Chapter IV

PROFILE OF YEMEN
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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.

4.1 Basic Information 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 section is designed to review the basic information about the country such as Geo-physical and Administrative Features of Yemen, Social Features and background of the economic situation, problems and economic reform program. Public sector and its features and barriers involved in this section in addition, to the features and characteristics of education system, culture and religion.

4.1.1 Geo-physical and Administrative Features of Yemen

4.1.1.1 Location

Republic of Yemen is located in southwest Asia and is a part of the Middle East at the southern strip of the Arabian Peninsula between Latitudes 12 and 20 N and Longitudes 41 and 54 E, from the mountainous southwest, including Najran and Asir, to Hadhramout and Oman in the East. It is situated at the entrance to the Bab El-Mandeb
strait, which links the Red Sea to the Indian Ocean (Via the Gulf of Aden) and is one of the most active and strategic shipping lanes in the world, bordering the Arabian sea and Gulf of Aden on the South and the Red Sea on the West Oman to the East and Saudi Arabia to the North.

**Figure 4.1 Map of the Republic of Yemen and its governorates**

![Map of Yemen](image)

4.1.1.2 Total Area

Yemen has an area of 527,970 sq. km including the Island of Perim at the southern end of the red sea and Socotra at the entrance to the Gulf of Aden. Yemen has 1900 km of cost line along the Arabian Sea, the Gulf of Aden, and the Red Sea.

4.1.1.3 Topography

The highland regions are interspersed with Wadis or Valleys, that are dry in the summer seasons most notable is the Wadi Hadramaut eastern Yemen. The country’s mountainous interior is surrounded by narrow coastal plains to the West, South, and East and by upland desert to the north along the border with Saudi Arabia. The Tehama is a nearly 419 km long semi-desert coastal plain that runs along the Red sea both the Eastern Plateau region and the desert in the North are hot and dry with little vegetation.
4.1.1.4 Administrative Divisions
The Republic of Yemen is divided into 21 governorates viz "Muhafazah"; Sana'a, capital city of Sana'a, Aden, Taiz, Ibb, Abyan, Al Hudaydah, Hadramout, Al Mahrah, Shabwah, Lahij, Al Dala'a, Marib, Al Jawf, Al Mahwit, Damar, Hajjah, Amran, Sadah, Al Bayda, Riymah. The most important or main governorates are Sana'a (the Political Capital), Aden (the Economic Capital), Taiz and Ibb (the Tourist Capital).

The governorates are in turn divided into several hundred districts. The governors of the governorates are elected by the members of local council of governorate and not directly from the people in spite of members of local council are elected by general election. The trend to provide the governorates with high degree of autonomy.

4.1.2 Social Features of Yemen

4.1.2.1 Population
According to central statistical organization in 2006, the total population of Republic of Yemen is 21.385(million) (estimated in 2004). Most inhabitants of Yemen are ethnic Arabs, but it also includes afro-Arabs, South Asians and Europeans. Thousands of refugees came from the conflict in Somalia. Arabic is the official language. There is difference existing between the dialect of the northern Yemeni highland and that of Aden and the southern part of the former North Yemen. Modern South Arabian languages spoken in Yemen include Mehri, with 7000 speakers, Soqotri with an estimated 43000 speakers mainly on the island of Socotra. Population of Yemen is almost entirely Muslims, approximately 70 per cent belong to the Shafii Sect of Sunni Islam and 30 per cent follow the Zaydi sect of Shia Islam. Also few thousand Ismaili Muslim, who adhere to Shia Islam, life in northern Yemen are divided into Sulaymania "Makarima" branch, which is connected with Najran, and Dawudi "Baharas" which is linked with India. And fewer than 500 Jews also live in the northern part of the country.

- The family is the basis of the social system of the country; its pillars are religion, mores and love of the homeland. Yemeni society is based on social solidarity, which is based on justice, freedom and equality.
- The citizens are all equal in rights and duties.

4.1.2.2 Civil society
Civil society organizations have been developing rapidly since 1990 within the course of the democratic transformation and the Multi-Parties that coincided the establishment
of the unity's state. The government has emphasized on the vital role of the civil society organizations. There are many positive steps; the government has made to enhance the role of the civil society in the development drive and to give it more mandates in the process of monitoring and auditing. The National Committee of women in co-operation with the Supreme National Committee of human rights in the course of the Islamic Share’a and the international convections and treaties that Yemen had signed on, it played an active role in the process of monitoring on the elections and increasing the citizen's awareness of their civil and legislate rights [Putnam, R, 1993].

4.1.3 Yemen Economy

The Republic of Yemen (RoY) emerges in May 1990 into a new state after unification, Yemen Arab Republic (formerly North Yemen) and People’s Democratic Republic of Yemen (formerly South Yemen). Both systems in the former states were suffering from several problems, as well as, they were very backward. In addition, their economic situation was very difficult.

In North Yemen, the private sector was relatively participant in conducting the economic activities and government policy was to some extent liberal. It was applied mixed economy between capitalism and socialism system. South Yemen implemented central planning and rigid price control. However, this section introduces brief review about the economic situation in RoY.

After the existence of new state on 22 May 1990, the new government started to prepare new directions of the unified Yemen in the national economy according to the constitution of RoY, which is based on Islamic social justice in production and social relations. The private sector has important role in the national economy to ensure the establishment of independent national economy capable of achieving a comprehensive development. The new economic policy is based on a scientific planning, which leads to exploit the natural and public resources for the development of the country. All the economic sectors have been given opportunities to share in the building of strong and modern national economy (Constitution of Yemen). However, the new direction is creating significant relation between public sector and private sector. In its first program, the unification state's government was encouraging the private sector to play the biggest role in order to build strong national economy. The Government of Yemen (GoY) aimed to creating an attractive investment environment for internal and external investors, including the Yemeni expatriates. In GoY plans, a big chance is given to
private sector to invest in the non-oil sectors to produce and distribute service in order to increase and sustain economic growth, as well as, to create employment opportunities for the poor people in order to improve their living level. Moreover, creating a competitive environment between public and private sector companies. Unfortunately, after the unification, no attempts have succeeded for several causes, (internal and external) such as:

- The public expenditures of the unification during the unification process. The increase in budget expenditure unification and indirect cost of unification was much higher [Alasaly, Saif, 2003].
- Due to the second Gulf War a million of Yemeni workers returned from the Saudi Arabia and other states in Gulf States.
- Reduction of the aids from Saudi Arabia and Kuwait, as well as, the loans because of the Yemeni attitudes about Gulf crisis and war.
- Yemen witnessed a sharp political crisis led to a civil war in 1994, which had greatly effect the economic crisis.
- Lack of Yemeni governments to create atmosphere investment in the country.

Briefly, we will describe the economic situation in Yemen since the born unification state divided into three stages as follow.

4.1.3.1 The Economic Situation 1990-1995

Economy of Yemen witnessed much challenges after the unification directly, as a results of all above accumulated problems and barriers. The average economic growth of real GDP during this period was 1.9 per cent. That means less than population rate, which almost more than 3 per cent. During this period the inflation rate reached to 104 per cent of GDP [Amer, A. A, 1998]. The budget deficit reached to 17 per cent of GDP [Alasaly, Saif, 2003, p. 63]. At the same time, the Yemeni Rial (YR) against the USA Dollar ($) reached to YR 127 per $ [Alasaly, Saif, 2003]. It reached in the non-official market to YR 165 for one dollar, whereas its bank value remained at 12 Rials for one dollar since 1990. The unemployment reached to 59 per cent of labour force [International Monetary Fund, 2001] and more than 56 per cent of population fell below the poverty line [International Monetary Fund, 2001]. According to Amer, A. A, (1998), the average unemployment rate reached between 20 to 35 per cent (in the mid-nineties) of the total employment force and more than 35 per cent of the population lives below the poverty line.

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The exploration and production of oil in Yemen during 1990s was modest quantities, this had a positive impact on the economy and relatively helps Yemen to achieve some goals in spite of economic problems and difficulties sharply still faced. Generally, the GoY basically depends on oil income for preparing its annual expenditures, which representing 70 per cent of the Yemeni budget, as well as, represent of 80-90 per cent of total Yemeni exports. Thus, the impact of oil production on the economic status is obvious and the budget depends on oil sector instead of others sectors. In this case, any fluctuation in oil prices in the world market will affect the Yemeni economy.

According to Alasaly, Saif, (2003), the oil sector was behind the GDP growth, while, non-oil growth was only three per cent. The agricultural sector growth in Yemen depends annually on the seasonal rainfalls volume. However, Yemeni economy was on the point of collapse in 1995. It became unbearable to leave the economic situation deteriorating more and more because it was about to reach a complete collapse [Amer A. A., 1998]. In addition to the bad situation, which revealed through the above indicators, there are several difficulties and problems affected the development and prosperity of RoY such as domestic political tension, the political system has continued to be based on family lies. Bad government administration, corruption and military expenditure, high population growth, lack of investors confidence, due to distortion, the Yemeni economy had very serious economic crises in 1995 [Alasaly, Saif, 2003]. At the same period, the economic problems have been affected the industrial sector as it is shown in the following section.

However, it was very necessary to search for the potential solutions for these problems in order to build strong national economy comprehensively all its sectors. Thus, the economic crisis in 1995 forced the Yemen government to design new economic policies and strategies and implement a comprehensive Economic Reform Program (ERP) to achieve a high positive economic growth rate. The ERP started in middle of 1995 supported by the International Monetary Fund (IMF), World Bank (WB) and other institutions aiming to development of Yemeni economy. The reform program contains three main objectives to develop the economy of Yemen. First, one was to create economic stable in order to reduce deficit budget. The second was to structure economy of Yemen. Finally was a social protection measure. The three main objectives were translated to several sub-objectives such as control of budget deficit, price liberalization, reduction in inflation, reform of taxation systems and reform the structure of the public
budget to decrease the dependence on oil revenues, etc. Al-asaly divided the strategy program into two strategies: the first was to establish an economic stability; while the second was to restructure the economy.

4.1.3.2 The Economic Situation 1996-2000

As it mention above the ERP and its main objectives, which was adopted in middle of 1995. During 1996-2000 GoY recognized annual plans in order to applying ERP. The picture improved a little in the first stage of the program and some goals relatively achieved regarding reduction of inflation, budget deficit and improvement in balance payment. If compare this results or indicators with those in last period before ERP, there is obviously little improvement in this stage. However, despite of this improvement the ERP failed to achieve targeted growth rates in all economic sectors. GDP growth average reached to 3.5 per cent, which was in the last period 1.9 per cent of GDP. During this period oil revenue play an important role in this growth. The inflation rate declined slowly, dropped to less than 10 per cent and reach to 27 per cent in the year of 2000 [Alasaly, Saif, 2003]. The main reason for this fluctuation due to the GoY reduced of the subsidies on the wheat, flour and domestic prices of petroleum product rose because the same reason and this reflected on the all commodities in the domestic market. The budget deficit during this stage was high in spite of the expenditure reform was one of the ERP objective, this may be refer to military expenditures, which was very high, as well as, spending on the education and health get improvement in this stage. All these matter were one of the factors affected on the budget deficit, while during this period the oil price raised, as well as, Yemeni external debt was reduced through Paris Club Agreement from 173 per cent to 80 per cent of GDP, as well as, its services declined from 32 to 11 per cent. Approximately 80 per cent of Yemen's debts to Russia, mostly for arms purchases, were forgiven in the debt rescheduling.

However, all these indicators affected negatively the unemployment and poverty, as well as, illiteracy in Yemen. Generally, it can be said that the ERP in this period has not been achieved its objectives.

4.1.3.3 The Economic Situation 2001-2008

In this period the GoY recognized the similar policies and strategies, those were in the last period as a part of the ERP with some modifications. It was focusing on the rapidity moving and broad privatization program, elimination of subsidies, taxation reforms and aims to improve non-oil revenue. These modifications mentioned to improve the
business environment to encourage internal and external investors. However, over this period, economy has grown with average estimated World Bank approximately 3.5 per cent of GDP, while the economists have estimated 2.4 per cent of GDP. The economic growth rates during the years were between approximately three and four per cent, affected by the international fuel prices due to the depending of Yemeni economy growth basically on the oil revenue. Despite of intervention of Central Bank of Yemen (CBY) to curb of increments in exchange rate, annual average core inflation still stood at 20 per cent and the unemployment estimated more than 46 per cent. The budget deficit still also with high rates, In spite of rise of oil prices in the current years. Regarding of poverty IMF claimed that the poverty falling from 40 to 35 per cent over the period 1998-2006, while the estimating of economic experts was more than 50 per cent. Their justification for that due to reduction of governmental subsidies totally on the wheat and flour, effect of General Sales Tax (GST), which was as a result ERP policies, as well as, the bad government performance. However, Yemen is one of the poorest countries in the word. It ranked 150 out of 177 countries according to United Nation Human Development Index 2006 [IMF, 2007].

In spite of, the help of IMF, WB and other foreign institutions conduct ERP for last 12 years passed and GoY has been failed to achieve suitable economic growth and stability. Moreover, Yemen’s economy faces several complicated acute economic problems. It reflected and effected negatively on the development of Yemeni economy. These were due to failure in creating stable political and economic systems. Finally, all the society levels has been affected, as well as, their income levels and standards of living. It can be said that, the economic difficulties have created two classes of the society, the lower class and upper class. They grow fast with inverse directions. The middle class in Yemen became absent and high per cent of population fell below the poverty line.

Yemen’s economic growth has been declined year after year during the first half of current decade, as well as, the oil production has been fluctuated and recorded decrease in production quantity. Moreover, the oil is exhausted raw material; in the other side, the growth in the non-oil sectors remained weak, especially, the agriculture and manufacture sectors, which are consider important sectors in creating employment and they help in economic stability in the state.
The GoY has been disabling to stimulate the private sector, as well as, foreign investors due to several reasons (1) lack of security, (2) lack of legal and judicial systems, (3) high rates of corruption, which growing up during the ERP period and ranked as a major problem by many reports and donors comments including EU, WB and the Americans [Moghram, M. A., 2006], (4) weakness of administration systems, (5) weakness in infrastructure, (6) organized smuggling practice by the country's powerful tribes and high level of government employees and (7) absent of really political volition for reform process. All the above reasons, as well as, the current political and economic situation are negative indicators about the future of Yemen in the coming years.

Agricultural sector is considered as the main sector in economic growth, as well as, for creation of labour opportunities leads to decrease of unemployment. However, agriculture in Yemen faced short of water, almost all of workers in this sector are depend on the seasonal rainfall and the yield, or outcome of this sector always decrease due to unabundant rainfall. During the last decades, as well as, there is no tangible development in this side. There are some dams established but most of them made without economic measures and the economic benefits are very limited. However, the participant of agricultural sector in GDP reduced continuously for example in 2003 fall down to 4.5 per cent while it was 13.3 per cent of GDP in 1998, as well as, the rate growth reached to four and 1.1 per cent in 2002 and 2003 respectively [WB, 2005].

The industrial sector is one of the important economic sectors, which contributes to achieve the economic development and expand diversification of the production basis in the country, as well as, to reduce the foreign trade of goods. Therefore, the industrial sector is creating new employment opportunities. It considered the second large sector after agricultural sector in creation of labour force. Manufacturing activities in Yemen expanded in the early 1970s as a result of the momentum demand for consumer goods and the government policies for granting economic incentive for local manufacturing using import substitution policies including protective measure such as tariff quantitative restrictions, price controls and larger by encouraging manufacturers for export production [WB, 1989].

After unification of Yemen in 1990, the new state adopted new industrial policies such as establishment of a partnership between the public sector and private sector, greater attention and more support to the private sector to direct investment in related industry implementation of privatization program. In spite of economic crisis in the first half
1990s, the Yemeni industrial sector witnessed a significant expand in industry, as well as, in the manufacturing outputs. However, it was still concentrated in production of consumer goods. Almost half of all factories establishments are involved in processing food products and beverages.

In addition, manufacturing sector in Yemen lack of advanced technologies, scarcity of resources and experience, to achieve real growth in this sector it should has a significant attention by the GoY. The demand for skilled workers is a central trend of today’s economy. Labour skills may have load effects on the manufacturing development.

Competition needs high quality goods with low cost, as well as, variety of production. All these factors are unavailable in Yemen manufacturing sector. The absence of advanced technologies, labour skills and high cost of transports, in addition to corruption and smuggling in case of Yemen have been affected the development manufacturing sector.

Finally, the rise of oil price was one of the reasons of failure of improvement in industrial and agricultural sectors due to fewer efforts have been given by the GoY to these sectors during the last period. While this increase in oil price supposes to give positive, influence to use that revenue in improving the main sectors in economy agriculture and industry.

Recently the government adopted the GST as a new law in Yemen, in response to WB, IMF and others donors desires toward reform of Taxation system, which is one of the factors of financial and economic reform. It can be said that, because, the indirect relation of law with commercial and industrial sector may lead to negative impact on the development of the industry due to the corruption and bad administration of tax authority. Therefore, the administration and financial corruption in the taxation and customs authorities is one of the main causes to increase tax evasion. Moreover, there is an absence of confidence between commercial and industrial society and taxation and customs authorities affecting negatively on the development of industry in Yemen, as well as, tax and customs revenues. In addition, the new GST law may be inapplicable in Yemeni environment for several basic reasons such as (1) widespread corruption phenomenon in the side of taxation authority; (2) lack of capability of the application of this law in the commercial and industrial sector, which is still lack of financial and accounting systems, in addition, the incontinence between the two parts, (3) Yemeni economy is unstable, as well as, the inflation continues and the fluctuation of the
Yemen’s Rial exchange rate against US dollar, (4) Increase of organized smuggling protected by high level of authority.

4.1.4 Yemeni Business Culture

Management and accounting researchers have argued the issue of the influence of the development of accounting and management systems and practice in different countries around the world. In the last decades of the last century, management and accounting researches started to look closely at the impact of culture on the accounting and business. Most of them attempt in this area like Hofstede (1980, 1984, 1987, 1991); Gary (1988); Bloom and N (1989); Nibes (1983); McGowan (1994), Supitcha and Frederick 2001). They have been recognized the importance of environmental sectors and cultural factors in the nation’s accounting systems and practice.

Hofstede G., (1980, 1991), one of the first authors to recognize the importance of culture on management and work related practices, defined culture as “the collection programming of the mind, which distinguishes the members of group or category of people, who share the same social and cultural environment from another.” Gray following Hofstede, defined culture as value system shared by major groups of population. According to his theoretical framework, there is link between accounting and culture and the culture influences the accounting value and accounting changes. He tries to link culture value to accounting value, which themselves were linked to four aspects of accounting practices (professionalism, uniformity, conservatism and secrecy) [Gray, S.J., 1991, pp. 1-15]. These aspects influenced authority for accounting systems, their force of application, measurement practices used and extent of information disclosed.

Bloom and Naciri defined culture as “the total pattern of human behaviour and its products embodied in thought, speech, action, artefacts and dependent upon man’s capacity for learning and transmitting knowledge to succeeding generation through the use of tools, languages and systems of abstract thought” [Bloom, R. and Naciri, M. A., 1996]. In general, culture may include beliefs, norms and tradition, which are shared in a specific society at specific time. Therefore, religion, education norms, costumes and history, are essential component of a culture of a society.

National culture is influenced by many factors such as religion, language, education, ethics, laws and history. Morden said that business and national culture play a prominent role in melding organizational culture. Business culture influences an
organization of the society level, largely through its values, standard and expectation. National culture influenced the organizations through the collective conditioning, education socialization and life experience of its personnel [Morden, T., 1996]. National culture is dominate factors, that it determined a company's management style, its communication and decision making processes down to the formulation of its culture [Morden, T., 1996]. The management and accounting systems, techniques and practices will be influence by the national culture and to apply any new systems originated by different country may be require modification for effective implementation.

According to Nydell, there are three important components in Arab culture that may have significant effect on both MNC business and accounting systems and practices. They are (1) basic value such as honour, loyalty; (2) basic religions value such as belief in one God, piety so important, unit state and (3) basic self- perception such as generous, polite, rich culture heritage [Nydell, M. K., 1996].

However, Islam is not just a religion but also a way of life for Muslims and a spiritual relationship with their Creator (Allah), it is a practical day-to-day living including their business. In addition, the Islamic Shariah disciplines the relationship between the subordinate and superior, as well as, the teamwork concept is coming from the Islamic Sharia as stated in the Qur'an and the teaching of the Prophet Mohammed [Abdallah, W., Web Site].

The effect of religion on the concepts and mechanisms of accounting in the Islamic world and it is potential effects on the harmonization in international accounting. He suggested that culture impact, such as religion should not be ignored because it is a confounding element in harmonizing the international accounting standards. Culture, in general, may refer to those entire social, political and other variables, which affect person’s behaviour [Hamid, S., 1993, p. 131].

In Middle East, religion is an essential component of the culture value. If accounting is a product of both it is society and environments, the religious values shape and reinforce local business practices and accounting systems. However, the influence of religion on the development of the accounting has not been yet explored in depth [Hamid, S., 1993, p. 147].

Arab cultures are more heavily influenced than American's by institution such as family, religion and government, which interact to shape the value systems of individual
4.1.5 Accounting Education in Yemen

Accounting has its roots in the early 1400s with the flourishing commercial activities of Florence and Venics. Accounting evolution hand in hand with commerce and business activities according to needs both business and societal activities [Mulder, T. C., 1997]. Higher accounting education and accounting profession started in 19th century in USA [Mulder, T. C., 1997], UK [McCoy, Liza, 1999].

In the early of 20th century, the specific course offering in accounting principles, auditing, advanced accounting and cost accounting. The laws play significant role in development accounting curriculum in American higher education [Mulder, T. C., 1997].

Yemeni Accounting education and practice is based on American Accounting theory. The accounting education and practice in Yemen influenced by USA due to: (1) America became the dominant world force, politically and economically during last century and when America led, other countries followed and influenced by the American accounting education and practice especially developing countries. (2) most of accounting professional organization in UAS such as American Accounting Association (AAA), American Education Change commission (AECC) and Financial Accounting Standards Board (FASB). As well as, UAS dominated on the international accounting bodies such as International Accounting Standards Body (IASB) and International Financial Accounting Reports Body (IFARB), these have been evolution and development of several topics related the accounting education and accounting profession, as well as, curriculum. The other side that effect of the accounting education and practices in Yemen, is Egyptian teachers and accountant, during their doing at Yemeni universities. However, the accounting education and practice in Egyptian is influence by accounting culture in USA.

Accounting education aims to determine the knowledge and skills of students, provide the business and society by the accounting employees and provide the accounting profession by the high quality of accounting professionals. According to American Assembly of Collegiate Schools of Business (AACSB 1989) quoted in Mulder, T. C (1997) to educate students in commerce and to continue to develop a wide range of
professional accounting careers. To provide basic conceptual accounting and business knowledge as a foundation for accounting career development. Adams and Roberts (1994) argued that both the accountancy profession and accounting educators have been seeking to ensure that tertiary education helps in the development of skills and abilities of accountants.

Yemeni accounting education at the universities level has four years courses. The accounting programs including financial accounting, management accounting and cost accounting courses. At the secondary school level, some accounting education is available. There are seven government universities and 11 private universities; all these universities offering graduate studies. National institute for managerial science and its branches in governors also are offering two years diploma (after secondary school) in management and accounting.

In Yemeni accounting curriculum the necessary areas are financial accounting, management accounting, cost accounting, taxation and auditing. There are also specialist subjects in petroleum accounting, international accounting, Hotels accounting, Banking accounting and insurance companies accounting. Currently, some accounting departments in commerce colleges provide its students accountancy terminologies in English. The students also have been given subjects on the business and economy. The Yemeni accounting education and practicing accountant found that practice out side the colleges had so many obstacles comprising educational, professional and other problems. The most important educational obstacles are the lack of relevant and effective accounting curricula, lack of sufficient qualified institutions and lack of the new accounting textbooks written in Arabic language. Despite of accounting education in Yemen is based on USA accounting, but does cope with the developments and improvement that happened in USA during last decades. Education quality in Yemen still lack to modern syllabus. In addition, there is a negative influence of social and cultural factors on the professional accounting, which is an important barrier to the development of education and practice of accounting in Yemen, since the professional accounting in Yemen had not perceived to be an important and prestigious profession comparing with other professional groups such as doctors, lawyers. Yemen suffering of several problems such as illiteracy, poverty, corruption, taxation evasion, smuggling and intertribal manner in governance all these factors influenced negatively on the accounting education and, as well as, profession. Education is an important factor that affects the business and accounting profession in every country. Thereby the accounting
function is very difficult and cannot apply in situation as Yemen had it [Nobes, C. W., 1983, pp. 1-19].

However, the accounting education is reflected the requirements of the business and social activities, as well as, accounting profession. In the dramatic changes, which have occurred in the business environment such as manufacturing technologies, globalization, competition and electronic commerce traditional accounting education and practice fail to develop the skills and abilities of accountants in coping with the requirements of changes environment during the last two decades. Today’s accounting objectives become broadly and multiple and the economic and accounting information are concerned with any situation in which a choice must be made. The requirements of information become necessary for internal and external users and should be believable.

The age of technology and advanced information systems are one of the reasons for the changes in accounting education and practice, as well as, professional education. The accounting education and professional education should concerning several skills and abilities such as analysis masses information skills, business software skills, computer program skills, communication skills and skills in economic and administration affairs. The development and improvement of business and its different systems depend on the accounting education and accounting profession. To achieve these requirements high accounting and management institutes should play an important role in this regard. In this regard, accounting academics should use technologies in their instruction; it should include all kinds of technology that has related to accounting education such as application of computer hardware and software, audio, video, equipment graphics, images, animation. Changes in the business environment, such as globalization and technology are affecting the accounting industry. Highlighted is the need for accounting education, which adapts to a rapidly changing global marketplace. This provides a challenge for academics to design AIS curricula that prepares graduates for the current and future business environment [Albrecht, W. S. and Sack, R. J., 2000].

Using technology in the education makes teachers keeping up with new developments, so the technology affects daily on the trade and the accounting has direct relations with the business in respect of the technology developments.

Both accounting profession and accounting education have been seeking to ensure that tertiary education helps in the development of skills and abilities of accountants. Current accounting graduates have not been given important skills and knowledge. The
skills and knowledge are not acquired only through specialized, technical training, but also through breadth of education and depth of training. Linking the education with training in accounting is efficient to use the theoretical knowledge in the field of work [Adams, S. A. and Roberts, C. B., 1994, pp. 167-181].

However, development of curricula should focus on the necessary information to lead more analysis and lead to take suitable decisions, as well as, to prepare the financial statement on this basis. The literature suggests that accounting practitioners have called for change in accounting education since the inception of university programs in accounting. We believe that the accounting education in Yemen needs significant change to meet the practitioner’s needs in age of information and technology. In addition, accounting education in Yemen has been dissatisfaction to the need of the business community. It has been outdated and the significance becomes necessary to keep up with new business environment.

4.1.6 Accounting Profession in Yemen

Accounting profession is similar to any other professions such as legal profession or medicine profession. It has standards, principles and ethics recognized and accepted in the world. Accounting serves all the society, as well as, commercial, financial and industrial society through its measure of the financial situation and showing the results of economic activities in the country. Accounting profession is committed to maintain a public reputation for excellence in the performance of important role in business and society.

Several laws such as organize accounting in Yemen: chartered accountants law, central organization for control and auditing law, trading company law, commercial law, financial law, tax law, banking law and unified accounting system. According to Yemeni chartered accountants law, No. 26, 1999, a person who has at least bachelor’s degree in accounting, as well as, engaged in practice of accounting or engaged as a professor in university, college, or higher institute in accounting for four years after bachelor’s degree, two years after master degree and one year after PhD degree can be a chartered accountant. Therefore, the Yemeni law No. 26, 1999 is required examination, excepted of that, which has PhD degree. The accountants and external auditors must to register at the section of the chartered accountants, which is maintained by the Ministry of Trade and Industry. In respect of IA and internal auditors has regulated under the PMR No. 25/1986 and 217/1999, which discussed in second section of this chapter. In
spite of all the laws, that are established regarding accounting profession and its practices as it mentioned above, the accounting profession in Yemen still very weak.

Yemen has adopted encouragement of foreign investment in order to improve its economy, create new employment and reduce poverty rates. Furthermore, Yemen needs to access to the WTO. WTO has given the accountants chances to do oversea professionals in accounting without any limits. The globalization, privatization and foreign investment gave a good impression of accounting profession, as well as, accounting education in Yemen. All these indicators create the need to evolution and improvement in accounting profession more than last period.

The evolution and development of accounting profession is responsibility of government and accounting professional bodies, as well as, accountants. The government in order to develop its financial and economic situation must do several efforts as creating accounting professional bodies and improvement of profession for example, (1) good prepare for profession laws; (2) establishment high institutes for accounting professional education; (3) enhancing and determine the accountants profession role clearly through all related laws in the state.

In the age of technology and information technologies, the role of chartered accountants is become wide including the ability to make the data available to the end users. The information technology including any equipment systems and subsystems that is used in the automation industry, management, control, storage marketing etc. Thereby, accountants should have several skills to help them, bringing richer sets of information on specific managerial decision. However, accounting profession is plagued with many serious problems that if resolutely addressed and resolved, will lead to its demise. However, the accounting and business leaders, as well as, practicing accountants and management accountant, state that management accounting education as currently structured is outdated and must be modified significantly to meet ever-changing expectations.

4.1.6.1 Limitations of Accounting Profession

The accounting profession in Yemen has faced several limitations and problems that cause difficulties for improvement and development as following:
1- Lack of accounting professional education, as well as, the continued training.
2- Lack of accounting professional bodies.
3- Lack of perfect and suitable laws, systems that leads to development of accounting profession.

4- Absence of application of the existing laws and systems, which are required for all the companies and businessmen to maintain proper accounting records.

5- Absence of control and observation on the accountant's profession.

6- The current accounting education is insufficient, as well as, does not keep with advanced technology, new environment business.

7- Lack of confidence between taxation authority and commercial society because of corruption, as well as, tax laws, which are unfair. These matters promote the businessmen to avoid having accounting records.

In addition to the above points, due to Yemen culture and economic problems there is inadequate recognition and attention about the role of accounting profession. So there is, gap between the academic study and practicing of accounting function, as well as, there is weakness in the accounting teaching and vocational training. Still now the students in Yemen universities have been given theoretical subjects based on traditional syllabus in accounting and management and they have not been give the practical training, which must be obtained outside of colleges.

However, solve these limitations and problems by both the government, accounting professional bodies and accountants, as well as, commercial society will help in developing the accounting profession in Yemen and the adoption or implementing of new systems or techniques in the accounting, cost and management accounting will be easy, successful and fruitful.

Finally, accounting education systems and accounting profession in Yemen involved in this chapter due to the indirect relation with this study. The success of development or introduce any new system such as IA is depend on these matters. These two matters play an important role to improve the skills and abilities of accountants and costing managers and workers, as well as, make them good experts with their systems. The next chapter considered the methodology employed in this thesis.

4.2 Public Sector Companies

Public Sector Company means a company in which fifty-one per cent or more of the subscribed and paid-up equity is owned and controlled by the Central or a State Government, jointly or severally, and includes any undertaking designated as such by
the Department of Public Enterprises and companies in which majority stake is held by Public Sector Company. According to the meaning of PSCs given above, the companies belong to this category of companies, all companies located or established in RoY represent the population of the study.

Features of Public Sector Company

1. Fifty-one per cent or more of the subscribed and paid-up equity of the PSC is owned and controlled by the Central or a State Government, jointly or severally,
2. PSC budget and balance sheet included within the government budget and balance sheet.
3. PSC by the law executes the unified accounting system issued by the law in recording its financial transactions, and
4. PSC external audit done by the General Auditor (COCA) or any accounting firm selected by the General Auditor.

4.2 Yemeni Experience of Internal Audit

IAP in RoY was voluntary in all sectors until 1986, the year in which government formulated the first law related to IAP. Whereas, Prime Minister Resolution number 25/1986 was issued\textsuperscript{24}. 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\textsuperscript{25} has to establish internal audit and inspection department\textsuperscript{26} subordinates to chairman of the board of directors. Its main objective is 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,

\textsuperscript{24} See Appendix B.
\textsuperscript{25} Joint companies mean public sector companies, which this expression has used in this study.
\textsuperscript{26} Internal audit and inspection department means internal audit department, which this expression is utilized in academic and professional studies, as well as, this study.
Prime Minister Resolution 217/199927, which related to identification of internal audit department’s responsibilities and jurisdictions in public sector units. This section discusses the IA components, characteristics and requirements in the RoY in details.

- **Chief Audit Executive**

CAE has to possess and fulfil the professional and legal characters, competencies and qualifications such as.

Assignment and removal: According to the PMR 25/1986, CAE appoints by the board chairperson, which stated in provision three that “appointment of internal audit and inspection department executive in public foundations and public and joint sectors companies according to resolution issued by board of directors' chairperson after board of directors' approval....” While the displacement of CAE is in the hand of board chairperson, as well as, after getting approval from a committee formed from COCA, financial ministry and related authority. According to the provision nine, which state, “it is not allowed to remove or discharge Department executive unless there are reasons and justifications approved by committee formed from COCA, financial ministry and related authority”. This provision has enhanced the independence of CAE and IAD.

Competence and Qualifications: CAE in PSCs has to possesses and fulfil the job position professional and legal requirements where the PMR 25/1986 mentioned in Provisions three and seventeen stated that “The executive of internal audit and inspection department in addition, to fulfilling the required conditions of appointment in public job has to possess bachelor degree in the field of accountancy and special experience of not less than five years”.

Authorities and Responsibilities: duties and authorities of CAE are mentioned in the PMR 25/1986 in some provisions whereas; prepare working annual plan matching with the unit activities, functions and power. The plan should bring before board of directors for approval and inform the Central Organization for Control and Audit (COCA) with copy after the approval of it. In addition, CAE has to organise, manage, direct and communicate the work of IAD and identify and staffing the required qualified staff of IAD, as well as, conduct all duties toward achieving the department objectives, jurisdictions and responsibilities, which will discuss later on.

- **Internal Audit Department**

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27 See Appendix C.
In the PSCs in the RoY; Department of internal audit and inspection formed of two sections (audit, inspection section). The organisation position of IAD in PSCs in RoY immediately locate and subordinate to the board of directors whereas, there is no audit committee. The department practices its jurisdictions according to rules and provisions laid down in PMR 25/1986 and 217/1999 as following.

1. Verifying of soundness and completeness of managerial and financial data,
2. Assuring the extent of adherence to activities, law and regulations in operation,
3. Making sure of availability of enough security of unit funds from embezzlement, waste, steal and the extent concern of its maintenance,
4. Making sure of extent of achieve predetermined objectives of unit’s activities and programs,
5. Assuring the extent of using the available financial, human and material resources economically and efficiently,
6. The department has a right for undertaking its jurisdiction performs review and audits all activities processes of unit and verifying the soundness, safety and regularity of flow chart, journal entries and justifications in records, registers and prototypes, which particularized for that, whether in side of revenues or expenditures’ side. As well as, it has right to performs sudden inspection over the works of financial, managerial and storehouses' affairs and inventory of funds. In addition, staff of the unit should do the enough facilities to the department staff, which enable them in performing their duties and jurisdictions, in case of existence any obstacles, or hindrances should foreword to the chairperson of the unit for facilitating them,
7. Department prepares periodic reports quarterly include all results of its works coupled with recommendations and suggestions, present to chairman of the board of directors of the unit and send copy of this periodical reports to COCA and superintendent authority,
8. All activities, works and reports of internal audit and inspection department subject to check and review by COCA in all situations and times, department should associate in providing data, information and assistances to COCA delegates for serve all its responsibilities and duties,
9. IAD has right to establish branches of department in matching with the volume of works and activities of unit according to resolution issued by chairperson of the board of directors and
10. The department reviews all financial actions and all actions, which result to financial consequences and marking its vouchers that they have been reviewed and there is nothing to stop them to complete their procedures within the operative laws and regulations.

As stated above that the IAD consist of two sections; audit and inspection section therefore these two sections has some authorities and responsibilities have to conduct their works and achieve their objectives according to them.

➢ Audit Section

Audit section fulfils its objectives and duties as follows.

1. Vouching and approve payment vouchers before paying and assuring the completion of documents (which prove accuracy of payment), as well as, bids procedures, analyzing tenders, proceeding the importing to storehouses and auditing all financial data, voices, input and outputs of storehouses.

2. Auditing letters of credit, collecting and following their situations from the point of opening them until goods reach to unit’s stores and paying their cost along with emphasis on opening complete files for each letter of credit or collection.

3. Checking payable statements (salaries, wages etc.) from enumeration, accounting side and verifying their accuracy.

4. Checking all types of revenues and making sure that they had received and recorded in the accounts of the unit in sound and correct manner and their collection had done as predetermined.

5. Reviewing daily collection statements and make sure that the stamp of unit is exist on each receipt and assure their record in statements by correct name, number and total and total of these statements and determine the amount that shall deposit to bank and sign then return them to the respective person for completing procedures of depositing, journalizing and posting to respective accounts.

6. Checking treasury transactions and general journal and make sure that amounts deposited has been actually journalized and the daily depositing done regularly for all received amounts and verifying extent of treasurers not using received cash for any other purpose whatsoever the reasons and assuring depositing of received amounts to bank day by day.

7. Reviewing data and information submitted to board of directors from other line management and assuring their correction and accuracy and reconciling them with
fact so as so board of directors is able to make decisions on the base of them in order not affect the position of unit financially, managerially and technically.

8. Each auditor has to stamp each document expressing that the document has been audited and determine the date of checking.

- **Inspection Section**

  1. Making sure that all managements and sections practicing and executing programs, plans and policies of unit in the interest of the unit.

  2. Verifying the optimal use of available resource of unit (human and materiality) in accordance with predetermined objectives and schemes.

  3. Preparing periodic reports about sufficiency of executed or practiced regulations and the extent of soundness of internal received in the unit and its branches.

  4. Periodic and continuous monitoring for assuring the extent of putting established accounting and financial systems in execution implementation.

  5. Verifying the correction and soundness of journalizing and posting in accounting records.

  6. Reviewing monthly trial balances and their analytical data.

  7. Conduct sudden inventory of treasuries and storehouses and preparing the disciplinary inventory minutes and submit them to respective authority according to actual results of inventory along with observations and recommendations if need on the base of designed audit program (sudden or periodic).

  8. Studying storehouses conditions and verifying extent of their validity to stock and extent of availability of enough security for their stock and checking stock vouchers, registers and cards, assuring soundness and safety of input, output and storing transactions according to operative laws and regulations and search the reasons of waste, damage or stagnation some of their existences.

  9. Preparing periodic monitoring reports about levels and efficiency of implementation of contracts, which doing by the unit with others.

  10. Reviewing application of insurance policies with insurance companies if exist and follow their accounts, as well as, paying up claims or reclaims of the unit.

  11. Checking all inventory reconciliations and final accounts, this prepared in the end of each financial period and verifying extent of its accuracy.

  12. Reviewing bank reconciliation (monthly reconciliation statement) verifying that method of preparing it was correct and certified from authorized persons and maintain copy of it and open register in the department for registering deposits
(cash, cheques and others) and cheques under deposit in bank statements for following them in coming months and verifying the correctness of amounts, which appear in bank statements and not appear in the registers.

13. Assuring the sufficiency and soundness of adopted procedures of maintaining and alternating vouchers and documents.

14. Conducting all duties, responsibilities and comportments required by chairperson of the unit, which related to investigation and follow up the fouls and associating for the same with management of law of the unit.

15. Providing necessary assistance, information and data to external parties or authorities of control in all side serve them in fulfilling their duties and responsibilities and associating with them in everything result in the interests of the unit and improving and developing trading comportments, which achieving as best as possible efficiency.

16. Preparing periodic reports about applied duties by department and working programs, performance levels and suggesting what shall be for reaching to sufficiency of department in conducting its duties and responsibilities.

• **Staffing Audit and Inspection section**

When staffing these two sections with sections’ manager and internal auditors according to resolution issued by CAE and approved by board chairperson they should to consider the satisfaction, conditions and requirements of provision 17 of PMR 25/1986 as follows.

**Section chairperson**: shall to possess a bachelor degree in accountancy and has at least two years experience in accounting field.

**Internal Auditor**: shall to possess a bachelor degree in accountancy and has at least two years experience in accounting field.

Number of staff in the department must determine according to volume and activity nature of unit. Staff shall distributing and alternating duties and jobs between department’s auditors periodically.

Shall take in to consideration the necessity of preparing and developing department staff with specialized training in coordinating with respective parties internally and externally, which lead to accomplish the department function effectively.
• **Salary and Remunerations**
CAE and other staff in the IAD treating with respect to salary, compensations and other fees as their peers in the unit along with paying them necessary bonuses and premiums according to the resolutions of board of directors.

• **Policy and Procedures Manual**
IAD has to form and maintain policy and procedure manual contains of headlines for internal audit objectives in the unit and the policies, which shall adopt in performing its duties.

• **The Relation with External Auditor**
The relationship of internal and external auditor in the RoY has expressed in some provisions of PMR 25/1986 and 217/1999. External auditor herewith is the central organisation of control and audit (COCA) who has right to appoint another external auditor from those audit firm or chartered accounting who are recognised by the Yemeni law. Some relations are expressed below.

- IAD approved plan should by informed to COCA with copy after the approval of it.
- IAD should send copy of periodic report after presenting it to the board chairperson.
- All activities, works and reports of IAD subject to check and review by COCA in all situations and times, department should associate in providing data, information and assistances to COCA delegates for serve all its responsibilities and duties.
- The removal or discharge of CAE should by approved by committee form by COCA, finance ministry and related authority.
- The department when detect fraud, forgery, embezzlement and appropriation public funds immediately shall proving the case and inform COCA immediately after detection of it.

Hence, from discussion given above we observe that the PMR 25/1986 and 217/1999 has provided more authorities to COCA as external auditor over the work of IAD, which consequently enhance the independence of IAD and internal auditors from the burden of board of directors while they are working in public companies. However, the question of implementation of all this authorities, competencies, qualifications and responsibilities is answered in Chapter V, in addition, the deficiencies of IAP in PSCs in the RoY has explained and analyzed in Chapters V and VI.