CHAPTER – 1

INTRODUCTION
CHAPTER ONE

INTRODUCTION

CONTENTS

SECTION (1)

1.1 INTRODUCTION
  1.1.0 Introduction
  1.1.1 Statement of the Problem
    1.1.1.1 Research Problem
    1.1.1.2 Significance of the Study
    1.1.1.3 Objectives of the Study
    1.1.1.4 Hypotheses of the Study
    1.1.1.5 Methodology of the Study
    1.1.1.6 population and a sampling of the study

SECTION (2)

1.2 REVIEW OF LITERATURE
  1.2.0 Introduction
  1.2.1 Review of Literature
  1.2.2 Conclusion
CHAPTER-1
INTRODUCTION

This chapter consists of two sections. The first section is the Introduction and Statement of the Problem. The second section is about the Review of Literature: deals with lot of studies of many researchers about corporate governance and expectations gap in the auditing profession.

SECTION (1)
INTRODUCTION

1.1.0. Introduction

As a result of the great development that corporate has witnessed through ages, the development in the field of economic relations and the expansion and overlapping of commercial deals, has made the corporation deal with various parties and institutions that have direct or indirect interests with the corporation. This has increased the interest in the profession of auditing, its economic significance and the number of the parties utilizing from its reports, this has increased the interest in the profession of auditing.

Recently the profession of auditing has faced a crisis in responsibility, credibility and loss confidence as a result of the increasing financial and economic crises at the local level and global form that led to question many potential investors, shareholders and public opinion of those who suffered damage as a result of bankruptcy and collapse of many companies and banks, as well as economic institutions for the reason for not Auditors give warning signs about the economic situation of those companies as well as the lack of reference to these risks in their reports on the financial statements of such companies\(^{(1)}\).

An example of financial collapses of big American corporations that happened during the first years of the 21st century is the collapse of Enron Energy Company.
These collapses have resulted in a lack of confidence in the various financial markets and the departure of the investors as well as lack of confidence in the offices of the accounting and auditing as a result of lack of confidence in the accounting information contained in the financial statements of different companies.

Because of widespread criticism on the auditing profession by users of financial statements, and the subsequent charge to the owners of the profession, the profession was apt to lawsuits. The lack of understanding of users of financial statements of the main mission of the auditors resulted in incompatibility between the community’s expectations of the auditor and his actual performance. This led to the emergence of the expectations gap (2).

The first efforts to identify the gap of expectations were the findings found out by the Commission on Auditor’s Responsibilities (CAR) of the American Institute of Certified Public Accountants in 1978, which found out that it is difficult for users of the auditors’ reports to understand the content of auditing reports (3). Cohen committee formed by the American institute for legal accountants has found out expectation gap in the auditing. This gap results from the fact that users of auditors reports expect them to go deep into the operations and activities of the corporation, prepare reports on the administration performance and disclose illegal operations and embezzlements. The auditors’ failure to meet the users’ expectations in the above-mentioned aspects results in the expectation gap in the auditing environment.

As Guy and Sullivan (1988) pointed out that the expectations gap refers to the difference between what users of the financial reports and the general public think of and what the auditors think about the responsibilities of auditors, the effectiveness quality of auditing work and the nature of relationships between the auditor and auditing clients.

The expectations gap between auditors and users of financial reports has resulted in a decline of public confidence in accounting information and the auditor’s opinion on the financial statements of the institution under audit. This could threaten the auditing profession with failure and could increase the chances that make the auditors subjected to legal accountability civilly or criminally (4).

The financial community expects the auditors to build their reports on transparency, efficiency objectivity and neutrality. They are also expected to discover
the essential errors that influence the income statement and financial status and prevent the issuing of misleading financial lists. But there is no process of auditing that can present absolute assurances that financial lists are free of essential errors because these errors could happen as a result of applying and implementing the financial operation of the firm or the mismanagement of the financial section in the firm or it could result from the misjudgment in choosing and applying the common accounting principles that are generally accepted (5).

The financial problems experienced by many major companies in the world resulted in the demand that there should be a set of controls, customs and moral and professional principles to achieve the confidence and credibility in the information contained in the financial statements. That has led the world to the attention of corporate governance.

The corporate governance is considered as one of the modern concepts the importance of which has increased in business and public sectors because of its great importance in the management of companies and the protection of the shareholders’ rights. Also, there was an increase in the number of the intellectual trends in the importance of corporate governance some of which directed towards the importance of governance in the public sector because of its effects on the national economy and some of them directed towards the importance of governance in the private sector represented by industrial and commercial sectors in general and the banking sector in particular (6).

Furthermore, corporate governance closely associated with economic and financial crises which have revealed that the non-application of corporate governance as required has increased the severity of these crises. As a result, bankruptcy occurred in many international companies in the advanced countries including the United States of America.

After a series of various financial crises in many corporations especially in advanced countries, corporate Governance has become one of the important topics in all regional and global corporations and organizations. Organization for Economic Cooperation and Development (OECD) defined governance as: “a set of relationships between company management, its board of directors, shareholders and other
stakeholders, which provide frameworks and mechanisms to identify the company’s goals and methods of implementation and control mechanisms on performance”.

Corporate governance mechanisms’ basically protect and ensure the rights of share holders and all parties with interest in the corporation through auditing and controlling the performance of the corporation management and the auditor. Given the importance of corporate governance and the various impacts of its principles and its role in the organization of the relationship between the many parties that are users of financial statements, the researcher will depend on measuring the impact of corporate governance on the expectations gap between auditors and users of financial statements.

1.1.1. Statement of the Problem
1.1.1.1. Research Problem
The interest in implementing corporate Governance came as a fact outlet and comprehensive solution of the following shortcomings: - failure of many joint stock companies, collapse of some economic units, increase in the cases of financial and accounting fraud in big corporations in all advanced and developing nations, the involvement of some auditors in what is attributed to these corporations, the loss of trust of financial lists users in accounting data, and the increasing expectation gap between users and auditors.

On the other hand, studies such as Lutf Brakat (2000), Ghali (2001), Goodwin and Seow (2002), Saleh (2002), Mofadhal (2004), Daud (2007), Al-Ariqi (2010), have revealed expectation gap between the users of the auditor report and what is actually presented in the report. This has led to a lack of trust in the financial data include in the report.

When you look at corporate governance through its relationship with the audit or the audit committees of different or has been seen through its impact on decision-makers of investment or capital markets or otherwise, all this take shape from the standpoint of a researcher in the relationship that may exist between the application of corporate governance and the gap expectations in the auditing profession.

Based on the above, the research problem can be summed up in the main question: what is extent of the contribution of the corporate governance application in
Yemen to narrow the expectations gap in an environment of auditing profession? The Second question that spring out of the main questions will include.

1. To what extent of the impact of application of the principles to ensure the existence of a basis for an effective framework for corporate governance to narrow the expectations gap in the audit profession?

2. To what extent of the impact of application of the principle is to protect the rights of shareholders to narrow the expectations gap in the audit profession?

3. To what extent of the impact of application of the principle of equality among shareholders in the treatment to narrow the expectations gap in the audit profession?

4. To what extent of impact of application of the principle of the role of stakeholders in corporate governance to narrow the expectations gap in the audit profession?

5. To what extent of the impact of application of the principle of disclosure and transparency is to narrow the expectations gap in the audit profession?

6. To what extent of the impact of application of the principle of the board of directors’ responsibilities to narrow the expectations gap in the audit profession?

1.1.1.2. Significance of the Study

The study is important for the following points:

1. Paucity of applied research conducted in the area of the relationship between corporate governance and its impact on the expectations gap in an environment of professional practice.

2. The Study looks at the impact of the application of corporate governance in Yemen on the expectations gap from the viewpoint of the parties to the relationship in the auditing profession (investors and auditors), this has not been done by previous studies.

3. Emphasis on the importance of expanding the application of the concept of corporate governance in the economic environment of Yemen, and benefit from the development of accounting practice and the development of the audit profession, and thus narrowing the expectations gap in the auditing environment of Yemen, this will have a positive effect on the economic environment of Yemen.
1.1.1.3. Objectives of the Study

The study aims at finding out how the application of corporate Governance principles in Yemen influences the expectation gap between auditors and users of financial statements. Secondary objectives include:

1. The study looks at corporate governance framework and the impact of the identification and distribution of responsibilities between different supervisory authorities, regulatory and operational on the expectations gap.
2. Identifying the impact of Procedures to protect the rights of shareholders to the expectations gap in the audit profession.
3. Studying the procedures and methods that aim to achieve the principle of equality of treatment between the shareholders and their role in narrowing the expectations gap in the audit profession.
4. Studying the role given to stakeholders of users of financial statements in corporate governance and its impact on the expectations gap in the audit profession.
5. To identify the principle of disclosure and transparency in corporate governance and mechanisms to be achieved and its association with a gap of expectations in the auditing profession.
6. To identify the effect of application of the principle of the board of directors’ responsibilities to narrow the expectations gap between auditors and users of financial.

1.1.1.4. Hypotheses of the Study

To answer the problem and objectives of the study, the researcher will depend on the following assumptions:

First hypothesis: There is a significant statistical relationship between the application of the principle to ensure the existence of a basis for an effective framework for corporate governance, and narrow the expectations gap in the audit profession.

Second hypothesis: There is a significant statistical relationship between the application of the principle of protecting the rights of shareholders and narrowing the expectations gap in the audit profession.

Third hypothesis: There is a significant statistical relationship between the application of the principle of the treatment equality among the shareholders and the narrowing of the expectation gap in the auditing profession.
**Fourth hypothesis**: There is a significant statistical relationship between the application of the principle of the role of stakeholders in corporate governance and narrowing the expectations gap in the audit profession.

**Fifth hypothesis**: There is a significant statistical relationship between the application of the principle of disclosure and transparency and narrowing the expectations gap in the audit profession.

**Sixth hypothesis**: There is a significant statistical relationship between the application of the principle of the board of directors’ responsibilities and narrowing the expectations gap in the audit profession.

1.1.1.5. **Methodology of the Study**

The researcher will use the descriptive analytical approach in this study because it is one of the most curricula used in social studies and humanity. It is also to reach logical conclusions that support the hypothesis of the study. In addition to primary sources, the researcher will prepare a questionnaire which will be prepared, designed and specifically distributed for the purpose of the study. The data are restricted, collected and then discharged and analyzed by using SPSS (Statistical Package for Social Science).

The secondary sources and information will include the published letters, scientific papers and articles in specialized journals as well as what is written in the accounting literature on the research topic, as well as laws and legislation related to the subject of study.

1.1.1.6. **population and a sampling of the study**

In order to achieve the objectives of this study, the researcher has divided study population into two groups: auditors in Sana'a city and the investors who are basic users of financial lists and the beneficiaries of the audit report. The researcher will select a random sample of auditors, while the second group included all the public stock companies because the number of such companies is few (only five companies in Sana’a – Yemen), as will be selected from one hundred of the auditors and one hundred of the investors.
SECTION (2)

REVIEW OF LITERATURE

1.2.0. Introduction

Review of literature is an important stage in the research studies; it provides foundation and basic knowledge of the research topic. It also helps the researcher to proceed further to identify, analyses and evaluate the need for the further development in the area of study. The purpose of the study, therefore, is to review the findings of earlier studies on expectation gap, corporate governance and its impact to narrow expectation gap in the auditing profession.

1.2.1. Review of Literature

This section are deals with lot of studies of many researchers about corporate governance and expectations gap in the auditing profession.

- A study by (Al-Abssi, 2010) entitled “Requirements for Applying Corporate Governance Mechanisms in Yemeni Commercial Banks: A Theoretical Applied Study” (7)

The study is about evaluating the availability of requirements of the application of governance mechanisms in commercial banks operating in Yemen - The requirements are: (qualities, conditions, and responsibilities), and so for each mechanism of the basic mechanisms, such as: (boards of directors, audit committees, internal auditors and external auditors).

The study gives some recommendations the most important of which are the following:

- All public and private business institutions, including the sector of commercial banks operating in Yemen, should apply the principles, recommendations and guidelines of corporate governance, as an integrated supervisory control system.

- The boards of commercial banks should be reframed, so as to enable its members to perform their responsibilities established under the requirements of corporate
governance. All commercial banks should also assign audit committees from boards of non-executive directors, including at least two specialists in financial and accounting matters, and clearly define their responsibilities.

- The internal audit must be executed on the basis of policies, methods and procedures established by senior management and board members which clarify the powers prescribed to them.

- Some sections of laws and regulations that govern the operations of companies and banks should be modified and some others should be added, so to fit with the principles, recommendations and guidelines of governance. Some managerial and administrative changes should be done in the banks which include assigning certain committees of the Council (Audit Committee, Committee of risk Management, committee of remuneration and incentives).


This study aims to predict the extent of expectations gap between auditors and users of financial reports and identify the actual reasons of this gap in the scientific realism for the audit profession.

The study has concluded with the following important recommendations:

1. The auditor should adhere to his/her legal responsibilities and technical and ethical standards.

2. The Yemeni legislator should clarify the responsibility of auditor in assessing the ability of an establishment to continue in the activity and the procedures used and the reports that must be issued.

3. Provide the community with knowledge about the nature of the audit profession, its importance and function in a way to avoid the effects that arise from the expectations gap.

4. A need for establishing the legal regulation of the audit profession represented by the establishment of the Supreme Council for the audit profession so as to undertake the responsibility in development of accounting and auditing profession in Yemen.
Study by (AL-Adeeb, 2010) entitled “The role of internal auditor in the application of corporate governance, An Empirical Study”. (9)

This study has dealt with the role of internal auditor in the application of corporate governance. It has concluded with the following recommendations:
- Preparing standards of internal auditing in Yemen guided by the International standards of Internal Auditing and making them adaptable to the environment of Yemen.
- Activating the management of Internal Audit to have its independence by virtue of its importance in application on corporate governance.
- There is a need for application of professional rules in the work of the internal auditor to strengthen corporate governance,
- There is a need for activation of the reports performance in order to provide management with appropriate information by the Internal Auditor.
- The internal auditor should have the authority to perform his/her work properly
- The study also concluded that a financial market should be established in Yemen.

A study by (Meftah, 2010) entitled “The Concept of Corporate Governance and the possibility of its Applicability in Yemeni Joint Stock Companies”. (10)

This study discloses the possibility of application of corporate governance in Yemeni joint stock companies. The results of the study indicate that Yemeni joint stock companies generally apply the common principles of corporate governance. The study concluded the following recommendations:
1. The control and supervision authorities represented by Ministry of Industry and Commerce, Central Bank, etc should encourage the companies to apply corporate governance system and hold training courses on corporate governance.
2. Yemeni Companies Act and other related laws should declare regulations to compel companies to assign independent audit committees and give them powers that enable them to play their role effectively because this is important for developing controls to ensure the application of governance system.
3. Corporate boards and executive management should develop efficient and effective rules and regulations that set the powers and responsibilities and activate the system of accounting responsibility.

4. The government represented in the supervisory and regulatory authorities should adopt the standards of accounting and international auditing and compel the companies to apply these standards to ensure disclosure and transparency. A stock market should be established as it is concerned a fundamental mechanism and requisite for applying corporate governance.


This study investigated the chartered accountants’ responsibility in the response to the expectations of financial statements users from different aspects. It also examined the views of the various parties associated with the auditing profession(chartered accountants, investors, preparers of financial statements)in companies listed on the Amman Stock Exchange . The results indicate that there is a gap in the expectations of the audit.

The study concluded that the professional organizations should support the independence of chartered accountant by defining the role of audit committees in this regard. The study also concluded that the professional organizations should develop educational programs to educate users of financial statements and provide them with information about the nature of the work of chartered accountants and the limits of his responsibility in order to narrow the expectations. The study also concluded that the chartered accountant should have knowledge about the different views of financial statements users, and give attention to improving communication with users, and to respond to reasonable expectations. The chartered accountants should play an active role in improving the quality of disclosure in the financial statements. The users of financial statements should also be careful to know the nature and function of the audit and its limits.
A study by (Ali, 2009) entitled “Reinforcing the corporate Governance by using the accounting disclosure standards of the organization for economic cooperation and development in the mixed economic sector in the republic of Yemen”.

This study dealt with corporate governance in Yemen and the possibility of applying the disclosure requirements as one of the principles of corporate governance in the economic sector in Yemen by studying and analyzing the offer and disclosure in the sector.

In general, the results of the study indicate that the rules of the accounting disclosure of the Organization of Economic Cooperation and Development in the economic sector in Yemen are not used. The study also provided some suggestions for strengthening corporate governance in the economic sector companies.

The study gave the following recommendations:

1. Taking advantage of the various benefits that are achieved by corporate governance and applying them indifferent economic units of Yemen, and developing standards of corporate governance in Yemen, in accordance with the conditions of the environment of Yemen.

2. Developing the necessary laws and regulations and activating those laws and regulations that are in use, in order to apply the principles of corporate governance and international standards, and forcing the companies to apply these principles.

3. Adoption of accounting standards that govern the preparation of financial reports and highlighting them, so that the external auditor can judge the adequacy of disclosure in annual financial published reports.

4. The quality of financial reports should be improved by providing a group of regulatory mechanisms on the production of information, such as auditing committee and a system of internal control to meet the activation of control process.
A study by (Eissa, 2008) entitled “The Determining Factors of the Quality of the Internal Audit Function in Improving the Quality of Corporate Governance: An Applied Study”.

The study examined the determinants of the quality of the internal audit function in improving the quality of corporate governance. The study concluded that the increase of the eligibility of internal auditors by increasing the level of education, the increase of the level of professional experience, the level of training and rehabilitation leads to the increase of the quality of the internal audit function. Moreover, the increase of objectivity of internal auditors by increasing the degree of independence leads to the increase of the quality of the audit function. The improvement of the quality of the performance of the work of the internal audit function by having a proper plan for internal audit, making internal auditors under care, providing the internal audit function with the necessary sources by senior management and quality inspection lead to improving the quality of the internal audit function.

The study recommended that the role of internal audit function in the Egyptian companies should be activated. The quality of internal audit function should be checked by external parties who are experienced in this area as the external auditors to ensure the performance of the internal audit function at a satisfactory level. The stakeholders should ensure the availability of basic factors to achieve the quality of the internal audit function, such as eligibility of internal auditors, their objectivity, quality of performance of the internal audit, and good interaction between the internal audit function and the other parties of corporate governance, and this would improve the quality of corporate governance.

A study by (Al-AlRehaily, 2008) entitled “Audit Committees as One of the Pillars of Corporate Governance: The Case of Saudi Arabia”.

The study investigated audit committees as one of the pillars of corporate governance-the case of Saudi Arabia. The most important findings of the study are that, although modern concept of corporate governance in the Saudi setting, there are serious attempts to introduce this concept and the methods of its application on the ground. The findings of the study indicated that the audit committees in the companies play an important role in the application of this
concept in the Saudi setting as it works as a liaison between the regulatory bodies in the company and the Board of Directors.

1. There must be a clear and specific style control and monitor the implementation of new regulations to form audit committees in the companies so as not to end up like its predecessor.

2. There must be cooperation between the audit committee in the companies and the internal and external auditors which enhances the effectiveness of control in such companies.

3. The concept of corporate governance must be in the plans of the curriculum of accounting departments in Saudi universities, with an emphasis on holding workshops, seminars and practical situations to explain the practical aspects of this concept in the Saudi setting.

- **A study by (Daud,2007) entitled “The Study of the Audit Expectations Gap in the Public Sector of Malaysia”**,(15)
  The study aims to identify the existence of the audit expectations gap in the Malaysian public sector. Components of the gap.
  The findings of this study indicated that the audit expectations gap exists in the Malaysian public sector in the context of performance auditing. The analysis of interviews and audit reports clearly suggest that the audit expectations gap exists over a number of auditing issues. These comprise fraud detection exercises, the influence of management, executive and other parties on auditors, outsourcing the audit to private audit firms, content and format of the audit report and extending the audit mandate to cover the question of merits of policy.

- **A study by (Haboosh,2007) entitled “Adherence of the Public Palestinian Companies to the Rules of the Corporate Governance: An Analytical Study of the Views of Internal Auditors and External Auditors and Directors of Public Companies”**,(16)
  The study aimed to clarify the extent to which Public Palestinian companies adhere to the rules of corporate governance. The study concluded that public Palestinian companies adhere to the principles generally accepted to corporate governance, but their adherence to all principles as a whole was in the average and there is variation in the adherence to one principle to another. The study also
concluded that in Palestine there are no audit committees in the public companies, excluding the banks that are subject to the control of Palestinian cash authority. The study also concluded that Palestinian banks are superior to other public companies in the application of the principles of corporate governance. The results of the study indicated that there is a positive relationship between commitment of the Board of Directors and the external auditor and internal auditor to their duties entrusted to them and the improvement of the financial decisions made by the management according to the rules of corporate governance.


The study aimed to identify the nature of the expectations gap between the financial community and the auditor, and ways of narrowing this gap, and to identify shortcomings in the performance of professional associations in terms of setting auditing standards and quality control on the work of audit firms and educating users of financial reports, and giving efforts to develop the profession and training auditors and informing them about anything new in the profession. Analytical descriptive approach was used in collecting the data, designing a questionnaire to collect the data and analyzing them before distributing the questionnaire to the study samples who included banks managers, auditors’ offices, the staff of the Income Tax Department in the Gaza Strip.

The study found a gap of expectations between the financial community and the External Auditor that is ascribed to external auditor’s non-acquaintance and unawareness of many things concerning the nature of his work. The study also found that there are unreasonable expectations of the financial community due to failing to understand the nature of the external auditor work to detect fraud and error and illegal acts and disclosing such illegal issues.

This study analyzed the impact of application of corporate governance mechanisms on the expectations gap in the Egyptian environment audit, and the role of corporate governance mechanisms associated with the Customer and monitors of accounts to try to narrow and treat that gap.

The study gave many results, the most important of which is that there is closely linked between corporate governance mechanisms associated with the customer and monitors of accounts and the expectations gap in an environment of auditing. Following the mechanisms of corporate governance achieves an adequate degree of reassurance to investors and decision makers on the basis of financial reports prepared and audited in accordance with the mechanisms of corporate governance.

The study recommends that it is necessary to strengthen the application of corporate governance mechanisms that are taken to activate the good practices of corporate governance, in accordance with the international standards and rules. It is also necessary to develop the regulations related to corporate governance.

• A study by (Mofadhal, 2004) entitled “The role of the auditor in response to the expectations of financial statements users”. (19)

This study discusses the audit expectation gap from the angle of the extent of sufficiency of the legislation laws, of the profession bulletins issued recently to achieve a reasonable response to society’s important expectations from the audit profession represented by legal accountability, maintaining the auditor’s independence, quality of audit performance, detecting and reporting on fraud, errors and illegal acts, and reporting about the ability of unit to continue. This is considered as the most important expectation that is related to deficiency in performance. The study also discusses the audit report and its relation with expectation gap.

The important results that have been arrived at are as follows:

1. is possible to achieve a reasonable response to the expectations of users of financial statements by adhering to the following procedures:
a) The conceptual framework which is mentioned in the eighth section of the international rules of professional conduct with the respect of independence of an auditor issued in Nov.2001.
b) ISA 220 “Quality censorship for auditing work“.
c) ISA 240 “The auditor’s responsibility to consider fraud and error“ & SAS no.99 “Consideration of fraud in a financial statement audit“.
d) ISA 250 “consideration of laws and regulations while auditing financial statements“.
e) ISA 570 “continuity of the unit“.

2. The auditor has a legal liability towards all parties about damage that happened due to his great negligence in auditing the financial statements. He also has a legal liability against the third party due to the ordinary negligence if the third party is primary beneficiary from the financial statements and is known to the auditor before starting the audit process. The liability extends to the third party whom the auditor previously and reasonably expects that the third party will depend on the financial statement that has been audited.

- **A study by (Al-Sadeeri and Al-A’nqari ,2004) entitled “Monitoring the Features of the Expectations Gap in the audit environment of Saudi Arabia: An Empirical Study”.** (20)

This study dealt with monitoring the features of the expectations gap between the auditor and the users of his services in the environment of auditors’ job in Saudi Arabia. The results of the study indicate that there is no absolute agreement between auditors and users of their services and financial managers. The results also indicate that there is variation linked to other determinants of the same aspects.

The researchers, in this study, confirm that there is a need to study the expectations gap by using different theoretical frameworks that enable us to determine the scope of the gap and its causes from many aspects. They also confirm that there is a necessity to give attention to and follow the application of the professional systems to bring what is in the practice to what must be. In addition, it is important to take care of the contemporary challenges that face the profession, whether at present or in the future.
A study by (Jarbou’ 2004) entitled “Expectations Gap between the Financial Community and the Chartered Accountants and the Ways of Narrowing the Gap”. (21)

The study aimed to examine the factors that led to the existence of the expectations gap in the audit process, and to develop solutions to narrow the gap between the financial community and chartered accountants through their commitment to the application of professional standards to audit the accounts and the rules of professional conduct and commitment to implement the laws and regulations when auditing the financial statements.

The study concluded that the factors that led to the existence and expansion of the expectations gap are:

1. Lack of clear definition of the role and responsibilities of the chartered accountant in the community.
2. Doubt in the auditor’s independence and impartiality in the profession and exercise of auditing.
3. Lack of professionalism of the chartered accountant.
4. Low quality of performance in the audit.

A study by (Saleh,2002) entitled “The Audit Report and the Expectations Gap between Auditors and Investors -a Theoretical-Applied Study: The Case of Egypt”. (22)

The study examined the problem of the expectations gap in the auditing profession by assessing the understanding of both the auditors and investors of the nature and objectives of the auditing process. This was done by a direct comparison between their understanding of the interests used in the auditor’s report, and the elements that must be included in the conservative model report, in the light of the Egyptian standard of auditing No. 200of the year 2000.

The study also tested many hypotheses to find out whether there is a gap of expectations between auditors and investors. The study found out that there is a gap of expectations between auditors and investors regarding the disclosure of all the elements of interest to users of financial statements, and the responsibility of the auditor towards all users of the audit report. There is also a gap of expectations between the auditors and investors regarding judging the effectiveness of the internal control system applied in the institution and those
related to the discovery of manipulation and fraud done by the administration, and confirming that the financial statements do not contain is leading data resulting from the manipulation of the institutions staff that are related to non-issuance of a clear report by the auditor, only if he has a persuasive evidence that the institution did not do any illegal operations.


This study examined the effects of six mechanisms of corporate governance on the quality of financial reports and their auditing, the study found out many results, the most important of which are:

- Managers believed that the strict application of the laws of corporate governance affects both prevention and detection of fraud done by the administration, whilst the auditors do the opposite; the auditors also believe that the internal audit has a significant impact on the company’s ability to detect the administration fraud.

- The results indicate that a change of audit partner did not have a significant impact on the quality of financial reports, and this is the opposite of what is demanded by modern regulations.

- Auditing all client companies by the auditor helps him in resisting the pressures of the administration, while there is a little difference in the impact of this mechanism on the ability of the auditor to discover the mistakes of the financial statements.

- A study by (Ghali, 2001) entitled “Narrowing the Expectations Gap in the Auditing: A Critical Study”. (24)

The study aimed to narrow the expectations gap in the audit by examining the expectations of users of financial statements, to respond to the reasonable expectations and to correct the unreasonable expectations.

The study found a general framework for narrowing the expectations gap that included the following components:

- Improving communication with users of financial statements by the administration reports and the report of chartered accountant.
- Strengthening the independence of the chartered accountant through some of the suggestions, including: the formation of an audit committee, organizing the performance of services other than audit, mandatory change of chartered accountants, appointing chartered accountants by a third party, examining accounting standards, expanding the responsibilities of chartered accountants in the detection of mistakes and fraud and illegal acts, and externally evaluating the financial statements and the views of chartered accountants in order to ensure compliance with professional standards and laws that apply to them.


  This study aimed to assess the factors that narrow the expectations gap in auditing profession in the Republic of Yemen. The study concluded with several results and they are as follow. The expectations gap represents the most important challenge facing the audit profession at the present time due to the negative effects arising from its continuation and expansion that cause demolition of mutual trust and the loss of the financial statements of credibility in the business community. The three parties including the external auditors and users of financial statements and auditing environment contributed in the presence of the expectations gap.

  The study concluded with the following recommendations. The most important ones are:

  a) There is a need for expansion of the liabilities of the external auditor so as to give the opinion in his report on the extent of the achievement of the company for its planned goals and on the extent of competence and effectiveness of management in managing the company affairs.

  b) There is a need of the Supreme Council of the accounting and auditing profession to speed up in issuing standards for professional auditing that are appropriate to the environment of Yemen and compatible with international auditing standards and achieve the aspirations and needs of users of financial statements at the same time.
c) There should be an increased care of the program of qualification and vocational training programs for chartered accountant.
d) There is a need of forming a committee for following up and checking the quality of performance in the offices of legal accounting. The legal validity, the purpose and the number of the members of the committee is determined through statutory legislation. Therefore, it forces the accounting offices to undergo the program of inspection and quality control.

1.2.2. Conclusion

By the review of the results of the previous studies in the field of the expectations gap and corporate governance, the following has been shown:
Most previous studies dealt with expectations gap and corporate governance in separate topics. Some studied the presence of the expectations gap, its causes and the factors leading to the existence of the expectations gap in the audit process, assessment of the factors that narrow the expectations gap in auditing and the ways of narrowing such gaps. Some studies examined the role of the chartered accountant in narrowing the expectations gap between the financial statements users and auditors. Others examined the role of auditors in response to the expectations of financial statement users.

Some studies have recommended the need to establish the legal regulation of the audit profession represented by the establishment of the Supreme Council for the audit profession to initiate its specialization in development of accounting and auditing the profession in the Republic of Yemen. And there is a need for the Supreme Council of the accounting and auditing profession to speed up in the issuance of professional auditing standards that are appropriate to the environment of Yemen and in line with international auditing standards and to achieve the aspirations and needs of users of financial statements at the same time.

Some others studied the topic of corporate governance as a concept, principles, mechanisms, determinants, and pillars of corporate governance and the possibility of their application in a number of Arab and foreign settings.
To follow the corporate governance mechanisms will achieve an appropriate degree of reassurance to investors and decision makers based on financial reports prepared and audited in accordance with the mechanisms of corporate governance, as well as the effects of corporate governance mechanisms on the quality of financial reporting.
At the level of its relation of the auditing process, some studies discussed the extent of getting benefit of the auditor from the corporate governance and the impact of corporate governance on the quality of auditing and the extent of the exposure on the elements of the corporate governance in the financial reports. Some studies also discussed the role of internal auditor in the application of corporate governance and to activate the Internal Audit Department and the preservation of their independence by virtue of their importance in the application of corporate governance and the necessity of application of professional rules in the work of the internal auditor to strengthen the corporate governance.

Some of studies suggested to include the Companies Act and other laws of Yemen-related legislation to form up Joint stock companies to the composition of the independent audit committees with delegated powers to enable them to play their role effectively, given their importance to establishing controls to ensure the application of the system of governance, enactment of laws and regulations necessary to activate the effect of the application of the principles of corporate governance and international standards and forcing companies to implement these principles. The results of one of the studies pointed out that the audit committees at joint stock companies play an important role in the application of the concept of corporate governance as a liaison between the regulatory bodies in company and the Board of Directors.

Most studies have focused on partial aspects of corporate governance such as internal audit, internal auditor’s role in the application of corporate governance, audit committees as one of the pillars of corporate governance, one of the studies searched on the possibility of applying the disclosure requirements as one of the principles of corporate governance on mixed economic sector in Yemen, but studies have not address the impact of the concept of corporate governance on the expectations gap in the auditing profession in Yemen.

The study of Al-Maleeji is the closest to the issue of the current study. It is the only study of previous studies that examined the corporate governance with the expectations gap. it was conducted in Egyptian auditing Environment and discussed the link of activation of the corporate governance mechanisms associated with the client and the auditor and the gap of expectations and it did not examine the relationship between the principles of corporate governance principal and the expectations gap and this is what distinguishes the current study. In addition, it is conducted in the Yemeni auditing Environment that is still recent in the area of
corporate governance, as the final version of the “Directory of corporate governance in Yemen” was issued on March 29, 2010.

In addition to that, this study is significant, to the best of the researcher’s knowledge, because there was no study conducted in Yemen examining the relationship between the corporate governance and the expectations gap in the auditing profession. This study shows the impact of the principles of corporate governance on narrowing the expectations gap.
REFERENCES


6. Al-ghazui ,Hussein Abdel-Galil. (2010) .“Corporate Governance and Its Impact on the Level of Disclosure of Accounting Information”, experimental study on the public shareholding companies in the Kingdom of Saudi Arabia, a Masters degree, the Arab Academy in Denmark.


Com dissertation, Arab Academy for Banking and Financial Sciences, Sana’a, Yemen.


