,000	29			

Table 18: Regression(ANOVA 3)

Table 18 shows a significance of $0,003 < 0,05$ which means the effect among variables is significant.

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,201	,447		,449	,657
	Q10	-,021	,210	-,019	-,098	,923
	Q22	,270	,298	,247	,907	,374
	Q23	-,259	,191	-,266	-1,356	,188
	Q24	,318	,182	,350	1,748	,093
	Q25	,428	,302	,385	1,419	,169

Table 19: Regression(coefficients 3)

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Table 19 consists of the effect of each variable. Q10, Q22, Q23, Q24 Q25 are not significant solely but among the group.

According to the tables 17, 18, 19 above, the board of directors relies on the Stationary Auditor's report of the corporate's continuity as a going concern because the R square is 0,502 and the significance 0,003 which means that there is a positive effect of the Stationary Auditor's use of the prediction of financial failure within the basis of Algerian Standard on Auditing 570 Going Concern.

3. Discussion and Interpretation

3.1. Discussing the Results

The thesis aims to estimate the degree of the Stationary Auditor's commitment with the Algerian Standard on Auditing 570 Going Concern and his role in predicting financial failure in Algerian corporate. For a certain purpose, the population included the external auditors, the certified accountant, employees in an institution responsible for oversight and audit and academics in audit field because of the experience they get of working in the audit field. The majority of the individuals are Stationary Auditors 56%, and they have 3 to 10 years of experience. The centre tendency tests demonstrated that the responses were reliable, truly expressed.

The frequencies of the answers on “Yes” in question 2 and 3 in table 8 are 25%, the answers “Some how” are 43.8% (Q2), 31.3%(Q3), this means that more than the half of the Stationary Auditors are committed to the standard 570 Going Concern, and only 28.1% do not apply the standard, and 40.6% do not write the special report when the corporate encounter a threat on its continuity as a going concern.

In the table 8, the questions 8, 9, and 10, the answer on “Yes” are 40% to 53.1%, the answers “Some how” are between 15% to 43% which means that the majority of Stationary Auditors apply the prediction of financial failure .

The correlation tested whether there is a relationship between applying the standard 570 Going Concern and predicting financial failure, and the test shows that yes there is a significant relationship. Also, correlation tested whether the management uses the special report of the corporate's continuity as a going concern because it includes scores of the prediction financial failure or not; the test showed that there is no significant relationship between the two.

The regression tested: the influence of using the prediction of financial failure which had a significant positive effect, the influence of using the prediction of financial failure in the special report of the corporate's continuity as a going concern, there was a significant positive effect, the influence of using the prediction of financial failure within the basis of Algerian Standard on Auditing 570 Going Concern on the corporates situations and whether using it made a positive change on the financial situation of the corporate. the test proves that there is no significant influence. When we back to the correlation result between the management's use of the auditor report and the application of financial failure prediction, we can notice that the management does not base on the auditors report; that is why the role of the auditor is not obvious in this area. Finally, the regression tested whether the management accepts using the prediction of financial failure in

the special report of the corporate's continuity as a going concern by the Stationary Auditors and the result was not significant which means that the management does not rely on the Stationary Auditor's report that includes the financial failure prediction. However, the board of directors relies on the Stationary Auditor's report of the corporate's continuity as a going concern because the R square is 0,502 and the significance 0,003 which means that there is a positive effect of the Stationary Auditor's use of the prediction of financial failure within the basis of Algerian Standard on Auditing 570 Going Concern. this means that the big shareholders corporates use this report unlike the other types of firms.

3.2. Testing Hypotheses

After discussin of the results, we test the hypotheses of the thesis :

- the auditors are committed with the Algerian Standards on Auditing particularly the standard 570 Going Concern, because in Q2 frequency of the response is 'Yes' 25%, 'Somehow' is 43.8% which are more than 50%, this hypothesis has been proved;
- the auditor performs the prediction of financial failure, we accept the hypothesis H₁: in Q9 frequency of the response 'Yes' is 40%, 'Somehow' is 31.3% which are more than 50%;
- the Stationary Auditor has a significant positive role in predicting financial failure within the basis of the standard 570 Going Concern, H₁: Regression test: R square: 0.502 > 0.50 , Sig: 0.003 > 0,05 has also been proved.

3.3. Additional Issues Founded during research

After searching in the area of our thesis ' the degree of the Stationary Auditor's commitment with the Algerian Standard on Auditing 570 Going Concern and his role in predicting financial failure', we have noticed few issues that the future studies may search for :

- The report of the auditors is not completely relied on by managements. the board of directors does not oblige them to use the report of the Stationary Auditor of the corporate's continuity as a going concern;
- The models of predicting financial failure deal with the financial factors of the enterprise only and ignore the rest of the factors. The qualitative models are not commonly used. No model can estimate financial failure including all financial, labour, and environmental influence factors.

IV. Conclusion

Conclusion:

The Algerian Standard on Auditing 570 Going Concern deals with the responsibility of the auditor in dealing with the corporate's Continuity as a going concern according to law 10-01. The researcher concluded that the Algerian Stationary Auditors are committed with the standard, and they do apply the prediction of financial failure. The Stationary Auditor has a significant positive role (Significance 0.002, R square 0.60) in predicting financial failure within the basis of the Algerian Standard on Auditing 570 Going Concern only in big shareholders corporates (significance 0,003, R square 0,502), this means that the Algerian managements should use the auditor's report that includes the prediction of financial failure because it will give a certain change in the financial situation.

Accordingly, The hypotheses of the research are proved and the goals are reached, but the research has opened new issues such as 'how to affect the role of the Stationary Auditor in the management'. Since managements do not rely on the Stationary Auditor's report only in the big firms which is a serious problem. we must spread this culture even in small businesses because it realises quality in work. For the prediction of financial failure, no model consists of the financial, labor and environmental factors together, but there are different models for each. All that gives the researchers new issues to study.

Self Assessment:

This research is an added value to my knowledge; it has given me new clear prospects for the future researches.

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VI. Appendices

Appendix 01: The questionnaire



University of Ghardaia

Faculty of Economics

Department of Finance and Accounting



The Second year master Audit and Control of Management

A questionnaire titled in :

The degree of Stationary Auditor's commitment with the Algerian Standard on Auditing 570 Going Concern and his role in predicting the financial failure

Submitted by: Amna Bouhoreira, E-mail: amna.bouhoreira47@gmail.com

Introduction :

For preparing the master thesis in Finance and Accounting, major of Audit and Control of Management 2020, the questionnaire title "*The degree of Stationary Auditor's commitment with the Algerian Standard on Auditing 570 Going Concern and his role in predicting the financial failure*", we provide you a group of questions about the object we already mentioned. However, these questions are significant to solve an important problem to the academic researchers, the purpose of this research is to estimate the degree of the Stationary Auditor's commitment with the ASA570 Going Concern. Also, it aims to highlight the auditor's role in predicting the financial failure in the area of applying the ASA 570. Moreover, we would like to show the Stationary Auditor's role in the Algerian corporates, its continuity as a going concern, and its development.

Stationary Auditor: The Stationary Auditor in the Algerian law is the person who regularly examines the authentication of the companies, and organizations accounts whether correct, regular, or compliant with the provisions of the applied legislation.

The Algerian Standard on Auditing 570 Going Concern: This Algerian Standard on Auditing deals with the auditor's commitment in the audit of financial statements relating to the administrations hypotheses of going concern in the financial statement

The prediction of financial failure: is a group of procedures, estimations and results that have a relation with the future, it is based on a practical, mathematical,

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statistical basis. And the previous financial data is used to reach future data that have a relation with decision making

NB: this questionnaire is prepared for academic purpose, we assure you the high secrecy to your data

Personal Data :

- Function :**
- Stationary Auditor
 - External Auditor
 - Certified Accountant
 - An employee in an institution responsible for oversight and audit
 - Academic in Audit field

- Experience :**
- Less than 3 years
 - 3 years to 10 years
 - More than 10 years
-

Part one: the degree of the Stationary Auditor's commitment with the Algerian Standard o Auditing 570 Going Concern:

N°	Questions	No	Some How	Yes
1	All the Algerian Standards on Auditing are applied by you			
2	You applied the Algerian Standard on Auditing 570 Going Concern			
3	In case the enterprise encounter a threat to continue as a going concern, you write a report of the continuity as a going concern			
4	You write the report of the enterprise's continuity as a going concern by your choice			
5	The management take your report of the enterprise's continuity as a going concern in consideration			
6	The board of directors relays on your report of this case			

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Part Two: the role of the Stationary Auditor in predicting financial failure in the area of ASA 570 Going Concern :

N°	Questions	No	Some How	Yes
7	You have already done the prediction of the financial situation			
8	You have already done the prediction of financial failure			
9	You use the models of predicting the financial failure in the audit			
10	You use these models in preparing the report of the enterprise's continuity as a going concern			
11	You estimate financial failure using the market situation			
12	You estimate financial failure using the enterprise's commitment with the bank, tax direction			
13	You estimate financial failure using the financial leverage			
14	You estimate financial failure by experience			
15	You estimate financial failure by simulating the international models			
16	You estimate financial failure using statistical models			
17	The kind of prediction models you use is quantitative			
18	The kind of prediction models you use is qualitative			
19	You use both qualitative and quantitative models to predict financial failure			

Part Three: The prediction of financial failure, and the Stationary Auditor's report of the corporate's continuity as a going concern :

N°	Questions	No	Some How	Yes
20	Your method of estimating the threat on the enterprise's continuity as a going concern has changed.			
21	Your report of this situation includes detailed ratios that give a sincere confession of the financial situation			
22	The report includes scores of the models of financial failure prediction			
23	The use of the prediction of financial failure made a change in the enterprise's situation			
24	That change was positive			
25	The degree of management acceptance to that use was good.			

Part Four: The ability of the Stationary Auditor's use of the prediction of financial failure within the basis of the Algerian Standard on Auditing 570 :

N°	Questions	No	Some how	Yes
26	The degree of your acceptance on using the prediction of financial failure in audit is good			
27	You prefer to add the prediction of financial failure to the auditor programs			
28	The refuse of the other auditor's use of the prediction of financial failure make you hesitate to use it			
29	You frequently update your knowledge about the international models of the financial failure prediction			
30	The Algerian environment drives you to use the prediction of financial failure			
31	The Algerian environment drives you to use one or two only of the models of the financial failure prediction			
32	The Algerian environment drives you to use the quantitative models more than the qualitative models			
33	You think the models of the financial failure prediction draw a sincere picture of the enterprise situation			
34	You would use the models of financial failure			

Appendix 02: The Stationary Auditor’s report of the corporate’s continuity as a going concern:

Mr:.....

Stationary Auditor

Address:.....

To the group of General assembly.....

Object: report of the corporate’s continuity as a going concern

Reference: the report of the Stationary Auditor for the year

In the framework of the audit engagement of the corporate....., that located in....., it is our highest pleasure to provide you the report of the corporate's continuity as a going concern of the year closed

However, the report includes three parts according to Decision that titled in 24 July 2013 that consist the continents of the Stationary Auditor's report, and the Algerian Standard on Auditing 570, these three parts are:

- Financial Ratios;
- operational Indicators;
- other ratios.

To prove our opinion, we calculate, estimate some ratios that are necessary according to the data in the financial statements, which allowed us to detect and collect the evidence that can cast doubt on the corporate's continuity as a going concern. Accordingly, we found some errors that we would illustrate them in this report.

The audit engagement that we performed was completely, carefully, done based on the regulations, particularly the fulfillment of the Algerian standard on Auditing 570 Going concern that complies with the ISA 570.

..... Ghardaia in.....

Stationary Auditor

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- According to the articles 676,715 revised 11, of the order n° 75-59 titled in September 26th, 1975 that includes the Commercial Law, that revised according to the legislative decree n° 93-08 titled on April 25th, 1993, the order n° 96-27 titled in December 09th, 1996, and the law 05-02 titled in February 2005;
- According to the Article 6 of Law n° 07-11 of November 25th, 2007, containing the revised financial accounting system; according to Article 7 of Executive Decree n° 08-156 of May 26th, 2008 regarding the application of the provisions of the Financial Accounting System Act; and according to Article 25 of Law n° 10-01 related to the function of the external auditor, the certified accountant, Stationary Auditor, according to Executive Decree No. 11-202 of May 26, 2011, setting out of the Stationary Auditor's Standards of Auditing Reports, forms, and deadlines for these accounts;
- According to the decision set on June 24th, 2013 setting out the content of the Stationary Auditor's Standards of Auditing Reports;
- According to Decision 002 of February 04th, 2016, containing the first group of Algerian Standards on Auditing;
- According to Decision 150 of October 11th, 2016 containing the second group of Algerian Standard on Auditing;
- based on Decision 23 of March 15th, 2017 containing the third group of Algerian Standard on Auditing.

In the context of audit engagement entrusted to us and to carry it out with the required care, and in the application of the provisions of Article 23 of the function Law n° 10-01, and application of the provisions of paragraph n° 9,8,6 and paragraph n° 26 of the Algerian Standard on Auditing 570 Going Concern, we are honored to provide you with what comes in the Stationary Auditor's report of the corporate's continuity as a going concern.

We regret to inform you that we did not receive the management's evaluation about the corporate's continuity as a going concern although we ask for it. According to the paragraph n° 17 of the Algerian Standard on Auditing 570 going Concern, that has not malfunctioned our performing, the evidence is as the following:

First, the financial ratios:

Basing on the financial failure basis we calculated some ratios that we thought that can support our opinion in the table below:

Ratio	Equation	N	N+1
Self Funded Ratio	Proper Capital / Fixed Asset		
Permanent Funding Ratio	Permanent Fund/ Fixed Asset		
Repayment Ratios	Total Asset/ Total Debt		
Financial Returns Ratio	Result/ Proper Capital*100		
Financial Independent Ratio	Proper Capital/ Total Debt		

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Estimator	Equation	N	N+1
Overall Net Working Capital	Permanent Fund/Non-Current Liabilities		
Proper Working Capital	Proper Capital/ Fixed Assets		
Treasury Net	Asset Treasury/ Liabilities Treasury		

According to the Table above, percentages, and indicators are generally acceptable, only concerning the percentage of financial independence, it is worth noting that this ratio should be confined between 1 and 2, otherwise this is an honor to inform you that we did not notice any other financial indicator that raises suspicion or a threat.

Second, the operational Indicators:

we have reached operational ratios that can raise, together or separately, significant doubts about your corporate's continuity ability as a going concern. These indicators are:

1. An indicator of human resources and the loss of important managers:
 - We have noted that there is no strict internal system for your company regarding human resources regulation, and there is no labor union or a representative representing workers, although the number of workers is considered somewhat (67 workers) according to the regulations.
 - The dispute with one of the workers who hold the position of head of a workshop where, according to the documents obtained from the company's lawyer, your company may bear the loss of the case, and thus compensate the worker in an amount greater than 6, 000, 000, 00 DZD. The results achieved as indicated in the general report for expression of opinion.
 - The loss of an important headmaster of the projects management department, as the latter has not yet been replaced by him even though he submitted his resignation about 9 months ago for personal reasons and considerations that he did not mention in the resignation according to our review. it should be noted that this vital department is considered one of the most important and prominent departments at the level of your company and is managed by, currently, an employee of the same department is working temporarily.

We regret to inform you that these indicators cast doubt on the corporate's ability to continue as a going concern.

2. Financial failure indicators:

According to the following.....

Which cast a doubt on the corporate's ability to continue as a going concern.

There was no other ratios or indicators

As a conclusion, after finishing the examination of the accounts of the corporate (.....) closed on December 31st, N under the audit standards, and based on the convincing elements, events, and circumstances taken, and based on our

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judgment, we inform you about the existence of significant uncertainties related to events and circumstances mentioned in this report collectively or individually, which would cast doubts about your corporate's ability to continue as a going concern in the future.