Chapter

INTRODUCTION
Chapter I

1.1 Historical and Conceptual Background
1.2 Internal Audit in the Republic of Yemen
1.3 Study Outline
CHAPTER I

INTRODUCTION

As an era of progress, the business size changes from small to a large-scale over thousands of years. There are changes in the type of business entity and ownership (public and private), the management concept also has affected. Early from the Taylor and Gilbreth and Acute; time control in scientific management to the newly developed methods of human behaviour and system control, Enterprise no longer used the simple way as in the production line and sales. Global business is another indication of growth. The appraisal system applied to measure the whole system but not for individual. For the sake of protecting the investor under the rapid change in the business running. The changes of production and business size lead to huge amounts of funds for running the activities of the enterprises therefore, the co-ownership system in the frame of Public Sector Companies (PSCs) had existed, in which there is separate management and proprietors (shareholders). For the purpose of protecting funds of those shareholders or investors, appeared to the light systematic tools, which known as the Internal Audit (IA) and control. Day by day IA improved until becomes profession has framework consist of regulations, code of ethics, standards, procedures and staff who has to be qualified to such regulations and professional requirements. IA will promote the operating efficiency, as well as, help to attain the prescribed goal of business. Moreover, it can assure the truth of financial report, control system efficiency and the compliance in following the professional regulations.

Definition of IA has changed or developed according to the development of profession, scope and objectives of IA. The Institute of Internal Auditors (IIA) has defined IA in its latest definition as "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

Internal Audit Function (IAF) evaluates how well the control processes designed by managers’ function and therefore, the extent to which managers can have reasonable assurance business objectives will realize.

The Institute of Chartered Accountants of India (ICAI) has defined this term as "an independent appraisal activity within an enterprise whether by staff of the enterprise or by a firm of accountants appointed for that purpose for the reviews accounting, financial
and other operations and controls as abases for service to management. It involves a specified application of the techniques of auditing. New definition of IA issued by the ICAI describes IA as "an independent appraisal involving specified application of the techniques of auditing in accordance with the specific needs of the enterprise".

The following statements describe the rating categories for the assessment of the IAF’s oversight of the effectiveness of and adherence to, the institution’s organizational and procedural controls [OSFI, 2002, p. 1]. An overall rating of the IAF considers both its characteristics and the effectiveness of its performance in executing its Mandate in the context of the nature, scope, complexity and risk profile of the institution. Characteristics and examples of performance indicators that guide supervisory Judgments in determining an appropriate rating are set out below.

**Strong:** IA has consistently demonstrated highly effective performance. IA characteristics and performance are superior to generally accepted industry practices and meet current professional standards.

**Acceptable:** IA performance has been effective. IA characteristics and performance meet generally accepted industry practices and current professional standards.

**Needs Improvement:** IA performance has generally been effective, but some significant areas where effectiveness needs to be improved. The areas needing improvement are not serious enough to cause prudential concerns if addressed in a timely manner. IA characteristics and/or performance do not consistently meet generally accepted industry practices and current professional standards.

**Weak:** IA performance has demonstrated serious instances where effectiveness needs to be improved.

Much work has been done in the field of accounting and auditing, but focusing on the IA in PSCs to highlight the professional position of IA characters, which are the regulations, code of ethics, standards, procedures and reporting in the PSCs in reference to the norms lay down by various professional accounting and auditing bodies. Government financial policies, regulations and deviations legislated by the professional bodies in the national level from time to time has not been attempted. It observe that, several aspects of IA still in need to concentrated study, some of which may be presumably due to the deficiency of laws, regulations, standards, professional
educations and/or incapacity of internal auditors in applying these regulations and standards. As well as, misunderstanding the guidelines and operative norms and lack of code of ethics in the Republic of Yemen (RoY) especially in PSCs. Moreover, lack or weakness of benefiting from the improvements occurred in other countries such as India. Therefore, this study analyzes the position of Internal Audit Profession (IAP) in PSCs in the RoY from different aspects as an applied research to reveal its qualified and efficient aspects for enhancing them, as well as, deficient and weak aspects for recommending the appropriate required actions for developing them. From discussion above, the problem of the study has expressed in two questions, which are “What is the current position of IAP in the RoY? And what are the requirements for developing it?”

1.1 Historical Background

As early as the beginning of the twentieth century, economic growth made it difficult for organization to maintain control of their business activities. Management lost direct contact with most of its subordinates. To overcome the problem of controlling the activities of the organization, people know as internal auditors were appointed to review and report on what was happening. The tasks performed by internal auditors varied from the checking of routine financial and operational activities, to analyzing and appraising these activities [IIA Inc. Web Site, 2003].

As the profession evolved, internal auditors wanted greater recognition of their function and on 17 November 1941, The Institute of Internal Auditors Incorporated (IIA Inc) established in the United States of America [IIA Inc. Web Site, 2003].

The initial purpose of the IIA Inc was to provide internal auditors with an opportunity to share their common interests and concerns [Sawyer et al., 1996, p. 9.]. Today the IIA Inc is a dynamic international organization that meets the needs of a worldwide body of Internal auditors, dedicated to the continuing profession development of individual internal auditors and the IAing profession as a whole[IIA Inc. Web Site, 2003]. In 1944, Arthur E Hald, one of the founders of the IIA Inc, made the following statement:

Necessary created Internal Auditing (IAing) and is making it an integral part of modern business. No large business can escape it. If they do not have it now, they will have to have it eventually and, if events keep developing as they do present, they will have to have it sooner [Flesher, D.L., 1996, p. 3]. These words became true as IAing became one of the fastest growing professions of the second half of the twentieth century [Flesher, D.L., 1996, p. 3].
The activities of IAing expanded from being a watchdog (performing assurance activities for management) to being a guide dog for management. Modern IAing responsibility is as broad as the current business environment. According to Arnold Baker, chief economist of a large organization in the United States of America, there is going to be a fundamental change in the global economy, unlike anything we have seen before. An example of these dramatic changes is the fact that only one of the twelve largest industrial organizations in the United States of America in 1990, General Electric Company, style exists today [Marks, N., 2001, p. 44].

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 [Marks, et al., 1999]. To make sure that internal auditors keep up with changes in their environments, the IIA Inc developed a Common Body of Acknowledge (CBOK) during 1972 [Sawyer et al., 1996, p. 29]. This has been regular updated and during 1999 the IIA Inc’s research foundation developed the Competency Framework for Internal Auditors (CFIA), to provide internal auditors with guidelines regarding their acknowledge and the competencies needed to stay in touch with the changing business environment [Mclntosh, E. R., 1999. p. 5].

The changing role of the profession includes consulting. Internal auditors may also benefit from these guidelines because they can equip modern internal auditors better to evaluate new threats to the business. The CFIA focuses on the skills needed by an individual person to be an efficient internal auditor.

For a long time, the environment that internal auditors operate in, namely Internal Audit Departments or activities, lacked guidance on its role and responsibility towards the organization it served. According to Mautz and Sharaf, IAing was a well-established and well-respected activity, but there was little indication that it was well defined or clearly directed [Mautz R. K. and Sharaf, H. A., 1982, p. 11].

The research committee of the IIA Inc. prepared the statement of responsibilities of IAing then the board of directors approved it at its meeting on 15th July 1947. The purpose of the statement was to establish a set of guidelines that defined the proper role
and responsibilities of the IAing function within an organization [Flesher, D.L., 1996, p.34].

The statement has also been regularly updated and in June 1999, the IIA's board of directors voted and approved a new set of guidelines, headed by a new definition in the form of the Professional Practices Framework (PPF) [IIA Inc. Web Site, 2003].

The definition is not only the starting point for these new guidelines, but forms the basis for the PPF and the competency framework for internal auditors.

1.1.1 Stages of Development of Internal Audit Concept

IAP passed through several stages, in view the fact that there are many factors contributed toward the need of establishing Internal Audit Department (IAD) within the organizations, some of these reasons or factors are practical or professional and some of them are academic. Therefore, the researcher formulated the stages of development of internal audit concept in six stages, as below [Othman Ibrahim S., 1994, pp. 8-9]:

First Stage: Before 1947

In this era, internal audit defined as audit conducted by a group of employees within the organization for purpose of following-up the errors and unique objective here is tracing errors of other parties, this objective was not constructive. In this part of time the difference between internal and external audit is belong to the provider of audit work.

Second Stage: from 1947 to 1957

It is the era of establishing IIA's in United States of America. This institute worked toward enhancing and developing internal audit whereas issued the first statement of its recommendations about internal audit and the responsibilities of internal auditor in 1947. Internal audit defined, as “IAing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. Therefore, internal audit’s one of control types practicing its function by measuring and evaluating other types of control and concern basically with financial and accounting aspects and the unique beneficial client from it is the management of the organization and has only precautionary objective.

Third Stage: from 1957 to 1971

IIA's issued new definition for internal audit instead of previous one, where expanded the field of internal auditor's work, so expansion in objectives of internal audit where
this definition was not restricted to precautionary objectives only but treated with
constructive objectives. Therefore, the management requested the internal auditor to
evaluate and suggest suitable solutions for problems and direct the employees if
possible and show the opinions and monitor the execution of directions.

This definition came as "Internal audit is an independent and appraisal activity within an
organization for reviewing accounting and financial transactions for the purpose of
furnishing management and providing constructive control services so it is a part of
managerial control system works in a manner of evaluating the efficiency of other
control systems".

Forth Stage: from 1971 to 1981
In 1971, new definition of internal audit was created where internal audit defined as
"an independent appraisal activity within an organization for reviewing its operations
for the purpose of serving the management". It is observed here that using the term "its
operations" instead of accounting and financial transactions therefore, the definition was
expanded in the field of internal audit where included a appraisal of all transactions
either accounting or not accounting.

Fifth Stage: from 1981 to 1999
In 1981, there was an issue of new definition, which stated that internal audit is “an
independent, appraisal activity within an organization for serving the management so it
is a control system works by examining and evaluating the effectiveness and efficiency
of other control systems".

We perceive from the above definition that internal audit changed from a tool serving
the management only to a tool serving the organization as all, as also observe that this
change will influence all of the location of internal audit in the organizational
framework within an organization and the independence of the internal auditor.

In 1991, IIA has published new definition for internal audit stated, “Internal audit is an
independent and appraisal service, which established within an organization for auditing
and evaluating the activities of organization as a service to the organization”.

This definition has similarities in most aspects with previous definition and has some
differences in using some terms. It is perceived from previous expression that:

- Internal audit done by some employees of the organization,
In each stage the range of internal audit, expand more than the earlier stage of it because of the expansion in its scope and

Increase in the burdens on the shoulders of internal auditor with development of internal audit concept through previous stages this is what influences the independence of internal auditor and his position in the organizational framework and his subordination to the audit committee, which originated from the board of directors.

Sixth Stage: from 1999 until now

In 26th June 1999 IIA has published the latest definition of internal audit, which is “IAing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

The researcher had found that this definition had been considered, which all reasons led to the development and recent trends of internal audit and taking into consideration the needs of main client of internal audit that is the management. It is observed that in this definition, there is no determination of internal audit provider where remained it without determining the party who fulfil the internal audit activities. Either by department within the organization or outsider where open the door in front of contract with outsiders to render internal audit “outsourcing internal audit” and not include any reduce of internal audit’s evaluation responsibilities, which remained within internal audit scope from its beginning. Whomever the new definition perceived the growing importance of corporate governance concept in different parts of the world, existence of control systems only exist for helping risk management processes. The new definition includes the recognition of trend toward consulting services of internal audit in respond to the needs of client “management” whereas, the previous studies and practices expressed that internal audit moves toward more consultation role to management [Subehi Mohammed H. A., 2000, p. 237]. It can find from all of that, new definition has came escort with developments and new trends of internal audit either from its field and scope or from the experts of it.
1.1.2 Internal Audit Definition

On the way to appreciate fully the role of an internal auditor can play in accomplishment of organization objectives, it is important to consider the nature of IAing. The definition of IAing forms the basis of the rest of the professional practice framework (PPF). Therefore, it is important to investigate the changes that the definition has undergone to incorporate the new role of the IAing function as a consulting and assurance activity.

One of the elements of the first Statement of Responsibilities of IAing accepted by the IIA Inc in 1946 was a formal definition of IAing [Sawyer, L. B. and Sumners, G., 1973, p. 5], namely, “IAing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization”. This definition led to the following statement of objective and scope issued in the same year [Sawyer, L. B. and Sumners, G., 1973, p. 6].

The objective of IAing is to assist members of the organization, including that in management and on the board, in the effective discharge of their responsibilities. To this end, IAing furnishes them with analysis, appraisals, recommendations, counsel and information concerning the activities reviewed. The audit objective includes promoting effective control at reasonable cost.
The above definition focuses mainly on the examination and evaluation of activities performed by the organization; that is, compliance testing regarding the systems and informing management of weaknesses in the system or non-adherence to policies and procedures implemented by management.

On 26th June 1999, the IIA Inc Board of Directors approved the following new definition of IAing: “IAing is an independent objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes” [Kroghstad, J. L. and Ridley, A. J. and Rittenberg, L. E., 1999, p. 27]. In Table 1.1, the key elements of the new definition are compared to those of the previous definition to emphasize the changes made.

<table>
<thead>
<tr>
<th>Previous Definition</th>
<th>New Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent appraisal function</td>
<td>Objective assurance and consulting activity</td>
</tr>
<tr>
<td>Established within an organization</td>
<td>Independently managed within an organization</td>
</tr>
<tr>
<td>Examines and evaluates its activities as service to the organization</td>
<td>Adds value to improve the operations of the organization</td>
</tr>
<tr>
<td>Assists members of the organization in the effective discharge of their responsibilities</td>
<td>Assists an organization in accomplishing its objectives</td>
</tr>
<tr>
<td>Does analysis, appraisal; makes recommendations; provides counsel and information concerning the activities reviewed</td>
<td>Uses systematic and disciplined approach</td>
</tr>
<tr>
<td>Promotes effective control at reasonable cost</td>
<td>Evaluates and improves the effectiveness of the organization’s risk management, control and governance processes</td>
</tr>
</tbody>
</table>


The above table explores, the consulting role of an internal auditor, as well as, the fact that this role is based on assistance to management to help accomplish the organization’s objectives by identifying and managing threats.

The original purpose of IAing was to provide assurance concerning historical activities in the organization. Management’s concept of IAing broadened over the years, which led internal auditors also to fulfill a consulting role. The new definition incorporates this
added responsibility in the concept of consulting activities. Furthermore, there has been a shift from the original watchdog role to a more futuristic approach that is based on adding value [Coetzee, G.P. and Du Bruyn, R., 2001, p. 63].

The new definition of IAing encompasses all the dimensions of the IAing function, suggesting a profession that is characterized by broad business parameters and technical skills. Internal auditors should understand business strategy. The definition envisions internal auditors who focus on adding value by facilitating change through advice and counsel, in some cases even providing assurance to parties outside the organization, for example, trading partners. The new definition expands the scope of IAing to recognize its key role in corporate governance and risk management, in addition to control activities [Coetzee, G.P. and Du Bruyn, R., 2001, p. 63].

The new definition of IAing was the first of a number of changes that have resulted in a review of the status of guidance provided to internal auditors. The new definition has highlighted the wider responsibilities of IAing, for example, the consulting role and therefore, necessitated a revision of the current guidelines as embodied in the PPF. As regulations and malpractices are potential threat to the business environment, including the control system, it is clear that the new definition, as part of the PPF and the other elements of the framework incorporate the role to be played by internal auditors regarding this risk. Internal audit activities are performed in diverse legal and cultural environments; within organizations that vary in purpose, size, complexity and structure; and by persons within or outside the organization. While differences may affect the practice of IAing in each environment, compliance with the International Standards for the Professional Practice of IAing is essential if the responsibilities of internal auditors are to be met. If laws or regulations from complying with certain parts of the Standards prohibit internal auditors, they should comply with all other parts of the Standards and make appropriate disclosures, for more details refer to the section of IA framework of this chapter.

Assurance services involve the internal auditor’s objective assessment of evidence to provide an independent opinion or conclusions regarding a process, system, or other subject matter. The internal auditor determines the nature and scope of the assurance engagement. There are generally three parties involved in assurance services: (1) the person or group directly involved with the process, system or other subject matter – the
process owner, (2) the person or group making the assessment – the internal auditor and (3) the person or group using the assessment - the user.

Consulting services are advisory in nature and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties:

1. The person or group offering the advice – the internal auditor and
2. The person or group seeking and receiving the advice – the engagement client.

When performing consulting services the internal auditor should maintain objectivity and not assume management responsibility. The above definition implies that it is important for an internal auditor to address control, including the control environment; risk management including the identification and management of risks threatening the organization’s reaching of its objectives; and corporate governance, including assisting management by identifying crucial issues that could affect the organization.

The new Standards for the Professional Practice of IAing (hereafter referred to as standards) are the criteria by which the success of the operations of an internal audit activity are evaluated and measured. The previous set of standards focused on the role of internal auditors in a compliance function, especially control. The standards were updated to include the issue of risk and corporate governance. The Guidance - Development and Practice Aids include educational products, research studies and other relevant projects. The use of these aids is not mandatory, but internal audit staff could use them to assist organizations and those individuals to whom specific aspects of these guidance aids are relevant. The results of research studies that are relevant to the functioning of an internal auditor have been incorporated into the guidance aids and can be used by internal auditors to help them to assist management with its duties.

The new definition, as starting point of the rest of the PPF, encompasses all the dimensions of the IAing activity, suggesting a profession that is characterized by broad business parameters and technical skills.

Internal auditors should understand business strategy and should focus on adding value by facilitating change through advice and counsel [Coetzee, G.P. and Du Bruyn, R., 2001, p. 63].
The concepts of control, risk management and corporate governance must be understood and incorporated in the IAig activity. The control process is one of the elements addressed by the definition. Control is broadly defined as a process designed to provide reasonable assurance that the organization’s objectives will be achieved [COSO Report, 1992, p. 13].

1.1.3 Factors that Led to Increase the Importance of Internal Audit

In beginning of internal auditor as the shooter of other employees errors inside the organization and was called as numeric checker. The essential duty of its internal auditor is the protection in which led to the employees under audit called Internal Auditor spy or eyes of management. Internal Auditor was serve to the management of the organization [Alrameli Mohammed Ahmad, 1994, p. 249], thereafter appeared to the light new view toward internal audit as it is an expansion of external audit; i.e., duties of internal auditor serve the external auditor and the owners of the organization. This view is so rare and limited in respect of the functions and duties of internal auditor. In recent days or last decade, there is an increase in the significance of internal audit because of several reasons or factors, which are given below.

1. Largeness of Projects Size and Complexity of their Operations

The appearance of joint stock companies led to enlarge the companies and separation of management from ownership, which led to incapability of projects administration to cognize and control all things within these projects. Therefore, to merit use of Internal Control Systems (ICSs), the purpose of assurance of the safety and efficiency of ICSs, internal audit should be exist for conducting the evaluation of effectiveness and efficiency of Internal Control System (ICS) within the organization [Othman Ibrahim S., 1994, p. 6].

2. Geographical Spread of Operations and International Transactions

Through the largeness of the organizations and their projects established many branches are spread in geographical areas in which results in sending the internal auditor to audit the works of those branches. The internal auditor doing this type of works named as "mobile auditor". The success of mobile auditor in conducting these duties had the greatest influence of establishing the contemporary concept of internal audit, expansion of its scope and increasing its importance [Alrameli Mohammed Ahmad, 1994, p. 250]. The contemporary oriented toward using internal audit in international range relatively consider as new phenomenon. The appearance of multinational companies led to
increase in management burden with increase in the activities, which led to increase the need of management for control these transactions with sound manner.

The result of all given above, internal audit concerned forward international transactions come in to the sight, which led to existence of essential changes in the function of internal audit as given below:

- Increase in the scope of internal auditor work,
- Recognition of external auditors with internal audit as a profession and
- An enhancement of external parties’ pressures for achieving more accounting responsibility and expanding auditing functions.

3. Decentralization of Management

Largeness of projects and foundation of branches spread in geographical areas led to central management delegate some of its authorities to the branch managers. For evaluating the performance of branch managers and for insure the top management with the adherence of these managers with prepared policies and strategies appointed internal auditor to do the same.

4. Expansion of Management Needs

We found that management is the main client of IAD, it determines the services, which need from the IAD and IAD should procure them [Subehi Mohammed H. A., 2000, p. 222].

The IIA’s in U. K. found that there is a new demand reflects big change in the soul of internal audit and its practices from focusing on financial aspect to large attention with analysis of the critical activities risks.

In view of one of writers, the traditional function of internal audit became part of internal auditor responsibilities. Therefore, internal auditors should expand the services, which submitted to the management [IVY Mclemore, 1999, p. 67].

Another writer said that the successful organizations aware that limiting the IAD responsibilities in the field of financial reports, adherence with the legislations and regulations is old and deserted approach. Therefore, these organizations extended scope of internal audit to include operations audit, consultations and suggestions for improvement of operations as a tool to increase the income [Forrest Jonathan S. and Forrest Edward, 1999].
5. **Transform into Sampled Audit**

Because of largeness of projects size and the complexity of their activities and operations, external auditor doesn't conduct comprehensive audit overall the organization transactions but started to transfer to the sampled audit, which is sampled auditor based on choosing sample represents all transactions, which proposed to represent the population of the transactions. Therefore, with using this type of audit - sample test - there should be effective and sound ICS. Internal audit is one of the essential components of efficient ICS in an organization so; from the practical view, existence of IAD within the organization is necessary.

6. **Development of Internal Control Concept**

Internal control is a process conducting by several parties, which are board of directors, management and other persons and designed to procure reasonable assurance in respect of achieving these objectives:

- Financial reports confidence,
- Effectiveness and efficiency of operations,
- Adherence with legislations, rules and valid regulations.

Internal control consists of five overlapping elements are:

1. Control environment,
2. Risks evaluations,
3. Controls activities,
4. Information and communications and
5. Monitoring.

According to all given above, there is a strong and direct relationship between the objectives, which company seeks to get reasonable confirmation and achieving these goals and the elements of ICS that represents the necessary needs for fulfilling the organization objectives. While, the objectives, ICS and environment in which organization working in are in continuous development. Therefore, the risks that face the organization also change in the same manner therefore, sound ICS depend on continuous and systematic evaluation of risks nature that attack the organization, whereas, evaluating risks mean that process, which management decided according to it how will it deal with risks, which represent a threat in the way of achieving the objectives. This include determination of risks and analysis the probabilities of their occurrence. As there is, no practical way to reduce all risks so management should
determined the levels of risks in which desired to burden and the sound manner, which management can keep them in the same levels this is called as risks management.

Whereas the organizations facing risks either from inside or outside them so they are in need to specific mechanism to determine those risks that arise because of this change and deal with them.

Control system according to variable internal situations of the organization has a vital role in risk management. Internal audit is a key internal tool for controlling the quality of ICSs within the organization therefore, internal auditor function will differs and variances according with private factors of the organization and the desire of management in getting assurance and consultancy in respect of risks and control. Appearance of risks' expression and change of control concept had influence on the traditional IAF by entering it in new fields. The contemporary oriented of internal audit is concern with the capability of the organization to reaction with the variable circumstances and monitoring the achievement of objectives and designed policies of the organization.

6. Implementation of Control Concept over a Company (Corporate Governance) [IIA-UK Web Site]

The meaning of control concept over a company is that the directors' board has knowledge with activities and transactions and several events of the company and the ability to manage and direct them toward the achievement of planned objectives and avoid the risks, which may face the company because of variable business environment. Attention with control concept over a company started after issuing the committee of Cadbury in 1992 in UK.

The control concept over a company appeared again with the beginning of the thinking of many companies' boards of directors, which listed in stock exchange because of two reasons:

- Downfall of some companies in the last few years and
- Publication of joint convention of stock exchanges in UK (The Stock Exchange Combined Code).

This led to the consideration of requirements of the control over a company, which include in the report of Cadbury committee as rules that started to implement from December 31st 1998.
According to the joint convention (The Stock Exchange Combined Code) brought more responsibilities over the managers so as to became responsible on confirming that the comprehensive ICS in their organizations are reviewed and checked continuously and reported to the shareholders.

The concentration on quality of control over a company increased because of reorganization of money markets, intensification of international competition and progression of technology led to influence over the behaviour of the organization [Lilley, Mike and Omar Saleh, 1999, p. 18-20]. Therefore, to take interaction with these new instructions, IIA’s in UK think that an independent and positive assertion about the efficiency and effectiveness of internal control framework of the organization is necessary and the internal audit may play an essential role in providing this positive assertion in the future.

Internal audit provides the top management with consulting, analysis, evaluation and recommendations about the activities, which reviewed and checked and can, prevents the frauds and determines the surpluses and loans and increases the value added and increase the gains for the organization. Internal audit now contains wide scope of control, risks management and knows as key contributor to efficient corporate governance. While, implementing control over a company had influence on the traditional function of internal auditor by entering it in new fields. Moreover, in recent days internal auditors consider as guides for all management levels to provide them with effective control framework belong to the organization and as counsellors have good experience to help the management in evaluating the risks and controls system for insuring that risks had been reduced to accepted levels.

1.1.4 Constituents of Internal Audit

In this part, the study discusses internal audit constituents and can be summarized the more significant internal audit constituents in four elements as following [Alswahili Nadir I., 2005, pp. 118-130]:

1. **Independent Department of Internal Audit**

Independence of IAD considers one of the important constituents that make the work of this department with value and usefulness, without this independency, it will become useless. Therefore, we are going to discuss some guarantees, which insure independence
of internal auditor thereafter independence of IAD will be available with an organization. These guarantees are as below:

- Appointment of internal auditor,
- Disappointment of internal auditor,
- Managerial subordination and
- Conduct of executive works.

The study is going to discuss these guarantees in details as following:

- **Internal Auditor’s Appointment**
  It is necessary to keep the internal auditor away from the authorization and control of those persons in which their works will be under checking and auditing, therefore the manager of personnel affairs is not the suitable person for issuing the appointment decision. In addition, while internal audit represent the eye and ear of management i.e., its existence for the serving the organization management and not to serve others. Therefore, management of the organization is the party that will be responsible for the appointment of the internal auditor with the consideration of keeping appointment authority in the hand of board of directors itself and not in the hand of chairperson of the board of directors or the general manager for guarantee of independence. The matters, which contribute in supporting the position of internal auditor and his independence is the necessity to lets the power of final sanctioning of the appointment or disappointment of IAD executive in the hands of board of directors based on justified recommendations from audit committee. By using this procedure makes IAD executive freed of physiological pressures and personal considerations, which may come from his direct director, if appointment or disappointment of IAD executive kept in the hands of direct director unique authority. Finally, appointment of internal auditor by a decision issued by the organization’s board of directors itself and not by any other party enhances the independence of IA.

- **Disappointment of Internal Auditor**
  Who possesses the authority of appointment, possesses the same for disappointment. Thus, authority of disappointment of internal auditor should be according to decision issued by board of directors of the organization. Transfer of internal auditor into other departments within the organization also fall within the scope of disappointment and should be based on report from CAE for guarantee of neutrality and independence. Thereof we arrived to the standard of disappointment of internal auditor; “Disappoint or
transfer of internal auditor done according to decision issued by the board of directors of
the organization on the basis of recommendation of CAE”.

- **Managerial Subordination**: Internal auditor should be subsidiary and responsible in
  front of CAE who subordinates and submits his report to organization's board of
directors’ chairperson and should not be responsible in front of manager of accounts or
financial controller or has relation with that management, may be under his audit scope.

- **Conduct of Executive Works**: Internal auditor must be aware that his job is
  consultancy job not executive job. Therefore, internal auditor doesn't conduct directive
  authority on the persons whom he reviewing their works and must not commit to IAD
  any works come within specialization of other departments within the organization, so
  as not to managerial auditor gathers between the executing and auditing in same time. In
  addition, internal auditor should not replace any absent employee belong to other
department even if that was for temporary period.

2. **Existence of Competent and Qualified Employees for Conducting the Internal Audit**

IADs with the organizations should provide with competent persons, have sufficient
experience and efficiency with the works and activities of those organizations, taking
into consideration availability of element of decorum characters and gentleness because
of that their works require communicating with all workers within the organization.
Lack of any of these elements may result in works will not going on properly.
Therefore, the researcher is going to express the conditions, which they are must be
available with the staff of IAD in this chapter.

3. **Existence of Effective and Efficient Internal Control System (ICS)**

performance standards of internal audit provided that internal audit scope should
include checking and evaluating of soundness and efficiency of ICSs, which applied in
the organization and the quality of performance in executing the specified
responsibilities. Therefore, we find that internal audit scope includes checking and
evaluating the extent of ICS effectiveness in the organization and the extent of
effectiveness of performing specified duties that done through [Owaydah Mohammed
Y. T., 1985, p. 35]:

1. **Accuracy and Confirmation of Information**: Internal auditors must study the
extent that operational and financial information are accurate and the potentiality of
their reliability, as well as, study and assessing utilized tools in determining, measuring, categorizing and presenting this information.

2. **Adherence with Policies, Plans, Procedures, Regulations and Rules**: Internal auditors have to check utilized systems within the organization for assuring that they are compliance with the policies, plans, managerial procedures and general legislations and rules that have influence on operations and reports.

3. **Assets Protection**: Internal auditors should evaluate and study the ways and styles of protecting the assets and assure existence of those assets.

4. **Effectiveness and Economical Use of Sources**: Internal auditors must evaluate the extent of economic and efficient use of materials.

5. **Achievement of Operations and Plans Objectives**: Internal auditors should review the operations for insuring that achieved results are compliance with specified objectives and if the operational processes had executed according to designed plans. Therefore, we find that internal audit aims to make sure that applied ICS had been reviewed for verifying that this system provides guaranteed confirmations for clarifying that objectives and purposes of an organization had been fulfilled in efficient and economical way. Furthermore, internal audit aims to audit the quality of performance to insure that objectives and purposes had been carried out or not yet.

4. **Existence of Effective and Efficient Reporting System**

Internal auditors have all professional rights to be independent in all matters specially in showing their opinions and should take all freedom in expressing whatever they observe in writing reports. CAE has to convey these reports and observations included with his opinion to the organization’s management to issues whatsoever of directions and actions.

**1.1.5 Internal Audit Objectives**

Internal audit does not aim to punishing or threat the employees in view of the fact that IAF is not tool of hunting errors or punishing others because of detected errors or questionable works. Internal audit aims to assurance of executing policies, plans and procedures of an organization properly. All these strategies and policies are appropriate and sufficient for realizing efficient performance. One of the objectives of IAing is to assist management in the pursuit of value for money. It achieved through economic, effective and efficient use of resources.
It is necessary to clarify that the main objective of internal audit is not detection of errors, manipulation, frauds or fouls but all these things being a secondary result of review operations, which done by internal auditor through fulfilling his duties. The objective of IAing is to assist members of the organization, including that in management and on the board, in the effective discharge of their responsibilities. To this end, IAing furnishes them with analysis, appraisals, recommendations, counsel and information concerning the activities reviewed. The audit objective includes promoting effective control at reasonable cost. Internal audit objectives had been developed with development of time whereas the IIA has defined the objectives of internal audit as following [Altahan, Mohammed A. and Ibrahim, Amal M. K., 1998, p. 105]:

1. Assuring the integration of information and the extent of reliance on it,
2. Verification of the adherence with policies, plans and objective procedures,
3. Protection of assets,
4. Economical, efficient and effective use of resources and
5. Ensuring the achievement of hopeful objectives from processes, programs and schemes.

In order to accomplishing of stated objectives, internal audit observes following types of services.

A. Protection and preservation,
B. Construction and rectification.

Later on the objectives of internal audit developed to satisfy the requirements of the developments in the professional environment so they can be classified into traditional and modern objectives as explained below:

- **Traditional Objectives**
  This type of objectives had been limited to elementary stages of detection of errors, frauds and manipulations, as well as, its scope narrowed to financial operations i. e., assurance of soundness of financial registers, records and data. Thereafter, reasonable improvement had been occurred in internal audit objectives to include assurance, precaution and constructional activity nevertheless this view had developed and became consultancy and assurance nature to add a value to the organization.

- **Modern Objectives**
  Internal audit objectives as specified by statement of international standards in 1999, which related to professional and practice of IAing and had considered its main
objective is to help the workers within the organization in conducting their works and duties efficiently. That can be done through internal audit through fulfilling the following services and activities [Powers Resoyces Corporation, 2004, p. 4].

1.1.6 Types of Services Rendered by Internal Audit

Internal audit renders many types of services or conducts several activities. These services or activities divided according to the latest definition of internal audit - IAing is an independent, objective assurance and consulting activity- into two main types consulting and assurance activities each type of these activities consist of number of services, which can be discussed below.

➢ Assurance: Assurance services involve the internal auditor's objective assessment of evidence to provide an independent opinion or conclusions regarding a process, system, or other subject matter. The internal auditor determines the nature and scope of the assurance engagement. There are generally three parties involved in assurance services: (1) the person or group directly involved with the process, system, or other subject matter — the process owner, (2) the person or group making the assessment — the internal auditor and (3) the person or group using the assessment — the user [IIA, Web Site].

➢ Consulting: Consulting services are advisory in nature and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties: (1) the person or group offering the advice (the internal auditor) and (2) the person or group seeking and receiving the advice (the engagement client). When performing consulting services the internal auditor should maintain objectivity and not assume management responsibility [IIA, Web Site].

1.1.6.1 First Type: Protection and Preservation

Internal auditor by conducting and rendering this type of services aims to protect organization's management from the risks of frauds, waste and variation of procedures and malpractice of designed policies. As well as, internal auditor seeks to discover weak aspects by checking accuracy of accounting data and examining adopted tools and manners for protecting the organization's assets and properties. To satisfy all these responsibilities, internal auditor needs to possess good experience and proficiency for

23
fulfilling this objective, which represent protection of current situations and practices [Altahan, Mohammed A. and Ibrahim, Amal M. K., 1998, pp. 105-110].

Types of Preservation Services of Internal Audit

Internal audit's preservation services represent through conducting the following three activities by the internal auditor:

1. Auditing of compliance,
2. Protection of organization's assets and
3. Verification.

1) Auditing of Compliance

Compliance auditing, means the assurance of extent of adherence with the strategies, policies, procedures, general accepting accounting principles and standards and governmental rules and regulations. Therefore, internal auditor should audit applied systems within the organization to examine to which extent they are compatible with the managerial policies, plans and procedures and with public legislations and regulations. IAD for accomplishing compliance audit fulfils the following responsibilities:

1. Verification of implementation of designed plans and strategies and executive procedures, which laid down for them within, planned limits. So as to discarding the diversity in interpretation or difference in determining the intended objective and for not the variation or change in these plans and policies.
2. Informing and notify the top management about the extent of escort with scientific implementation of designed plans and policies for accomplishing required goals.
3. Making sure that there is no foul or there is no proper executing of legislations, resolutions, Regulations and rules, which are issued by the government or respective control institutions, which have relation with organization activities or by the organization board of directors itself.

Compliance auditing not related to financial and accounting aspects only but it spread far to include whole spheres of other operations.

2) Protection of Organization Assets

Internal auditor for providing this type of services must examine and audit the engaged means and tools for protecting and keep organization assets against all types of losses, as well as, verifying the physical existence of these assets. IAD for achieving the protection of organization assets should do the following:
1. Continuously make sure that employees are following and executing the procedures of internal control and must be aware for any variance flows through it the cheating and falsification.

2. Working to avoid the losses resulting from negligence or deficiency such as losses resulting from improper storing of assets.

3. Make sure that there is assurance on assets with enough value to redress the losses, which may create because of accidents that propose to occur these assets such as fire or steal.

4. Make sure that there is no obligation or any rights for others (outsiders) over the organization unless there is approval from responsible authority, as well as, there is strong justification for existence of this obligation.

Consequently, Preservation activity represents in all cases to insure that the avoidance of unnecessary losses. In addition, discover and prevent falsification and manipulation before their happening.

3) Investigation

Investigation activity concerns with collecting or fulfilling provided information to several managerial levels and their suitable purposes, which used for. There are three types of investigation activities:

1. Records Investigation: The purpose of records investigation is making sure that forwarded financial reports to management are correct and accurate and make them a base for decision-making. This requires checking records and journal entries from which those reports extracts from them for consideration of their correctness. Importance of records investigation increases in that organizations or companies, which have branches spread over a wide geographical area. Whereas investigation of journals and data in branches records and registers is necessary for the confidence of soundness of interval reports inward from those branches. Therefore, the necessity of IADs arises in these branches for monitoring investigation activity periodically.

2. Reports Investigation: Lifted up internal reports to management and those, which prepared for filing to external parties being object to investigation by internal auditor for verifying and insuring that they are identical with records and there is no any omission of necessary information, which are in need to clarify in the report. Organization management relies on internal auditor for checking designed reports, which have to be presented to external parties such as taxation authorities, debtors and supreme audit
institution etc. for insuring that the organization had satisfied and fulfilled its commitments in front of all external parties. As well as, avoiding coming under the penalties stated in deference legislations and rules if the data or some of them in the submitted reports are not accurate or correct.

3. Assets and Liabilities Investigation: The internal auditor has an aim behind the investigation of assets and liabilities to ensure that assets are used sufficiently. And that is accounting for it in the proper manner and to evaluate both the assets and liabilities in accordance with accepted accounting principles and standards and that the managers of operations conducting their responsibilities in front of protecting and preservation of assets, which are under their obligation.

1.1.6.2 Second Type: Construction and Rectification Services

This type of services represent that helps, which provided by an internal auditor to management through submitting recommendations for conducting necessary modifications. Internal auditor render these services, based on measuring, evaluating and auditing policies, plans and procedures of management with actual performance in the light of available data and evidential tools. If internal auditor is checking and assessing applied procedures for making sure that there is proper implementation of procedures. So he is aiming to protecting and preserving but if he make recommended changes or modify some of these procedures for saving time and costs. Therefore, he is aiming to provide rectification and constructive services. In past management’s concern was directed forward protection service more than anything else because in this stage of time auditing was historical in nature and concentrate on historical events and was directed toward lower levels of management, which lied down under the top management. Whereof make it easier in executing. Thereafter the attention began tend to constructive activities because it connecting with organization future and evaluating the policies and plans with actual performance. The success of any plan or policy based on its execution in proper manner [Ata’a Alah Mahmud S. and Ibrahim Amal M., 1998, pp. 108-113].

Types of Internal Audit Constructive Services

Constructive services represent when IAD conducting the following three activities:

1) Appraisal of control techniques or styles,
2) Evaluating performance and
3) Appraising recommendations and suggestions.
1. Appraisal of Control’s Techniques or Styles: Internal auditor services in respect of control’s techniques appraisal represent in the following:

A. Evaluation of internal control: this evaluation aims to determine to which extent internal control techniques are sufficient and effective either accounting, managerial, or internal discipline techniques and knowing weak points and lacunas, which are exist and providing the recommendations, which are related to the actions of improving them.

B. Assessment of policies, plans, and procedures: this type of assessment aims to attract the attention of management toward the functional areas, which suffering according to the luck of won effective policies, as well as, this service trying to find and determine weak points to recommend the necessary improvement and modification actions.

It is clear from discussion given above that internal audit concerns with control’s techniques evaluation in general either accounting or managerial or with that techniques, which are related to operations or organizational control. Responsibility of control evaluation consider as one of the important and essential duties of internal audit wherein the vital attention of internal auditor concentrating with control for the following reasons:

- Control considers a basic part of management work wherein each managerial level controls the lower managerial level directly to form comprehensive control over the performance.

- Internal auditor serves the management so he shares in control as a mean of enhancing his goal of attending the management.

- Internal auditor characterized by the ability of providing management with the help in control’s field while he is independent from all type of executive activities. Therefore, he can work in objective manner, as well as, he has the ability of analyses and differentiating the sound work of what make hem able to evaluate efficiency of control techniques.

- Internal auditor can reach to different problems through main financial records that make him able to appear the financial activities and those financial control techniques, which related to them and other operational activities and financial and managerial control techniques, which related to them.

- Special proficiency, which owned by the internal auditor in control field represents the basis of assistance, which providing to the organization’s management.
2. Appraisal of Performance: Performance appraisals of an organization means that IAD investigates that organization procures its resources in economical way and invest them effectively and efficiently in addition to verifying the extent of efficiency of achieving organization’s objectives. Internal auditor appraises performance according to the professional performance standards of internal audit. It is essential that internal auditor to evaluate the economical extent of acquiring resources and the effectiveness of using them and check organization’s operations to make sure that the results are harmony with designed objectives. Internal auditor while playing this role provide an important services to the top management by filing up it information about the performance of work, which lied down under its control, as well as, providing recommendations of improving working techniques and control systems. Furthermore, internal auditor provides essential services to the managers of those departments, which being under auditing, appraising these departments’ performance wherein he can increase their efficiency through diagnosis the variances, identifying and analyzing the reasons of their existence for increasing effectiveness and efficiency of performance. Internal auditor appraises performance over several levels, which are:

- In respect of managerial unit, he concerns with checking service level i.e., attention with quality not with quantity only.
- In regards to management from the side of adopted planning and organizing and policies and procedures.
- In respect of personnel from the side of extent of their performance quality for required duties from them and their abilities to behave according to the available potentialities.

For practicing performance appraisal in managerial unit effectively, definitely there should be cooperation between management and internal audit council in addition to existence of clear identification of basic organization objectives for expressing them in quantitative terms and measuring them for evaluating extent of achievement of objectives efficiently. As well as, existence of clear and identified plans, policies, procedures and activities in the divisions and departments subjugate to this appraising.

3. Appraisal of Recommendations and Suggestions: This activity represents in providing recommendations, which consider by internal auditor that they are beneficial to organization in the space of different operations. Internal auditor’s task does not limited to detection and identification of variances, errors and weak points but he should identify the reasons of weakened points, submit remedial recommendations for them,
and provide suggestions for improving control systems and techniques. Activities of evaluating and checking techniques of control and performance appraisal represent the beginning point of any service relates to providing recommendations and suggestions for improving organization performance effectiveness and efficiency. It is necessary when IAD provides any recommendations to management, chief executive of internal audit should be familiar with details of suggested improvements and their effect over each step of systems, operations and procedures. Because if the provided suggestions did not clarify the benefits, which produce to the organization from improving the systems and methods, in view of the fact those recommendations and suggestions lose their ability to effect the management for take them into consideration. From other hand, IAD must monitor the execution of suggested recommendations in the case of top management acceptance to take them, wherein the task of internal audit does not end in providing recommendations but continue through monitor their execution.

1.2 Internal Audit in the Republic of Yemen

IAP in RoY was voluntary in all sectors until 1986, the year in which government formulated the first law related to IAP. Where, Prime Minister Resolution number 25/1986 was issued. This resolution deals with IA as, function and department establishing within the organisation and not profession can be provide by outsiders or insiders, as well as, make the IAing compulsory in government units, PSCs and public organizations. Because it stated in the article two that, “according to this resolution each unit of public foundation units and public and joint company has to establish internal audit and inspection department subordinates to chairman of the board of directors. Its main objective to exist efficient internal audit function in the level of each unit through doing well ordered checking, auditing and review of its vouchers, records and the extent of using available human, financial and material resources efficiently. and early alerting if there be or will be wasting in outlaying or errors in financial and administrative errors and assuring the sound and accuracy of data, which submitting to the management for using it in rationalizing its actions of planning, making suitable procedures and extend of commitment to it”. Therefore, since that date IAF became compulsory over all government units, public organisations and PSCs. Thereafter, Prime Minister

---

1 See Appendix B.
2 Joint companies mean public sector companies, which this expression has used in this study.
3 Internal audit and inspection department means internal audit department, which this expression is utilized in academic and professional studies, as well as, this study.
Resolution 217/1999⁴, which related to identification of internal audit department’s responsibilities and jurisdictions in public sector units. This section discussed with detail in Chapter IV.

1.3 Study Outline

This study adopted analytical vs. descriptive approach to evaluate and analyze the problem of the study and collect data and information that will be available about it, to reach to the result and suggest the suitable recommendations to solve it. Thus, this study consisted of two main parts. First Part: This part includes the theoretical background that is related to the subject of the study. For this purpose, the researcher depended on collecting related data and information from secondary sources such as books, census, printed reports, magazines, websites and previous research and studies in order to build the theoretical fundamental for second part of this research, which is related to practical study. Second Part: This part includes the practical study for the subject of the research. The researcher depended on collecting the related primary data from its primary sources, which are represented by the population of research. Consequently, with this introduction, the study has divided into six chapters as following.

1.3.1 Chapter II: Research Methodology

As stated in chapter I, the present study attempts to explore the current position and prospects of IAP in public sector companies in the RoY. Therefore, this chapter is summarizing and presenting the research methodology, procedures and techniques employed in the collection of the data, related to the variables under investigation, which includes research model design, selection of the sample, techniques, coding and organizing the data and the selection of the statistical tools.

1.3.2 Chapter III: Review of Related Literature

This chapter presents an overview of the literature that relates to the topic under investigation. This chapter consists of two main sections. First section discusses the conceptual theoretical framework of IA; PPF, assurance and consulting services, IAD, IA procedures and impact of IT on IA. Second section covers the previous research studies related to the topic. This literature review will establish an appropriate basis upon which to design and evaluate the study. Brief information of mentioned sections of this chapter is given below:

⁴ See Appendix C.
1.3.2.1 Professional Practices Framework (PPF):
This section provides guidance and information for the IA activity. Much of it is through the PPF, a blueprint for the profession that offers a full range of guidance to IA practitioners. The IIA’s Board of Directors approved the PPF in June 1999. In general, a framework provides a structural blueprint of how a body of knowledge and guidance fit together. As a coherent system, it facilitates consistent development, interpretation, and application of concepts, methodologies, and techniques useful to a discipline or profession. It provides guidance for complying with new laws and regulations. The PPF basically contains Code of Ethics, professional standard and practice advisories for interpreting and applying the standards.

1.3.2.2 Assurance and Consulting Services:
In this section, the study looks at IA from a much broader perspective than that used in traditional audit research where auditing is treated primarily as a matter of attesting to management’s assertions. Study begins with the question of how IAF adds value to the organization. Next, describe the range of value-added IA services and examine the nature of assurance and consulting activities. The six basic types of IA services: financial auditing, performance auditing, quick response auditing, assessment services, facilitation services and remediation services are forming the assurance and consulting services. Whereas, the three audit services are assurance activities while the assessment, facilitation and remediation of the consulting activities.

1.3.2.3 Internal Audit Department (IAD):
IAD is that consulting and assurance department, which renders in-house IAF by collection of qualified staff via professional and systematic manner for helping the top management in achieving the organization’s objectives. Therefore, the establishment of this key department is given in this section as guidance - taking in to the consideration the effect of Yemeni environment. Hence, Processes of establishing IAD has ordered in a way that started with selecting competent Chief Audit Executive (CAE). Then, writing the audit charter, forming audit committee, preparing policy and procedure manual for the IAD and developing goals of IAD. Thereafter, the stage of staffing the department shall be accomplished and training the staff finally using suitable way of assessing the quality assurance by peer review or other way.

1.3.2.4 Internal Audit Procedures:
This section discusses general procedures for performing IAs for any institution; major topics relating to audit procedures are the audit planning, evaluation of ICSs, sample
selection, fieldwork, the audit report and follow-up. In addition, to discuss the important requirements, which involve within the IA procedures such as, permanent file and work papers.

1.3.2.5 Impact of IT on IA:
This section discusses the rapid development of IT spatially in business environment and its pervasive impact on IA from several aspects, which presented in the model of this study such as; the PPF of IA, hiring and training of internal auditors, the managing of IAs and communicating internally and externally, As well as, explore the Information System Audit (ISA) techniques.

1.3.3 Chapter IV: Profile of Yemen
Several variables affect the economy and the industry in Yemen; these variables concurred with the reunification of Yemen (South and North parts) on 22 May 1990. These variables are external and internal such as the Second Gulf War, Yemeni Civil War and economic variables in the world in the last sixteen years. This chapter is designed with three sections. First section reveals some basic information about the country such as Geo-physical and Administrative Features of Yemen (Location, Total Area, Topography and Administrative Divisions), Social Features of Yemen (Population and Civil society) and the background of the economic situation, problems and economic reform program. Second section defines the Public sector Companies and their features and barriers involved in this chapter in addition, to the features and characteristics of education system, culture and religion. Third section discusses the Yemeni experience of IA, which comprise the laws and legislations related to internal audit, qualifications and competencies of internal auditor, independence, code of ethics and internal audit professional standards etc.

1.3.4 Chapter V: Data Analysis and Interpretation
This chapter presents the results of the data analysis and hypothesis test. The first section of this chapter provides the demographic profiles of the final survey respondents. The second part deals with the analysis of the different questions in the questionnaire. The third part provides the general view about the test of different hypotheses, the first section of which deals with distribution of the questions in the questionnaire on a different hypotheses. The second part deals with test of the hypotheses and the last part deals with Test of the hypotheses with different variables. Statistical analysis techniques mentioned in research methodology has utilized in this
chapter for analyzing and interpreting the data. Therefore, the study problem expressed in question. To answer the question, the study had formulated in main hypothesis, which state, “IAP in PSCs in the RoY is well developed”. For testing, this hypothesis had divided to its determinants, which expressed in eight hypotheses where the results of these eight hypotheses are as follows:

1. First hypothesis proved.
2. Second hypothesis disproved.
3. Third hypothesis disproved.
4. Fourth hypothesis proved.
5. Fifth hypothesis disproved.
6. Sixth hypothesis disproved.
7. Seventh hypothesis proved.
8. Eighth hypothesis disproved.

Form the results of the eight hypotheses the result of the study’s main hypothesis is rejection of the hypothesis and accepting the alternative hypothesis, which state, “IAP in PSCs in the RoY is undeveloped”.

1.3.5 Chapter VI: Findings, Conclusion and Recommendations

Through analyzing the Yemeni laws, legislations, literature information, interviews and both sections of the questionnaire; demographic data and second section questions, which consist of information about IA position and its determinants in PSCs. Thereafter, testing the hypotheses, as well as, implementing the study's model and its sub-models. Consequently, the study reached to the stage of grouping findings.

After presenting and analyzing the data by utilizing several techniques and exploring the study results in details, the study reaches to interpret the result according to the rates developed and study model. Consequently, while IA level scores availability – with equal weights and different weights – was 46.7 and 46.09 successively. Therefore, it belongs to the scale or interval of 25-49 per cent, which debates that; the IAP is under developed and there are many of its determinants are weak or unavailable and in need to many developing actions. This conclusion result has also presented the result with the study model in Figure 5.37.