

The Extent of Applying the Attribute Standards of Internal Audit in Yemen

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Abstract

The study aimed to identify the extent of applying independence and objectivity standard as well as proficiency and due professional care standard and the quality insurance program standard of internal audit in Yemen private sector. One model questionnaire was distributed to one hundred ninety internal auditors in joint stock companies operating in Yemen. The study found that private sector companies are applying the attribute Standards of internal audit. The application of these standards consider in a good level. Based on the findings, the study gives some recommendations to improve the application of the IA attribute standards in the private sector companies in Yemen. The study suggest some recommended the private sector companies, government authorities and related parties to increase the degree the work in applying the attribute standards in Yemen.

Key Words:Internal Audit, Attribute Standards, Private Sector

1. Introduction

Recently, manyof financial scandals appeared due to the large size of the projects and the emergence of multinational and international companies, which is characterized by the multiplicity of ownership and the complexity of its operations. Therefore, it was one of the essential duties of the administration to take care of internal audit and to put control systems to ensure the proper functioning of work and commitment to the policies and instructions of the senior management to protect the rights of the shareholders and investors as well as creditors.

Several regulatory changes can be seen as response to corporate scandals and the global financial crisis, bringing the profession of the internal auditor to the frontline of the change agenda. (Leung *et al.*, 2011) Regulations forced corporations, and especially their internal auditors, to take a much broader spectrum of risks and controls into account that is no longer limited to financial controls. (Baker and Writer, 2013) Internal auditors need to face the challenge of complex and frequent changes in regulations, as they have to assure the compliance of the company with those laws. (Jackson, 2012a) As a consequence, many of them have an impact on the profession of internal auditing and define the tasks of internal auditors more precisely. (Chambers, 2014) For instance, as a consequence of the SOX act, a significant raise in the workload and responsibilities, and thus in the resources of the internal audit department could be observed. (Munro and Stewart, 2011) Furthermore, corporate scandals and the global financial crisis increased the demand for internal auditors to prove the efficiency and importance of their work, and internal auditors need to add value to an organization by making sure that the activities of an organization are performed economically, efficiently and effectively. Through foreseeing potential risks, as well as, by identifying existing risks, that can threaten the organization as a whole; by

addressing corporate governance in their audited activities; by making sure that the organization keeps up with the latest technology and processes; and much more.

In 1941, The Institute of Internal Auditors have been Established (IIA) as an international professional association with global headquarters in Altamonte Springs, Florida, USA. The IIA is the internal audit profession's global voice, recognized authority, acknowledged leader, chief advocate, and principal educator.

According to (Senan, 2009), in Yemen, there is no list of obligatory IA standards to be applied by professionals and companies. Therefore, there is a necessity to have internationally accepted internal auditing standards. This will make assurance of the businesses financial positions for shareholders and foreign investors. Therefore, this research will focus on evaluating the current practice and application of the International IA standards in Yemeni private sector companies specially the attribute standards that is related to the internal audit independence and objectivity, internal audit proficiency, and internal audit quality assurance.

2. Importance of the Study

This study is very important because it tries to bridge the gap of internal audit profession in Yemen, as there is no research have been done to study the extent of applying the IA standards in different areas of private sector such as; banking, telecommunications, insurance , general trade and industry companies. Which can add value to the current practices of the profession as well as to the originations themselves.

3. Objectives of the Study

The main objectives of the study are as below:

- 1- To identify the extent of applying independence and objectivity standard of internal audit
- 2- To identify the extent of applying proficiency and due professional care standard of internal audit
- 3- To identify the extent of applying quality insurance program standard of internal audit

4. Population and Sampling of the study

This study covered the private sector companies in Yemen, where there are more than one type of businesses. The study focused on the open and closed joint stock companies in particular, which are 206 Companies listed by the Ministry of Trade and Industry in Yemen. Following are the types of businesses in private sector that have been covered.

- 1) Banking Sector
- 2) Telecommunication Sector
- 3) Insurance Sector
- 4) Industry Sector
- 5) General Trade Sector

Therefore, the population of the study consists of the internal auditors who are working and practicing the profession in the above-mentioned companies. Thus, the sample comprised 34 Joint Stock Companies with different types of businesses activities. Therefore, one hundred ninety three questionnaires were distributed to those companies

5. Data Analysis and Interpretation

- **Analysis of the Respondents' Views Regarding the Extent of Applying the Independence and Objectivity Standard of Internal Audit**
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Table No. (1)

Arithmetic Means and Percentage with Description for Respondent Views of the Extent of the Applying the Independents and Objectivity Standards of IA

No.	Statements	Mean	Percent %	Description	Rank
1	Internal audit department is belongs directly to the highest level in the organization structure	3.38	67.6%	Average	2
2	Internal auditor are not allowed to audit in the area which they have been worked before	2.90	58%	Weak	6
3	Directly Informing the concern person if the independence or objectivity is impaired	3.11	62.2%	Average	5
4	In the case of fraud, No influence for informing the high authority in the organization	3.48	69.6%	Average	1
5	Internal auditors don't have any authority or power related to the activities which they are auditing	3.15	63%	Average	4
6	After the audit activity Internal auditors provides an objective suggestions to the managers to improve their departments	3.23	64%	Average	3
	AVRAGE MEAN	3.20	64%	Average	

Source: Field Survey

The overall mean is 3.20 and the percentage of applying the independence and objectivity standard is 64%, which indicates that, the application is average.

- **Analysis of the Respondents' Views Regarding the Application of the Proficiency and Due Professional Care Standard of Internal Audit**

Table No. (2)
 Arithmetic Means and Description for Respondent Views on the Application of the Proficiency and Due Professional Care Standards of Internal Audit

No.	Statements	Mean	Percent %	Description	Rank
1	Internal auditors have the knowledge, skills, and other competencies needed to perform their responsibilities	3.24	64.8%	Average	2
2	Internal auditors are concern about developing their knowledge, skills, and other competencies	3.24	64.8%	Average	2
3	Internal auditors have sufficient knowledge of the international internal audit standards	2.77	55.4%	Weak	3
4	Internal audit director is supervising the performance of the activities on the base of plan and program of the activities	3.34	66.8%	Average	1
5	Internal auditors are applying high care while evaluating risk management and control	3.34	66.8%	Average	1
	AVRAGE MEAN	3.186	63.72%	Average	

Source: Field Survey

The overall mean is 3.186 and the percentage of applying the proficiency and due professional care standards is 63.7%, which indicates that, the application is average.

- **Analysis of the Respondents' Views Regarding the Application of the Quality Assurance Standard of Internal Audit**

Table No. (3)
 Arithmetic Means and Description for Respondent Views on the Application of the Quality Assurance Standards of Internal Audit

No.	Statements	Mean	Percent %	Description	Rank
1	Internal auditors performance are evaluated continually by experts	3.03	60.6%	Average	2
2	Internal audit performance is evaluated in regular base by qualified independent external auditors	2.70	54%	<u>Weak</u>	3
3	Internal audit director are communicating to the senior management when the standards are not applicable	3.26	65.2%	Average	1
	AVRAGE MEAN	2.996	59.9%	Weak	

Source: Field Survey

The overall mean is 2.996 and the percentage of applying the quality assurance standard is 59.9%, which indicates that, the application is weak.

6. Findings of the Study

The results of the statistical analysis of primary data of the study show that, Internal auditors in Yemeni private sector companies are applying the attribute standards of internal audit and the application of these standards is good comparing to the performance standards

- Independence and objectivity standard **NO.1100** of IA is applied by the internal auditors in private sector companies in Yemen. The percentage of applying the independence and objectivity standard is 64%, which indicates that the application is average.
- Proficiency and due professional care standard **NO. 1200** of IA is applied by the internal auditors in private sector companies in Yemen. The percentage of applying the proficiency and due professional care standards is 63.7%, which indicates that the application is average.
- Quality Assurance and improvement program standard **NO.1300** of IA is applied by the internal auditors in private sector companies in Yemen. The percentage of applying the quality assurance standard is **59.9%**, which indicates that the application is weak.

7. Recommendations of the study

The recommendations of the study have been suggested to the following parties;

Recommendations to the private sector companies in Yemen

- This study recommends that the extent of applying the **Attribute Standards** of Internal Auditing should be increased, which will lead to increasing the efficiency and effectiveness of the internal audit, and finally contribute to the improvement of risk management and create additional value for those companies.

- 2) Encouraging and promoting the internal auditors in private sector companies to obtain professional certification, especially CIA certificate. Moreover, they must fulfill the need to hold conferences and workshops on the internal audit profession and the International Internal Audit standards, and keep up with any developments.

Recommendations to the government authorities in Yemen

- 1) The adoption of the attributeIA standards should be mandatory, with some modification whenever required in order to suit the different types of business. The modification of the IA standards requires a deep research by the official authorities such as Ministry of Trade and Industry and the Yemeni Association of Internal Auditors (YAIA).
- 2) The researcher recommends the amendment of the laws and regulations related to the internal audit profession in Yemeni private sector. Further, the researcher recommends increasing the work on the application of IA standards to bring together the efficiency and effectiveness of internal audit; contribute in improving risk management and create additional value for the private sector companies.

Recommendations to the professional bodies concerned with internal audit

- 1) The Yemeni Association of Internal Auditors (YAIA), the Yemeni business club, and Yemeni association of certified public accountant should encourage the private sector companies to apply the internal audit standards by providing them with required training and consulting services.
- 2) The Yemeni Association of Internal Auditors (YAIA), the Yemeni business club, and Yemeni association of certified public accountant should Work together to solve the difficulties that limit the application of the IA standards in the private sector companies.

Recommendations to the educational institutions in Yemen

The academic educational sector in Yemen should give due consideration to the internal audit profession and the application of its standards through revising its curriculum and adding related subject

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