

The Compliance with the Performance Standards of Internal Audit in Private Sector Companies in Yemen

Mr. Murad A. Saleh, Ph.D. Scholar

Department of commerce, Dr. B.A.M.U Aurangabad, India

Dr.G. N. Kathar, Associate Professor

Shri Asarmji Bhandwaldar collage, Aurangabad, India

Dr. N.S. Rathi, Associate Professor

Department of Commerce, Dr. B.A.M.U Aurangabad, India

Abstract

This study attempted to explore the extent of compliance with the performance standards of internal audit in private sector companies in Yemen, especially open and closed joint stock companies. A questionnaire has been designed and distributed among the internal auditors for this purpose. The study found that private sector companies are applying the performance Standards of internal audit, the application of these standards varied from a standard to another and from good level to weak level. Based on the findings, the study gives some recommendations to improve the application of the IA performance standards in the private sector companies in Yemen. Number of recommendations was suggested to the different parties involved in the internal audit profession, these are to increase the degree of effectiveness and development of the internal audit profession and standards. Further to increase the size and extent of Internal Auditing performance Standards in the private sector companies operating in Yemen.

Key Words:Internal Audit, Performance Standards, Private Sector

1. Introduction

The procedures and techniques of the internal audit has developed from the traditional ones, to modern methods emanating from the professional associations in the United States and Europe, the most important of which is planning and implementation of audit activities, so as to focus the efforts of the internal audit department on the most dangerous areas of major importance in the organization.

Since the internal audit functions in the environment and institutions of different goals, sizes and systems, and also a set of laws and regulations that differ from one country to another, and this difference in the work environment may affect the productivity and the nature of the work of the internal auditor, and this necessitates the existence of standards and principles that govern the work of the internal audit as an attempt to create homogeneity between the results of the business performed by internal auditors, as well as the possibility to rely on such principles in a broader basis, and as a result,

The IIA's International Internal Audit Standards Board (IIASB) develops issues and maintains the International Standards for the Professional Practice of Internal Auditing (Standards). Those standards are used worldwide as guidelines for professional and some countries are developing and applying them, others are developing and using their own standards.

In Yemen There is no list of obligatory internal audit standards to be applied by professionals and companies, so there is a necessity to have internationally accepted internal auditing standards to deal

with multinational companies and other instruments and manifestations of globalization. This will make assurance of the businesses financial positions for shareholders and foreign investors. This research will, therefore, focus on the significance of using and applying the International standard of internal audit in Yemen and will.

The Yemen Companies Act. No. (22)1997 and Yemen Law No. (26)1999 on auditing profession are the ones that govern and regulate auditing process in the country. The audit profession practicing Act 1999 does not mandate any organization in complying with the international auditing standards. Yemen does not have its own established internal auditing standard, and has not adopted the international standard. As such, auditors work under the shed of basic internal auditing rules. A thing that requires study on the extent of the application of internal auditing performance standards by the private sector companies operating in the Republic of Yemen.

2. Problem of the Study

The IA standards are the tools of the organization's policies and the followed procedures when performing that task, where the auditor is directed towards the required steps and is given outlines for the implementation of his mission to find out reports and results that contribute to the improvement of performance.(Spencer, 2005)

An internal auditor cannot lend credibility to auditing if he himself is not credible. It is the function of internal auditing standards to lend credibility to internal auditing itself (Jilid, et. Al., 1982), only if those who rely upon the opinion of an auditor are confident that he does his work according to the highest standards,

According to the institute of internal audit (IIA), The adoption of internationally internal auditing standards is a necessary measure to credibility and assurance of the activities, Here, and as there is no mandatory standards of internal audit in Yemen, especially in the private sector, the research problem appeared as the research tries to answer a number of questions associated with the application of those standards in the private sector companies, especially the performance standards as this paper focuses on those standards

To what extent do private sector companies apply the performance Standards of internal audit?

3. Objectives of the Study

The main objective of the study is to evaluate and identify the Extent of Applying the performance Standards of internal auditing in private sector companies

The sub-objectives are:

- 1- To identify the extent of applying managing the internal audit activities standard of internal audit
- 2- To identify the extent of applying performing the engagements standard of internal audit

4. Population and Sampling

The sample of the study is drawn from the population of the study, which consist of all the internal auditors working in the private sector companies. 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.

Stratified random sampling method was applied in order to obtain a more homogeneous sample that represents the society. 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 Application of the Managing the Internal Audit Activities Standard of Internal Audit

Table No. (1)

Arithmetic Means and Description for Respondent Views on the Application of the Managing the Activities Standards of Internal Audit

No.	Statements	Mean	Percent %	Description	Rank
1	There are priorities to the internal audit activity, which based on risk assessment	3.10	62%	Average	1
2	Internal audit resources are managed by the director to insuring it is appropriate and sufficient	2.98	59.6%	<u>Weak</u>	2
	AVRAGE MEAN	3.04	60.8%	Average	

Source: Field Survey

The overall mean is 3.04 and the percentage of applying the managing the activities standard is 60.8%, which indicates that, the application is average

- Analysis of the Respondents' Views Regarding the Application of the Performing the Engagement Standard of Internal Audit

Table (2)

Arithmetic Means and Description for Respondent Views on the Application of the Performing the Engagement Standards of Internal Audit

No.	Statements	Mean	Percent %	Description	Rank
1	Internal auditor checks the existence of assets through the physical and record check	3.56	71.2%	Good	1
2	conclusions and engagement results of the work of Internal auditors is based on appropriate analyses and evaluations	3.45	69%	Average	3
3	Internal auditors are document relevant information to support the conclusions and engagement results	3.50	70%	Good	2
4	Engagements are supervised by the Internal audit director	3.31	66.2%	Average	4
	AVRAGE MEAN	3.455	69.1%	Average	

Source: Field Survey

The overall mean is 3.455 and the percentage of applying *the performing the engagement* standard is 69.1 %, which indicates that, the application is average.

6. Findings of the Study

The conducted study indicates that the application of the performance internal audit standards is increasingly recognized in private sector companies. However, it is certainly a concern that the tasks of internal audit are still not properly understood; i.e., there is a 'narrow' understanding of the tasks, which is usually limited to the absence of the local standards and law.

The results of the statistical analysis of primary data of the study and hypothesis testing of the study are as the following:

Internal auditors in the Private Sector Companies are applying the performance standards of internal auditing and this application is in average rate.

- a) Managing the internal audit activity standard **NO. 2000** of IA is applied by the internal auditors in private sector companies in Yemen. The percentage of applying *the managing the activities* standard is 60.8%, which indicates that the application is average.
- b) Performing the engagements standard **NO. 2300** of IA is applied by the internal auditors in private sector companies in Yemen. The percentage of applying *the performing the engagement* standard is 69.1 %, which indicates that the application is average.

7. Recommendations of the study

Based on the findings, the study suggests some recommendations to improve the application of the IA standards in the private sector companies in Yemen. Number of recommendations was suggested to different parties involved with the internal audit profession. These recommendations are to increase the degree of Effectiveness and development of the internal audit profession and standards. The recommendations of the study as follow:

- 1) The adoption of the performance IA 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.
- 3) The study has also recommends that the Yemeni government should play a significant role in the area of internal audit as it is in progress of setting up a stock exchange market, and work hard to attract Arab and foreign investments by providing necessary facilities and infrastructure, amending the investment law, and combating corruption.
- 4) 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.
- 5) 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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