Chapter (2)

Research Methodology & Literature Review

2-1: Research Methodology

2-1-1. Methods of Data Collection:

The present study has followed two methods in collecting the data necessary for the study which are:

1- Primary Data:

As this study both theoretical and practical, the researcher has collected the primary data by following the inductive method. For this purpose, two models of the questionnaire were designed. The items of the questionnaire were structured on the basis of international accounting and auditing standards, and American standards issued by the American Institute of Internal Certified Public Accountants, the OECD standards and the Yemeni official laws. The researcher has also utilized the theoretical background in building the tool of the study.

2- Secondary Data:

This type of data have been collected from a set of Arabic and English books, periodicals, international accounting and auditing standards, OECD principles, existing scholarship in the field, and the relevant official laws and regulations. The study also benefits from the material available online. This type of data has been of great importance for the theorization of the study.

2-1-2. Structuring and Testing the Questionnaire:

The preparation of the questionnaire underwent several phases as follows:

1. Surveying the relevant existing literature on corporate governance and international accounting and auditing standards such as (ISA.No.240 & ISA.No.250 & ISA.No.570) and (SAS, No. 53 & SAS, No. 54 & SAS, No. 58 & SAS, No. 59) and (IAS No. 1, IAS No. 24, IFRS No. 7) in addition to professional ethics rules and Yemeni official laws and legislation.

2. Identifying the dimensions of questionnaire, where the items were revised and modified to ensure the appropriateness of the tool to the several aspect investigated by the study.

3. The tool was distributed to a number of experts from Yemeni and Indian universities and to Yemeni public accountants to measure it.
4. The questionnaire was finalized and distributed to the respondents on the basis of the experts' recommendations.

The tool was modeled into two types according to the two targeted groups of the study respondents:

1-**The Questionnaire for the Public Accountants:**

This model was divided into the following eleven dimensions:

1. The first dimension is meant to examine two parts. The first part focuses on Qualification, specialization, occupational level, years of experience, and the type of professional certificate. The second part contains questions on related audit firm such as the firm's age, and the number of companies audited by the firm in 2011, and the relevance of the office with an international auditing firm.

2. The second dimension contains (13) items targeting the extent of the impact of the adoption of international accounting standards (1, 24) and the international standard for financial reporting number (7) on improving the effectiveness of corporate governance.

3. The third dimension is formed of (19) items meant to examine the extent of the impact of adopting the International Standards on Auditing (240, 260, and 570) on improving the effectiveness of corporate governance.

4. The fourth dimension contains (16) item regarding the extent of the impact of the adoption of international internal audit standards in the development of effective corporate governance.

5. The fifth dimension is of (15) items related to the extent of the impact of adopting professional ethics in improving the effectiveness of corporate governance.

6. This dimension includes (7) items targeting the extent of the impact of committing to the legal requirements contained in the legislation of Yemen regarding framework ensuring the basis for an effective corporate governance in improving the effectiveness of corporate governance in banks of Yemen.

7. This dimension contains (6) regarding the extent of the impact of committing to the legal requirements contained in the Yemeni legislation related to the rights of shareholders and key ownership functions on improving the effectiveness of corporate governance in banks of Yemen.
8. This dimension contains (5) items pertaining to the extent of the impact of observing the legal requirements contained in the Yemeni legislation related to the equitable treatment of shareholders in improving the effectiveness of corporate governance in banks of Yemen.

9. This dimension has (5) items regarding the extent of the impact of observing the legal requirements of the Yemeni legislation concerning the role of stakeholders in corporate governance in improving the effectiveness of corporate governance in banks of Yemen.

10. This dimension is of (5) items regarding the extent of the impact of observing the legal requirements contained in the Yemeni legislation related to disclosure and transparency in improving the effectiveness of corporate governance in banks of Yemen.

11. This dimension contains (5) items regarding the extent of the impact of observing the legal requirements contained in the legislation of Yemen related to the responsibilities of the Board of Directors in improving the effectiveness of corporate governance in banks of Yemen.

2- The Questionnaire for Bank Management:

This model consists of eleven dimensions targeting the respondents from banks management focusing on:

1. Qualification, specialization, and occupational level, years of experience, and age of the respective bank, and availability of governance guidelines in the bank.

2. The remaining ten dimensions are similar to those ten dimensions, from two to eleven, listed above.

The response to the questionnaire was according to Likert scale quintet as shown in the following table:
Table (2.1)

Categories of answers and the corresponding grades

<table>
<thead>
<tr>
<th>Categories</th>
<th>Measurement</th>
<th>Grades</th>
</tr>
</thead>
<tbody>
<tr>
<td>From 81% to 100%</td>
<td>5</td>
<td>Strongly agree</td>
</tr>
<tr>
<td>From 61%- 80%</td>
<td>4</td>
<td>Agree</td>
</tr>
<tr>
<td>From 41%- 60%</td>
<td>3</td>
<td>Not sure</td>
</tr>
<tr>
<td>From 21%- 40%</td>
<td>2</td>
<td>Disagree</td>
</tr>
<tr>
<td>From 0%- 20%</td>
<td>1</td>
<td>Strongly disagree</td>
</tr>
</tbody>
</table>

Source: Analysis & primary data

2-1-3. Population and Sample of the Study:

The study population consists of public accountants exercising the profession according to the Directory of Public Accountants certified to practice the profession of Auditing and Review (firms and/or individuals), issued by the Association of Public Accountants Yemenis (YACPA) for the year 2012. The population constitutes (13) firms, (214) private individual offices, and managements of the (18) banks operating in Yemen at the end of 2012. The two models of questionnaire were distributed as follows:

1. Public Accountants: the model questionnaire was distributed to a sample of public Accountants practicing and working in auditing (13) firms and (17) private auditing offices which audit the accounts of joint-stock companies. The study targeted a sample of public Accountants with authorization of (a) and (b) categories who meet the following conditions:

   A. The public accountant should have worked in one of the audit firms operating in the capital Sana’a during the years 2010 - 2012.

   B. The Audit firm in which the public accountant worked should be among the firms that audited the financial statements of joint-stock companies and banks operating in Yemen during 2010-2012.

   Based on the above terms and conditions a sample of (100) public accountants were selected from (13) auditing firms and (17) auditing offices. This sample is of survey type for being applied on all public accountants who meet the conditions above.

   The questionnaire was distributed to the respondents in person. The following table shows the number of questionnaires distributed, recovered and subject to analysis.
Table (2.2)

Target sample and the actual degree of response (Certified Public Accountants)

<table>
<thead>
<tr>
<th>Statement</th>
<th>Number</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Questionnaires distributed</td>
<td>100</td>
<td>100 %</td>
</tr>
<tr>
<td>Questionnaires recovered</td>
<td>81</td>
<td>81 %</td>
</tr>
<tr>
<td>Invalid questionnaires for analysis</td>
<td>9</td>
<td>9 %</td>
</tr>
<tr>
<td>Questionnaires subject to analysis</td>
<td>72</td>
<td>72 %</td>
</tr>
</tbody>
</table>

2. Banks Management: The field study covered all the (18) banks operating in Yemen. Due to the fact that the study targeted all the banks, the model questionnaires were distributed to executive managers, financial managers, and managers of internal audit, body members, members of audit committees in banks, heads of accounting departments. (100) questionnaires were distributed in person to match with the sample of the public accountants. The following table shows the number of questionnaires distributed, recovered and subject to analysis.

Table (2.3)

Target sample and the actual degree of response (Banks Management)

<table>
<thead>
<tr>
<th>Statement</th>
<th>Number</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Questionnaires distributed</td>
<td>100</td>
<td>100 %</td>
</tr>
<tr>
<td>Questionnaires recovered</td>
<td>85</td>
<td>85 %</td>
</tr>
<tr>
<td>Invalid questionnaires for analysis</td>
<td>19</td>
<td>19 %</td>
</tr>
<tr>
<td>Questionnaires subject to analysis</td>
<td>66</td>
<td>66 %</td>
</tr>
</tbody>
</table>

In light of all the information above it can be understood that group (1) represents of public Accountants as a key part in the corporate governance from audit service providers' perspective with respect to the formulation of an impartial technical opinion over the faithfulness and fairness of the financial statements. While group (2) represents banks managements being responsible for financial statements and being key players in corporate governance from the perspective of the authors of the financial statements and service audit clients. Moreover, the members of audit committees and internal auditors are also key
players in corporate governance for being working in managements which significantly and effectively affect the enhancing corporate governance effectiveness.

2-1-4. Tests of Study Tool:

These tests aim to make sure that the tool that was used in this study actually measures what should be measured, and also to identify the degree of credibility of the sample answers. Among the tests used in this study are the following:

2-1-4-1. Believe tool:

It is the process of making sure that the statements contained in the study tool could lead to the collection of data accurately (Sekaran, 2003). To achieve this, the researcher has presented it to a range of specialists in the field of accounting and auditing (academics and professionals) in order to ensure the clarity and ease of the language used, the comprehensiveness and its ability to achieve the objectives of the study. 20 professors from different universities of Yemen and India have been consulted as arbiters, and the observations and opinions expressed by the arbitrators have been taken into accounts, particularly notes which showed consensus.

1- Stability of the tool (Reliability):

To test the stability and reliability of the questionnaire in testing the hypotheses and achieving the objectives of the study, Cronbach Alpha measure of internal consistency has been used to measure the degree of credibility of the study sample answers to the questionnaire items.

α can be interpreted as the internal consistency coefficient among answers. Therefore, its value ranges between 0 – 1, and the statistically accepted value for this measure is 60% and above (Sekaran 2003).

The results of calculation of this factor have shown that the stability of the items was very high, which confirms the reliability of the questionnaire in hypothesis testing, as shown in the following table:
Table (2.4): Testing the Stability of the Study Tool

<table>
<thead>
<tr>
<th>Variable</th>
<th>Hypothesis</th>
<th>The Number of Questions</th>
<th>Sig</th>
<th>Alpha Coefficient Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS &amp; CGE</td>
<td>1</td>
<td>13</td>
<td>0.000</td>
<td>0.808</td>
</tr>
<tr>
<td>ISA &amp; CGE</td>
<td>2</td>
<td>19</td>
<td>0.000</td>
<td>0.756</td>
</tr>
<tr>
<td>IIAS &amp; CGE</td>
<td>3</td>
<td>16</td>
<td>0.000</td>
<td>0.802</td>
</tr>
<tr>
<td>MB &amp; CGE</td>
<td>4</td>
<td>15</td>
<td>0.000</td>
<td>0.795</td>
</tr>
<tr>
<td>Ensuring the Basis for an Effective Corporate Governance Framework</td>
<td>5</td>
<td>7</td>
<td>0.000</td>
<td>0.690</td>
</tr>
<tr>
<td>The Rights of Shareholders and key Ownership Functions</td>
<td>6</td>
<td>6</td>
<td>0.000</td>
<td>0.824</td>
</tr>
<tr>
<td>The Equitable Treatment of Shareholders</td>
<td>7</td>
<td>5</td>
<td>0.001</td>
<td>0.706</td>
</tr>
<tr>
<td>The Role of Stakeholders in Corporate Governance</td>
<td>8</td>
<td>5</td>
<td>0.000</td>
<td>0.785</td>
</tr>
<tr>
<td>Disclosure and Transparency</td>
<td>9</td>
<td>7</td>
<td>0.000</td>
<td>0.799</td>
</tr>
<tr>
<td>The Responsibilities of The Board</td>
<td>10</td>
<td>5</td>
<td>0.000</td>
<td>0.823</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>98</td>
<td>0.001</td>
<td>0.916</td>
</tr>
</tbody>
</table>

2-1-5. Statistical Methods used in Data Processing:

Because selecting an appropriate analysis method depends mainly on the type of data to be analyzed, a number of statistical methods have been used, most notably Statistical Social Sciences (SPSS) version XX, in order to employ the data obtained to achieve the objectives of the study and test hypotheses. In light of the nature of the study variables, methods of measurement and analysis purposes, the following statistical methods have been used:
1. **The arithmetic mean (Arithmetic mean):**

   This method is one of the descriptive statistical methods used in the description of respondents’ answers and exposition of the results of the study. It is sometimes called ‘the mean’ or ‘average’ and is used to represent a set of data in a single value. It is considered one of the most important measures of central tendency, as it is distinguished by the simplicity of its idea and ease of calculation. The process of calculation is based on all available data and is subject to algebraic operations.

2. **Coefficient of variation:**

   It is a coefficient of dispersion that shows the percentage of each unit of the arithmetic mean of the standard deviation. This factor is based on the standard deviation, as the link between the most important measures of central tendency represented by the arithmetic mean. It is among the most important measures of dispersion represented by the standard deviation and is expressed mathematically by the following equation:

   \[
   \text{Coefficient of variation} = \frac{\text{Standard Deviation}}{\text{mean}} \times 100\%.
   \]

   It is worth mentioning that this measure has been used to demonstrate the degree of agreement or disagreement between the sample answers. If the coefficient of variation is less than 30%, this indicates an agreement or convergence in the answer sample, but if the coefficient of variation is greater than 30%, this indicates a difference or dispersion in the answers, as is customary among researchers.

3. **Standard deviation:**

   This reflects the amount of dispersion values from their mean, measured in units of the variable itself. It is one of the most important measures of dispersion and stands in the forefront while application. It has the same features as the arithmetic mean.

4. **Percentage:**

   This measure has been used to summarize the data of the demographic characteristics of respondents, and also to express ratio mean for their answers (called effect ratio) according to the following equation: effect ratio = mean ÷ highest relative weight (i.e. 5).

5. **Reliability Test:**

   Cronbach Alpha test has been used to measure the stability of the study tool and the amount of internal consistency.
6. **One Sample T-Test:**

   This is one of the strong parametric tests and is used to check whether the average variable for one sample is equal to a constant value. Two conditions are required to perform this test: firstly, follow the variable intended to be tested on the average for the normal distribution and, secondly, the sample size has to be large and exceeds 30 items, apart from being random or survey-based.

7. **Normal Distribution Test:**

8. **Mann-Whitney Test:**

   This test is used to compare two independent samples, and is often used instead of T-Test. This test has been used to determine the difference between the views of the two samples on hypotheses, as well as calculating the significance of differences between two independent and non-linked groups.

9. **Wilcoxon Test:**

   This test is used to measure the direction of the relationship between two independent groups. This test has been used mainly to determine the extent of the presence of statistically significant differences between the two study samples (auditors and banks management).
2-2: Literature Review:
There are many studies and researches on the subject of whether corporate governance practices, the application of International Accounting Standards, the application of International Standards on Auditing, the extent to which auditors follow the internal audit standards, and studies relating to rules of professional conduct. Below is a brief account of some of such studies.

2-2-1. Literature Review Related to the Exercise of Corporate Governance:

In her study – prepared to complement the requirements of Ph.D. in Accounting – she has aimed to examine the work of the pilot test of the relationship between the strength of corporate governance and fraudulent financial reports (misleading), particularly structures of corporate governance for a sample of listed companies in the form of Securities Exchange Commission (SEC) for fraudulent financial reporting violations. The study began explaining corporate governance and misleading financial reporting and the relationship between them. This study is divided into three stages of the pilot testing, and it has found that the concept of effective corporate governance is a complex concept: it is difficult to be described and measured quantitatively. The study focused on the effectiveness of corporate governance in one specific area, i.e. the ability of the structure of corporate governance to prevent fraud and violations of financial reporting. In this specific area the study has measured several phenomena in the structure of corporate governance, as well as the relevance of efficiency experimentally. The results have suggested several recommendations for the structure of strong corporate governance so as to bring about effective corporate governance structure in the area of financial reporting.


In her study, the researchers examined the extent of total disclosure of elements of corporate governance of Philip’s companies in regarding the changes in the financial reports of the company during the period between 1992-2000 (i.e. 4 years before the Commission of Stock Exchange in Australia required disclosure of the factors of governance and 4 years after the issuance of these requirements).
The results indicate that the most important elements of governance that have been disclosed in the reports published during the study period are: the audit committee, the ethical order of the company, the composition of the council, and remuneration of the board and management, internal control, executive committees, the governing council and its committees, and the financial report and supervision. The results also suggest a change in the content of corporate governance reports with the passage of time according to changes in the organizational structure of the company, the activities of the company, and the company's financial position.

Alkarof, F. (2001): “Auditor's Role in the Promotion of Corporate Governance”

The purpose of this study is to point out the role of the board of directors and its relation to accounts checker (auditor) in order to achieve corporate governance. The study concludes that recent developments in the area of corporate governance have imposed on the board of directors a greater and more important role. To enable the board to achieve this goal, the functions of the board and its operations must be reformulated, a step which calls for restructuring the board by appointing new members who possess interest, talent, and ability to study strategic issues assigned to the board. Here, the auditor plays a key role in achieving corporate governance. The increased interest of decision makers and executives in the State in the positive impact of the corporate governance on public shareholding companies has led to the growing role of the board of directors in the area of corporate governance, which guarantees the consolidation of the strategic objectives, the identification of lines of responsibility and authority in the company, and the insurance that senior management supervises orders, implementation of the business effectively and the application of corporate governance transparently. All these have enhanced the importance of the role of the auditor as one of the most important tools to ensure the safety of good corporate governance.


This study used two hypothetical cases to examine the perceptions of auditors and directors in Singapore about corporate governance practices relating to the quality of financial reporting and auditing. In the first case, the strength of the audit committee, the existence of an internal audit function and the strength of a corporate code of conduct were
manipulated. All three variables were perceived to have some influence on financial reporting and audit quality. However, some interesting differences were found between the perceptions of auditors and directors. Auditors place more weight on the internal audit function; possibly due to their familiarity with the role that internal audit can play in reducing audit risk and enhancing controls. Directors have more confidence in board enforcement of a strong code of conduct, possibly reflecting the view that this encourages staff to adhere to higher ethical standards. In the second case, audit partner rotation, outsourcing of internal audit services and whether the audit firm audited all companies within a group were manipulated. Believed that their ability to resist management pressure was enhanced when they audited all companies within the group. No significant differences were found for the other variables, suggesting that neither group believes that these practices impair audit independence.


This study has taken as a completion for requirements of getting Degree of the doctorate in financing from University of Illinois at Urbana - Champaign – America. This study has coped with three main banking cases. In the first case: the researcher showed example to clarify the between the small banks and the banks which do in multiple markets (Large Multi - Market Banks) (LMBs), and this study showed that the big existence for the banks which work in multiple markets (LMB) support for competition for the non-deposit services (None-Detoset Services), means expansion of the integration in the markets which increases on range (LMBs) it is possible for benefiting on the small works and lending customers (Consumer Borrowers), but this hurt individual depositions (Retail Depositors). As for the second case, was concerned with state of Japan about the foreign ownership and value of the establishment, so this study showed that there is relationship other than important between value of the establishment and the part related to common stocks owned by foreigners in Japan. The researcher found out that the value of establishment increases until ownership of foreigners arrives for the arrows with about 40%, and after that decreases, and sometimes relationship becomes not important, other than vermin, and according to opinion of researcher, the matter appears that the foreign investors in Japan are observed (Monitors) good. The study showed that most of the impact of increase in the value of establishment and improvement of the performance returns to the foreign ownership. As for the third case, was
concerned with markets of internal capitals, and power of the main bank, as study handled from various work groups in Korean. The researcher found out that the monetary ratios for the Korean establishments (Chaebol) low about the establishments other than Korean. It is found that there is a conversion in degree of strength of bank during last decade (1991-2000), in agreement with theories of monopoly of the main banks during practical period of returning skeleton of the establishments after the financial crises in year 1997.


This study has aimed mainly to test the effects of corporate governance mechanisms on the quality of financial reporting and the effectiveness of auditing in Jordan. From this goal some sub-goals have stemmed, the most important of which are the identification of the mechanisms of corporate governance and its relationship to the quality of financial reporting and the effectiveness of scrutiny, the validity of the study hypotheses (which deal with testing the relationship between corporate governance mechanisms – whether associated with the client or the auditor – and the quality of financial reporting and auditing), and assisting decision-makers to adopt good models of corporate governance that bring about improvement in the efficiency and effectiveness of auditing.

1. There is close link between the strength of governance mechanisms of companies associated with the client and the quality of financial reporting and the effectiveness of the audit process.

2. Among the variables of the quality of financial reporting and the effectiveness of the audit process which are affected by the governance mechanisms of companies associated with the client, the variable of the completion of the audit process effectively is most affected, while the least affected variable is the discovery of staff fraud.

3. There is a close correlation between the strength of governance mechanisms of companies associated with auditor and the quality of financial reporting and the effectiveness of audit process.

4. The variables of quality of financial reporting and effectiveness of audit process which are most affected by corporate governance mechanisms associated with the auditor boil down to the completion of the audit process effectively.
5. There is a moral difference with statistical significance between auditors in the effects of corporate governance mechanisms on the quality of financial reporting and the effectiveness of the audit process in terms of demographic features. There is a moral impact with statistical significance of academic qualification and occupational position on the auditor’s awareness of the effects of client-based corporate governance on the quality of financial reporting and the effectiveness of the audit process. There is a moral impact with statistical significance of the academic qualification and professional qualification and years of experience on the auditor’s to awareness of the effects of auditor-based corporate governance mechanisms on the quality of financial reporting and the effectiveness of the audit process.


This study aimed to formulate a proposed model to raise the efficiency of administrative decisions of business organizations in the context of the relationship between audit committees and institutional control. To achieve this objective, the researchers conducted an empirical analysis of the results of previous studies to describe the variables of the proposed model. In that respect, they reached to several results, the most important of which are the limiting of attention to identifying the principles and elements of corporate governance by international organizations and international financial institutions without the involvement of accounting thought; the weakness of control, accounting and auditing systems in business organizations in the absence of corporate governance; and the increasing manifestations of defaulting and financial failure and the exacerbation of business risks and financial risks due to the dominance of the managements of these organizations on all matters and the excess in their bonuses, the low implementation of the functions of disclosure and transparency, and the poor performance of both the internal and external audit. In light of this, the researchers recommend the need to reconsider the current regulatory, accounting and supervisory frameworks associated with shareholding companies to serve the corporate governance process. In addition, they recommend the need to characterize the relationship between audit committees and corporate governance as an entry point to participate in the management of these organizations.

The study by Darwish aimed to analyze and define the role of accounting disclosure in achieving an effective application of corporate governance in Egypt by identifying the concept and the motives for its application, exposing the international efforts and experiences in the areas of corporate governance vis-à-vis the availability of corporate governance principles in the Egyptian business sector by comparing the existing practices in the Egyptian environment with the international principles issued in this regard, focusing on the principle of disclosure and transparency. The main results of the study are as follows:

1. The good application of corporate governance principles helps in supporting the economic performance and competitiveness, and attracting investments for companies and the economy in general.
2. Adherence to the sound rules and principles of corporate governance brings about an appropriate measure of reassurance for investors to achieve an adequate return on their investment, while working to preserve their rights, especially minority shareholders.
3. There is no single model or directory for best practices in corporate governance, and therefore different structures of the procedures governing companies appeared in different countries, controlled by the government regulations, capital markets regulators, business organizations, and accounting and auditing bodies.
4. Most corporate governance principles in Egypt are realized within a range of laws and regulations, as the legislative and organizational structure of corporate governance are advanced in Egypt and in constant evolution. But the practice of corporate governance procedures is in need for consolidating and developing the structure and the institution, upgrading technical and applied methods of management, and raising awareness among individuals and markets by fulfilling the requirements of disclosure and transparency on the one hand, and creating interaction between external and internal regulations and the requirements of the company system and Egyptian professional standards on the other.
5. Corporate governance systems revealed an important fact to the effect that “the management of companies, especially those listed in the securities markets, is not exclusive and at the disposal of the members of boards of directors, but is part of an integrated and interactive global economic system that affects and is affected by the local, regional and
international environment, which requires control and audit according to international standards”.

6. Accounting disclosure and transparency are important in the application of corporate governance principles in global markets in general, and in Egypt and the Arab markets in particular, and will have positive effects, especially on the capital markets and stock exchanges. Its impact will be reflected on the performance of companies and the economy on the one hand, and on improving management, efficiency of companies, and enhancement of their competitiveness on the other. This has been confirmed by the field study.


This study aimed to demonstrate the impact of the phenomenon of corporate governance for listed companies in the securities markets on the degree of disclosure of financial and administrative data, through the analysis of the conceptual framework of the elements of the phenomenon and the practical measures taken by some departments of the securities markets. Regarding its main results, the study has shown that the phenomenon of corporate governance reflects the stage of development of capital markets in the world, which necessitated the introduction of several measures, legislation and rules that were not addressed accurately in the legislations and laws in the previous stages. Also, there is a disparity in the application of the standards and procedures of corporate governance in different countries of the world which can be attributed to the philosophies and directions of their economic and legislative systems. Corporate governance systems focused on the sides of objectivity, impartiality, neutrality, independence, and transparency of the financial and administrative data. They revealed the truth that the management of businesses, especially those listed in the securities markets, is not exclusive and at the disposal of their boards of directors, but is part of an integrated and interactive economic system that affects and is affected by the local, regional and international surroundings, which requires control and audit according to internationally recognized standards.

The study by Juma aimed to study the phenomenon of corporate governance in order to put a theoretical or conceptual framework for the phenomenon and its relationship with accounting thought and application. It discussed and analyzed the development trends in the framework of practicing the internal audit profession, and its impact on supporting effective corporate governance in business organizations. The researcher reached to several findings and recommendations, and proposed a set of questions for researchers and professionals for future studies. The study concluded that the idea of creating the structure of corporate governance and related operations has emerged as a form of meticulous auditing as a result of the financial scandals of American organizations at the end of 2001 and the sharp fall of the financial markets in 2002, to invite the U.S. government to reconsider legislation, including the Securities Commission law, and develop the basic systems of organizations in order to fix the crisis of confidence in the management of business organizations of America.

Organizations have responded to the international competition to improve quality and risk management techniques, and have also engineered their operations and added a measure of accountability. All this needs more appropriate and reliable information for decision-making, and here comes the growing role of the internal audit profession. Today, various organizations are moving impeccably to develop efficient governance structures and processes, and thus it is not surprising to look at the internal audit function as the most qualified to help improve corporate governance, apart from strengthening basic control process. Control tools within the organization today differ greatly from what it used to be in traditional organizations. In this ever-changing environment, the internal audit function has become one of the important support functions for the management, the audit committee, the board of directors, the external auditors, and the key stakeholders in the organization. The researcher noted that many look to the internal audit function and head of executive auditors as part of the solution to prevent the fall of financial reporting systems, internal control, and ethical conduct, and that the society in general is wondering about the critical role that can be played by the internal audit profession where the managements of organizations need to change.

This study analyzed changes in the German corporate governance system in the 1990s, using a functional perspective that separates the functions of governance from the perform these functions. Financial globalization, harmonized legislation within the European Union, and domestic pressures has triggered a move away from the postwar German system of bank-based governance, and towards more market-oriented processes. The paper showed that these forces have resulted in heightening transparency, more active capital markets, and a greatly reduced role of banks in the governance process. However, Germany’s 2002 boycott of EU takeover legislation has created a void in the current governance system: because bank intervention and the market for corporate control are substitutes, a reduced role of a banks and protective takeover legislation mean that one important governance function is currently underserved.


The purpose of this study is to demonstrate the impact of effective corporate governance on the financial performance of the companies listed on the Palestine Securities Exchange. A random sample of twenty companies were chosen, representing 71.4% of the study population of 28 companies listed on the Palestine Securities Exchange in 2005, and continued in circulation until the end of the year 2006. Simple and multiple regression was used to determine the effect of the change in the independent variable representing the quality of corporate governance on the dependent variable (financial performance) as measured by return on the right of ownership, the return on investment, the stock price to profitability, market value to book, Tobin's q, and daily stock price variation.

The study yielded a series of important results, notably the existence of a positive relationship of statistical significance between the effectiveness of corporate governance on the one hand and the return on the right of ownership, the return on investment, stock price to profitability, market value to book, and Tobin's q on the other. Besides, there is an inverse relationship of statistical significance between the effectiveness of corporate governance and daily stock price disparity. Therefore, this study adds more scientific evidence that the effectiveness of corporate governance has a significant impact on the financial performance of companies.
The study recommended that it is possible for investors in Palestine Securities Exchange market to depend on the level of effectiveness of corporate governance to make their investment decisions due to the close relationship between the effectiveness of corporate governance and financial performance. The study also recommended that it is necessary to adopt the corporate governance indicator in Palestine to constantly assess the level of effectiveness of corporate governance and the level of performance.

Cortesi, A. et al. (2009) “Empirical evidence on internal control systems and corporate governance in Italy”

This study dealt with control matters and moves on to causes and cases of their failures in relation to a sample of Italian companies. More precisely, it investigates, through an, the main limits and areas for improvement in the working of company Internal Control (IC) system(s) and in the objectives of the role of the three main professional bodies currently in charge of it in Italy (i.e. Internal Auditing, Statutory Auditors and External Auditors). The results obtained show that the Italian situation is very unusual, due to a long tradition: the possibility to choose between different administration and control systems, often with coexisting and overlapping roles, creates problems in terms of responsibility and control. The first answers to the critical issues highlighted are given by the laws, intended as the main catalysts for a review of the roles of all IC bodies. However, much work has still to be done. The final aim was to come up with suggestions about the possibility of finding areas for improvement within those companies’ IC systems.


This study compared corporate governance systems in China and India to the U.S. using the SOA and NYSE listing requirements as the basis for comparison. They also assessed recent advances in governance in China and India and what is needed to strengthen governance systems in the future. The role of non-management directors and the audit committee in both China and India was weaker than in the U.S. where the NYSE requires separate meetings of non-management directors without management and for the audit committee to meet separately with management and the external auditors. The “comply or explain” requirement in China and India goes one step further than in the U.S. that calls for CEO certification with corporate governance provisions but no explanation of any
differences. However, in both China and India the implementation and enforcement of corporate governance provisions has been restrained due to overlapping responsibilities of regulatory authorities and a lack of enforcement. The main issue for China was to convince foreign investors that state-owned enterprises and state interference will not impede the efforts of multinationals to operate in that country. For India, it is more a matter of creating the mechanisms to enforce good governance practice as already embodied in various committee reports. In this way, both countries will gain the confidence of international investors and continue to develop financially and economically.


This study investigated whether a series of recent economic reforms on corporate governance influence the operational performance of Japanese manufacturing industries after the bubble economy. This study found that stable shareholding is an important aspect of traditional Japanese corporate governance. Many Japanese corporate leaders still believe that the stable shareholders are important for their governance. However, the stable shareholding enhances their operational performance only when the ratio of shares held by stable shareholders is more than 61.21%. This result is inconsistent with the previous governance strategy of Japanese management. Moreover, the foreign investment enhances the operational performance of Japanese firms until the ratio of shares held by foreign shareholders becomes 19.49%. Japanese corporate leaders are very afraid of the foreign investment. This result is inconsistent with their opinions, as well. The second result indicates that Japanese firms need to accept more foreign investment and pay attention to the opinion of foreign investors. Finally, it is important for Japanese firms to make a balance between the traditional stable shareholding and the foreign investment.

**2-2-2. Literature Review Related to International Accounting Standards;**


This study examined the interplay between leading international and American accounting authorities over the span of a critical four-year period, 2001-2005. Historically, US regulators and private-sector accounting institutions have taken a cautious approach to International Financial Reporting Standards (IFRSs), citing the superior rigor and overall
quality of their own Generally Accepted Accounting Principles (GAAP). During the past four years, however, the Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB) have each become markedly receptive to the International Accounting Standards Board’s (IASB) efforts to harmonize accounting standards worldwide based on IFRSs. This paper offered an explanation that highlights the role of the high-profile American corporate scandals (2001-2002) in precipitating a shift in US accounting authorities’ views of the optimal form of accounting rules, an issue that has stood in the way of trans-Atlantic accounting standard convergence. Prior to the accounting scandals, the highly-detailed rules that are characteristic of US GAAP were widely seen to be the most effective form of accounting rule. Since 2002, a normative shift has taken place such that the SEC now endorses objectives-oriented rules that are conceptually aligned with the principles-based standards promulgated by the IASB. The analysis is framed by insights from contemporary International Relations theory which emphasize the influence of scope conditions on patterns of governance.


This study explained the early adoption of International Financial Reporting Standards (IFRS) by firm-specific benefits. However, IFRS adoption also leads to increased disclosure and reduced accounting choices, resulting in a loss of private benefits for company insiders. This paper argued that this loss depends on characteristics of the institutional environment (i.e. the level of investor protection). It found that in countries with strong laws or extensive corporate governance codes IFRS is more likely adopted as the loss of private benefits for company insiders is smaller. Furthermore, corporate governance recommendations are as effective as laws in stimulating IFRS adoption and become more important when laws are weaker.


This study had two purposes. First, it describes the financial reporting environment of Trinidad and Tobago before and after the adoption of International Accounting Standards (IAS) (currently called International Financial Reporting Standards (IFRS)) as the national
standards of Trinidad and Tobago. Second, it examined the association between the adoption of IAS as the national standards of Trinidad and Tobago and the degree of uniformity of financial reporting among public companies. Using an ex post facto research design, the financial statements of 18 publicly traded firms for the year immediately prior to the adoption of IAS (1987) and four years during the period following the adoption of IAS (1995, 1999, 2002 and 2003) were subjected to content analysis. Overall, the uniformity of financial reporting practices among publicly traded firms in Trinidad and Tobago increased following the adoption of IAS. This finding was fairly uniform across all the financial statement items examined though the magnitude of the change varied. It was directly attributed to the adoption of IAS for only three financial statement elements.


This paper assessed the relationship between the application of the International Financial Reporting Standards (IFRS), corporate governance and firm performance in Portugal. The sample consists of 240 observations, in 80 firms, over the period of 2003-2005. A corporate governance index is created to measure the compliance with the CMVM (Portuguese Securities Market Commission) recommendations. Results reveal that Portuguese companies that follow CMVM recommendations have a higher level of firm performance, which indicates an important link between financial and managerial accounting. Nevertheless, the level of compliance with the recommendations is still low. Finally, the study establishes that IFRS adoption, per se, is not associated with a higher level of corporate governance.


This study empirically investigated the extent of compliance of Kuwaiti listed companies with IAS/IFRSs disclosure requirements, and provides evidence of the factors associated with the level of compliance. The factors examined are: company size, profitability, leverage, liquidity, type of industry, type of auditor, and company age. For this purpose a disclosure index is developed including 101 disclosure items representing 12 IASs. The annual reports of a sample of 48 nonfinancial companies carefully scrutinized against the disclosure index. The findings of the study indicate that the overall compliance level for the sampled companies averages 69% of the disclosures required by the standards tested.
Regression results indicate that only company size and type of industry have positive association with IAS-required disclosures and their coefficients are significantly different from zero. Other explanatory variables are found statistically insignificant.


This study examined whether the mandatory adoption of International Financial Reporting Standards (IFRS) in the European Union (EU) in 2005 reduces the cost of equity capital. Using a sample of 6,456 firm-year observations of 1,084 EU firms during the 1995 to 2006 period, it found evidence that, on average, the IFRS mandate significantly reduces the cost of equity for mandatory adopters by 47 basis points. It also found that this reduction is present only in countries with strong legal enforcement, and that increased disclosure and enhanced information comparability are two mechanisms behind the cost of equity reduction.

Taken together, these findings suggest that while mandatory IFRS adoption significantly lowers firms’ cost of equity, the effects depend on the strength of the countries’ legal enforcement.


This study examined European stock market reactions to 16 events associated with the adoption of International Financial Reporting Standards (IFRS) in Europe. European IFRS adoption represented a major milestone toward financial reporting convergence yet spurred controversy reaching the highest levels of government. It found an incrementally positive reaction for firms with lower quality pre-adoption information, which is more pronounced for banks, and with higher pre-adoption information asymmetry, consistent with investors expecting net information quality benefits from IFRS adoption. It found an incrementally negative reaction for firms domiciled in code law countries, consistent with investors’ concerns over enforcement of IFRS in those countries. Finally, it found a positive reaction to IFRS adoption events for firms with high-quality pre-adoption information, consistent with investors expecting net convergence benefits from IFRS adoption.
2-2-3. Literature Review Related to International Standards on Auditing:


This study was conducted, in terms of interviews, in order to determine whether International Auditing Standards are ready to replace the generally accepted American auditing standards (GAAS) or not. It has highlighted that, of over fifty countries, there are four countries which have fully agreed over International Auditing Standards, i.e. Germany, the Netherlands, New Zealand, and the United Kingdom.

The study revealed that there are two methods to accept International Auditing Standards: either by changing the laws of each country to allow the use of International Standards on Auditing or by adopting International Auditing Standards by these countries themselves. The study indicated that International Auditing Standards will take a long time before they replace generally accepted U.S. auditing standards in the United States.

Albhlo\l, M.., (2001) “The position of the auditing profession in Syria from the international auditing standards”

This study aimed to identify the level of professional performance in Syria compared to the international auditing standards, and the commitment of Chartered Accountants professional standards embodied in the Charter of the Association of Chartered Accountants in Syria.

The results were that the majority of auditors in Syria have been briefed on international auditing standards in Arabic, some English, but they do not refer to in their reports because they did not, did not adhere to the President of the International Standards on Auditing full text of the standard contained to those principles, in view of what ails the profession low level of qualification and training necessary to do so.

FEE Study (2001): “Audit Standard-Setting: The Case in Europe”

This study was conducted in the European Union and by the European Federation Experts (FEE). The study aimed to clarify the fact that the national auditing standards in the countries of the European Union reflect the requirements of International Standards on Auditing initially. The study was conducted on nineteen European countries, and revealed that national standards in these countries are largely consistent with International Auditing Standards.

This study aimed to indicate the extent to which auditors apply International Standards on Auditing in Yemen, given the absence of a specific list of applicable auditing standards, and to assess the possibility of the application of International Standards on Auditing in Yemen.

The results showed that the accounting and auditing profession in Yemen is an issue that facing many professional challenges to keep up with the serious and fast developments. The challenges and problem include the lack of an effective role for professional bodies and organizations and the absence of legislations governing the profession. The results also showed that the standards that can be applied entirely or in part from most of Auditors in Yemen are (200, 210 220 230, 240), (300, 310, 320), (400), (500. 501. 510. 530. 540. 550. 560. 570. 580), (610. 620), (700, 710, 720).

2-2-4. Literature Review Related to Internal Auditing Standards:

This study aimed at identifying the extent of applying internal auditing standards by internal auditors in Yemeni commercial banks, and to examine the relation between that extent of applying the standards and both the size of bank and personal variables of internal auditors.

The results of the study showed that the extent of applying Internal auditing standards in Yemeni commercial banks was weak, where its degree was only 58.59% it also showed that there is no relation between the extent of applying Internal auditing standards in Yemeni commercial banks and both the size of bank and personal variables of internal auditors.

Moreover, it revealed that there are many obstacles of which there are no legal mandatory legislations for applying Internal auditing standards in Yemeni commercial banks, and lack of awareness to the importance of implementing these standards.

Makloff, A., (2007) ” Internal Auditing In the Jordanian Commercial Banks In Accordance to the International Standards Of the Internal Auditing”

This study aimed to investigate the application of commercial banks Jordanian internal auditing standards generally accepted, so by comparing the internal audit procedures used in
commercial banks of Jordan, the auditing standards generally accepted procedure, issued by the Institute of Internal Auditors in the United States of America in 1978.

The results showed that the commercial banks of Jordan, to apply the criteria of the Internal Audit accepted, as well as findings indicate that there is a discrepancy between the commercial banks of Jordan in the application of the criteria of the Internal Audit accepted, and also indicate the results of this study indicated that in the analysis of the organizational structure of commercial banks in Jordan, it was found that the internal audit department to follow the organizational chart of the Audit Committee.

2-2-5. Literature Review Related to the Rules of Ethical Behavior and Professional:


This study aimed to examine the impact factor of the fee and the importance of time working on the practice of ethical conduct in reporting. The study found the following results:

1. That the system of fixed fees has a positive effect is greater than the fee on the basis of Overtime (Over Time Salary Structure) on the levels of discrepancies in the practice of ethical behavior in the reporting.

2. The importance of planning and time management will positively impact on the levels of major inconsistencies in the practice of ethical behavior in the reporting.

3. That the levels of discrepancies in ethical behavior (Ethical Ambivalence Levels) have a positive impact on the degree of desire to get involved in reporting cannot be fair.


The study aimed to measure the extent to which external auditors abide by the rules of professional conduct in Jordan, to identify the means by which to encourage them to comply with professional conduct, and then make some suggestions that can contribute to the development of those means.

To achieve these goals, the researcher accessed several related previous studies, and conducted a field study using a questionnaire to see the response from the point of view of both external auditors and users of financial statements and auditing monitoring and supervision authorities in Jordan.
The researcher reached the following conclusions:

- External auditors in Jordan often adhere to the rules of professional conduct issued by the Jordanian Association of Certified Public Accountants.
- All study groups have agreed that all the means mentioned in the study encourage external auditors on the commitment to professional conduct.
- There is a conflict in the point of view of study groups on the level of importance of the means by which to encourage external auditors on the commitment to professional conduct.
- Study groups are unanimous that both International Auditing Standards and rules of professional conduct, preparing one of the most important ways that encourage external auditors on the commitment to professional conduct.
- There is conflict between the views of auditors on the one hand and those of users of financial statements and auditing monitoring and supervision bodies on the other hand, regarding the commitment of auditors to the contact rule with the former auditor: auditors believe that they are committed to that rule while users of financial statements and auditing monitoring and supervision bodies see otherwise.

The researcher proposed a set of recommendations that may contribute to upgrading the professional conduct of external auditors in Jordan and to encourage them to abide by the rules of professional conduct.

2-3. The Contribution of this Study:

Through a review of previous Arabic as well as non-Arabic studies, it appears that the relationship between the accounting profession and corporate governance is a heated topic that has imposed its existence on the world economies, particularly developing countries, including Yemen. In response, and in line with the developments of corporate governance and International Financial Reporting Standards and their impact on the accounting profession on the one hand, and because academic accounting research in the Arab world is slow-paced and must adapt to what is happening in this world the other hand, the researcher has considered it his duty to take interest in the phenomenon of Corporate Governance to shed light on it, attract the attention of Arab accounting thought to it, and highlight the significance of its application, especially in the banking sector.
This is so because the banking sector plays a vital role in economic development, and promotes financial stability in any country. Besides, more than most other sectors and activities, the banking sector is usually characterized by its capacity of keeping and using large amounts of money. Therefore, the safety of such amounts should be ensured to avoid making them vulnerable to embezzlement and fraud. In that respect, the banking sector needs to develop formal operating procedures, clearly defined limits to personal interpretations, a clear allocation for the accounting and monitoring functions, and uniform accounting systems especially when the a bank has oversees branch(s).

Based on the above, this study is distinguished from previous studies in subjecting through analysis and evaluation the Corporate Governance Guide issued by the Center for International Private Enterprise (CIPE), and the principles of Corporate Governance issued by OECD, and the legal, professional and ethical requirements that impact on improving Corporate Governance and its relationship to financial reporting. The study also uses a field study on the banking sector in Yemen, given this sector’s utmost importance and vitality.

Considering previous studies, we find that they focused mainly on the theme of the application of corporate governance in the environment in which they were conducted, or exposed the extent of application of International Accounting Standards, the extent of the application of International Auditing Standards, the extent to which internal auditors comply with internal auditing standards, or the extent to which auditors abide by the rules of professional conduct. Contrastively, this study has come to create a relationship and effect for both international auditing and accounting standards, rules of professional conduct, internal auditing standards and Yemeni legislation, all combined to improve the effectiveness of corporate governance in banks of Yemen.

This study seeks to set up and develop a strategy of a comprehensive applied theory to the issue of corporate governance in the Yemeni banking sector, citing previous studies and experiences of some developed countries, and taking into account the latest developments that have taken place on the international professional standards and rules of professional conduct.

The study comes as a step forward in the continuation of what has been started in earlier studies, while at the same time taking into account the specificity of Yemeni environment and assuming the encouragement and great attention paid by Yemen to attract
foreign investment. That is to say, the attempt to bring about the desired effects place requires serious efforts to cope with the new developments that occur in the developed world.

Therefore, the researcher seeks to develop an integrated strategy for corporate governance in the banking sector to accommodate international developments so as to enhance trust and confidence of the foreign investor.

References


