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YEMEN BACKGROUND

This chapter consists of three sections: the first section is about the General Information of Yemen. The second section is about the Auditing Profession in Yemen. And the third section is about the Corporate Governance in Yemen.

SECTION (1)

GENERAL INFORMATION OF YEMEN

2.1: General information for Yemen
The official name of the country is the Republic of Yemen (Al Jumhuriyah Al Yamaniyah), the short form is Yemen, and term for citizen(s) is Yemeni(S). Sana’a is the political capital of Yemen and the economic & commercial capital is Aden, other major cities are Taiz, Al Hudaydah, and Mukalla.

2.1.1 : National Flag And The National Emblem: (1)
- National Flag: It consists of three colors ranked from top to bottom as follows: (Red- White- Black).

- The National Emblem : The Emblem of Yemen is represented by a falcon, symbolizing the people's strength and soar in the horizon of freedom, unfolding both wings on the national flag and supported by a base on which the name “The Republic of Yemen” is written with a drawing of Marib Dam and a coffee tree inscribed on it.
2.1.2 : Currency and Time Zone

- **Currency**: The official currency of the Republic of Yemen is the Riyal.
- **Time Zone**: Yemen is three hours ahead of Greenwich Mean Time.

2.1.3 : Independence

North Yemen gained independence from the Ottoman Empire in November 1918, after the Ottoman Empire governed the North Yemen. The North Yemen was ruled by local kings until 1962, the Republic has been the reign of the revolution of September 26, 1962, when republican forces overthrew the leadership and established the Yemen Arab Republic. And South Yemen became independent from Britain on November 30, 1967. The Republic of Yemen was established on May 22, 1990, with the merger of North Yemen (the Yemen Arab Republic) and South Yemen (the People’s Democratic Republic of Yemen). Since unification Yemen has been modernizing and opening up to the world.

2.1.4 : Yemeni Government

Yemen is the only republic on the Arabian Peninsula; its neighbors are kingdoms or emirates. The Yemeni executive branch consists of a president, a prime minister and a cabinet. The president is directly elected; he appoints the prime minister, with legislative approval. Yemen has a two-part legislature, with a 301-seat lower house, the House of Representatives, and an 111-seat upper house, called the Shura Council.

2.1.5: Geography of Yemen

- **Location**
  The Republic of Yemen is located in the Middle East at southwest corner of the Arabian peninsula between Oman and Saudi Arabia, the country is bordered by Saudi Arabia in the north, the Arabian sea and Gulf of Aden in the south and sultanate of Oman in the east, and the Red Sea from the west. 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.

- **Size**
  Yemen has an area of 555,000 square kilometers, at the tip of the Arabian Peninsula. Yemen also possesses a number of islands, Yemen has around 182 islands, including the islands of Perim and the island of Kamaran, Zuqar Island and Greater Hanish and Lesser Hanish at the southern end of the Red Sea and Socotra, Abd Korean, Darsah and Samha in the Arabian Sea, and others. many of which are
actively volcanic. Eastern, central and northern Yemen are desert areas, part of the Arabian Desert and Rub al Khali (Empty Quarter). Western Yemen is rugged and mountainous. The coast is fringed with sandy lowlands.

2.1.6: Natural Resources
Yemen’s principal natural resources are oil and natural gas as well as agriculturally productive land in the west. Other natural resources include fish and seafood, rock salt, marble, and minor deposits of coal, gold, lead, nickel, and copper (5).

2.1.7: Languages and Religion in Yemen

- **Languages in Yemen**
  Arabic is the official language, and English is the second language.

- **Religion in Yemen**
  The Constitution of Yemen states that Islam is the official state religion of the country, but it also guarantees freedom of religion. The majority by far of Yemenis are Muslim.

  Fewer the Jews live in the northern part of the country, now numbering only about 300. A handful each of Christians and Hindus also live in Yemen, although most are foreign ex-patriots or refugees.

2.1.8: Population
The resident population of the Republic of Yemen, according to the final results of the general population, Housing and Establishment Census 2004, amounts to 19,685,161 distributed in 20 governorates and the Capital city of Sana'a. Each Governorate is composed of a number of districts and centers, the Governorates are as follows: Sana’a, Aden, Taiz, Hadhramout, Hudaidah, Sa’da, Abyan, Shabwa, Al-Jouf, Marib, Dhamar, Ibb, Lahj, Al-Mahara, Al-Mahweet, Al-Baydha, Hajja, Amran, Al-Dhalia, and Raimah. It is estimated that the population size by the end of 2010 is about 22,492,035 (6).

2.1.9: Physical Divisions
Yemen is characterized by the diverse surface aspects and therefore has been divided into five major geographic regions they are as follows (7):

- The Mountain Highlands Region.
- The Plateau Areas Region.
- The Coastal Plains Region.
- Desert Region (the Empty Quarter).
- Islands Group.
2.1.9.1: The Mountain Highlands Region
Mountains in Yemen are formed of lava, resulted from the crack following the famous African Faulting, which took place along the north-south coast of the red sea and the east-west cost of the Gulf of Aden, in what appears to an 'L' shape. Geologically, it consists of volcanic rocks. The elevation of these rocks ranges from 1000 mtr to 3666 mtr.

The interior mountains have elevations ranging from a few hundred meters to the country’s highest point; Is Al-Nabi Shouaib Mountain is 3666 meter, the highest peak in the Arabian Peninsula. The lowest point in the country is sea level. Watershed division are located in these mountains which run east, west and south to:

1. Valleys (Wadian) flowing into the red sea, the main ones are the following: Wadi Haredh, Wadi Maur and Wadi Zabid.
2. Valleys (Wadis) flowing into the Arab Sea and Gulf of Aden, the main ones are the following: Wadi Tuban, Wadi Bana and Wadi Hadramout.
3. Other Valleys Wadies that flow to the north and northeast, such as: Wadi Khubb, Wadi Assadd, Wadi Idhana, Wadi Rama' and Wadi Shuaith.

Tablelands within the mountain chains allow the construction of dams and reservoirs that, through water channels, irrigate vast agricultural areas.

The major tablelands are Sa'adah tableland in Sa'ada, Albon in Amran, Wadi Beihan in Shabwah, Iwah in Hadramout, Shuaith in Al-Maharah and Jahran in Dhamar.

2.1.9.2: The Plateau Areas Region
To the east and the north, and parallel to, the mountain region are the plateau regions. Toward the Empty Quarter these regions become wider, then they gradually decrease. Its maximum elevation is 1000 meter.

These include Sa'adah, Al-Jawf, Shabwah, Hadramout, and Al-Maharah. Final parts of these areas mingle with the Empty Quarter from the north side.

2.1.9.3: The Coastal Plain Region
These include coastal lands along the Red Sea, Gulf Aden, and the Arab Sea stretching from the Omani border southwest to Bab Al-Mandab, and extending northward to the borders with Saudi Arbia. The length of the coastal strip is about (2000)km and the width is between 30 and 60 km.
2.1.9.4 : Desert Region (the Empty Quarter)
It is part of the desert regions of Yemen. The common desert vegetation includes some needle plants. They are locally known as Aruq Al-Kuthaib, Zeiza, Mawared, etc. Some flat lands such as Shoigat Al-Kharita and Maateef and others are also scattered through this area. The seasonal Wadis constitute suitable habitat for animal grazing and rearing for nomadic settlements.
Through various historical periods, the Empty Quarter was given a number of names, such as (Al-Rajraj Sea), Al-Safi Sea, the Great Yemeni Desert and Al-Ahqaf desert etc.

2.1.9.5: Islands Group
The Yemeni Islands Have their own distinctive climatic, environment, geography, and natural characteristics, these islands are scattered in the Red Sea, parallel to the coast. Kamaran Island is considered the major and biggest inhabited island, and has wild animals and unique plant species in addition to Arkhabil Honeish island. Meyon (Barim) island has got a special importance that mainly lies in its strategic location that controls Bab Almandab strait.
There are other Yemeni islands in the Arab Sea. These islands are close to each other the most famous of which is Socotra that is famous for being the home of the dragon tree and span wood, some unique trees with significant medical and economic values. A number of other small islands are found close to Socotra. Abdulkori island and Al-Akhaween (Samha and darsa) islands are considered to be the major ones.

2.1.10: Climate of Yemen
Despite its relatively small size, Yemen includes several different climate zones due to its coastal location and variety of elevations. The Climate is hot and humid on the coastal strip, moderate on the mountains and desert climate in desert areas.
Rainfall spans the whole year, varying in quantity from season to season. Rain decreases in winter, increases in summer and spring and reaches its highest level in June, July and August.
2.1.11: Economic policy:

The Republic of Yemen pursued an economic policy based on market mechanisms, and the upgrading of the contribution of the private sector in the economy, and the redefinition of the role of the State in economic activity so that the role of the State is one of corrective and supervisory role, and work to establish the rules of law and institutional construction, and the removal of obstacles facing the private sector, ensuring economic stability and encouraging the private sector to play a leading role in the development process and the achievement of economic growth, through a series of financial, monetary and administrative policies and procedures to support the market mechanism and encourage free trade. The state also worked to re-examine the tax, customs, investment and judicial legislations in order to improve the overall climate for investment. In addition to the implementation of the privatization program designed to expand the areas of economic activities, attract domestic and foreign capital.

- **Industry:**
  Industry represents one of the key components of the national economy and contributes with the ratio of (10 - 15) % excluding oil industries. As for the contribution of these industries to the GDP, food industries are ranked the first and then construction industries the main ones are: cement, then tobacco products and metals with the exception of the oil industries which reflects the weak production base and lack of diversity.

- **Agriculture Sector:**
  Arable area in the Republic of Yemen constitutes 3% of the total area of the Republic of Yemen, and the agriculture Sector is considered as the second production sector after the oil and its contribution rate ranges between (10% - 15%) of the value of GDP. The agricultural sector is considered as the economic sector more inclusive for employment since it wide enough for approximately 54% of the total labor force and a source of income for more than 70% of the population.

- **Oil Sector:**
  The oil sector is one of the basic production sectors, exploitation of oil resources is focused in a number of governorates of the republic, most notably: (Marib - Shabwa - Hadramawt governorates), this sector contributes with percentage ranging between (30% - 40%) of the value of GDP. It also contributes to more than 70% of the
proceeds of the State budget and represents more than 90% of the value of Yemeni exports.

2.1.12: Banking and Finance:

Yemen’s financial services sector is underdeveloped and dominated by the banking system. Yemen has no public stock exchange, but the government wants to establish one. The banking system consists of the Central Bank of Yemen, 16 commercial banks (nine private domestic banks, four of which are Islamic banks; five private foreign banks; and two state-owned banks), and two specialized state-owned development banks. The Central Bank of Yemen controls monetary policy and oversees the transfer of currencies abroad. It is the lender of last resort, exercises supervisory authority over commercial banks, and serves as a banker to the government.
SECTION (2)

AUDITING PROFESSION IN YEMEN

2.2.0. Introduction

Auditing has developed whether in terms of its concept, scope and methods. It has become the pivot on which any efficient information system is based. It targets serving the various institutions which use and depend on accounting data in making decisions and formulating policies. It was only until the middle of the 19th century that the features of auditing profession have crystalized and gained recognition and order. Since then it has been recognized by investors, directors and those working in economic activity and society as a whole. At least it has become an essential need for big corporations.

Like other developing countries, Yemen was a century later than developed countries in recognizing auditing as a profession. This profession has not got entity or received attention until the mid-thirties of the 20th century. Interest in auditing began as a legal requirement than a self-need issue.

The auditing profession is one of the professions associated with an important social activity which is the economic activity with its various sectors and all the contents of planning and investment. However, it is one of the modern professions that have become a key element of economic development, and because the profession is linked to the public interest in the society it affects it and is affected by it. The developments and changes in the environment of Yemen during the past few years especially in the economic and political conditions, such as achieving unity of Yemen and the enhancement of domestic and foreign investment, and the trend towards privatization of public enterprises in view of Yemen direction to meet the requirements of economic openness and joining international institutions, and to encourage and attract foreign investment and the improvement of communications technology, the increasing number of users of accounting information and the increasing reliance on the audit profession as one of the main pillars of development as the financial statements reinforced by the opinion of the External Auditor is used.
by foreign investor in making his investment decisions, as well as the need for more data and reliable information to meet the needs and requirements of users of financial statements, have necessitated the need to keep up the profession with these developments on the Yemeni arena. Hence the role of the Yemeni legislature in the organization of the auditing profession and keeping up with developments and economic changes experienced by Yemen.

Therefore, this section aims to study the environment of the audit profession in the Republic of Yemen, and the researcher will review the development of auditing profession in both parts of Yemen (North and South as well as after the unity).

2.2.1: Auditing Profession in Republic of Yemen

2.2.1.1: Auditing Profession in the North of Yemen

Auditing in both the north and south of Yemen in the pre-unity era is relatively a new profession compared to several countries. During the past few decades, economic and political circumstances have played a significant role in developing accounting and auditing profession in the pre-1962 revolution era. The northern part of Yemen was under the Imam rule isolated and out of touch with the world. There was no development, no economy, no banks, no corporations and no investment projects that require auditing and accounting profession. In the north of Yemen and until the advent of the 26th of September Revolution in 1962, there were so-called Divan of accounting, which was responsible for financial and administrative aspects in the state such as organizing collection of Zakat and compilation of accounts and revenues and expenses from various districts and provinces and summarize it for the imam (13).

When the north of Yemen revolted against Imam in September of 1962, and the south of Yemen against the British occupation in October in 1963, signs of economic growth were observed. Many companies were established. In response to these changes, the Law No. 12 in 1963 was issued concerning commercial corporations. It can be said that first demand for the auditing profession was through the issuance of Law No. 12 in 1963 concerning commercial corporations which obliged corporations and firms to appoint one or more auditor for their accounts and financial status in line with effective rules and regulations in order to protect the interest of shareholders and clients in such companies. At that time, most of the economic sectors were owned by the private sector including land transport, air transport, electricity, Yemen Bank for
Reconstruction and Development. (the sole bank then). The country at that period did not have any productive or service sectors (14).

With such beginnings, the audit profession remained unorganized. Most auditing offices working at that time (mostly run by Arab and foreign accountants) were satisfied with obtaining commercial register as a permit from the Ministry of Economy to start the profession. Audit profession remained unorganized with only few auditing offices totaling 11 in Yemen the majority of whose auditors were mostly Arabs and only very limited number of Yemenis working as partners (15). After the 26th of September 1962 Revolution, new horizons for development and growth were open and cooperation movement flourished. Economic development process started with the Triple Development Program from 1974 to 1976. The first five-year plan 1977- 1981 focused on infrastructure and at that time the country was in the position of producer and service provider. Vital projects were no longer left to the monopoly of the private sector. Power, water, and air travel services became under the control of public government sector. Yemen Bank for Development and Reconstruction was under co-ownership of the state 51% and the private sector 49%. In commercial sector, the state established External Corporation for Trade. In industrial sector, textile and cement industry was only state-owned. This was the focus of the second five-year plan 1982-1986 on industry sector and mineral resources mainly oil explorations (16).

It is noteworthy, that after issuing commercial corporations law No. 12 in 1963, northern Yemen government did not issue rules regulating the auditing profession, and no commercial industrial profit tax was imposed until 1972 under Law No. 11 in 1972 concerning income tax. This law obligates Tax Authority to not to accept the representations of the tax provided by the joint stock companies and limited liability, unless approved by a Chartered Accountant (17).

Owing to economic development in both public and private sectors in the field of commercial and industrial activities, and expansion in establishing public, and private institutions, corporations and companies, state need for controlling and supervising such corporations have become essential. Therefore the government established the Central Organization for Control and Auditing under law No. 54 issued in Sana’a in 1974. and as a result of developments and the importance of the role played by accounting and auditing profession in the process of economic and social development in Yemeni society, the Yemeni legislator was keen to keep pace with the growing sophistication in the movement of trade and industry and the
expansion of establishment of companies in Yemen, so he issued the first law regulating accounting and auditing profession in 1976, which is the Law No. (99) of 1976 concerning the system of chartered accountants, and under which the profession of accounting and auditing was officially recognized. And thus this law is an important step to the beginnings of the organization of the audit profession in Yemen. The articles of this law included the rules and provisions that determine the qualifications and conditions for practicing the profession of Chartered Accountants and conditions for granting the license, it also under this law a Committee of Chartered Accountants was formed and was assigned the following duties:

- Considering applications for obtaining permission for chartered accountant and make necessary recommendations for it.
- Making suggestions for improving and develop auditing profession.
- Investigating with Chartered Accountants referred to the committee and taking decisions relevant to irregularities and violations made by accountants.
- Studying all issues relevant to Chartered Accountants.

Requirements for granting permits for Yemeni auditing offices and organizations were specified as well. A committee of Chartered Accountants conducted a follow up of Arab and foreign auditing offices working in Yemen and notified such offices to adjust their status in line with Law No. 99 of 1976. The rights and duties of Chartered Accountants were also indicated in this law. The number of Chartered Accountants by Economics Ministry reached six Yemenis in addition to the Jordanian Talal Abu Ghazalah and partners in 1980 (18).

2.2.1.2: Auditing Profession in South Yemen

In the South of Yemen, “Accounts Inspection Administration” was established in Aden in 1937 as the first professional auditing unit. Its duties were limited to inspect and state accounts then known as Aden Colony and the accounts of its districts (19).

Due to inability of accounts inspection apparatus in the Southern part of Yemen then, corporations and institutions in the south of Yemen, though state-owned, remained under the auditing of external auditors mostly Arabs and foreigners till May 1972. Central Apparatus for Auditing was established under Law No. 16 in 1972 where the economic system was under the control of state. The apparatus was assigned the task of controlling the state accounts of general budget, development
plan, and all sectors under this law. It was followed by issuing Law No. 11 in 1982 concerning the establishing the Central Organization for Control and Auditing under article No. 5 of this law. Control of the state general budget, development plan and all sectors accounts \(^{(20)}\). It can be said that the profession of auditing was absent in the South of Yemen because the central apparatus for control and auditing was doing all activities relevant to the profession.

2.2.1.3: Auditing in Yemen After Unification

Auditing is an international profession under continuing development in line with surrounding environment political, social, economic and legal changes. Therefore, auditing aims at meeting the association increasing and advanced needs. The 1990s of the 20\(^{th}\) century is an era of development and boom for auditing in Yemen Republic where more attention was paid to this profession by the state. Many laws directly related to organizing auditing and others indirectly contributing to activating auditing role were issued by the state.

The post-1990s, after Yemen’s re-unification, is the period of legislations and building of modern state. During this period, Yemen Republic in collaboration with World Bank and Fund adopted the program of financial, economic and administrative reform. Privatization was adopted as well. This was known as the period political, financial, economic and administrative reform and privatization. The private sector was given the leading role in economic and social development in light of unprecedented political and economic developments witnessed by Yemen on the local, regional and international levels in the 1990s which formed new trends and paths for economy.

After unification of Yemen, ambitions increased for activating the role supreme financial control, and organizing auditing. In response to new changes in Yemen, and to avoid some of the shortcomings in law No. 99 in 1976. In 1987, which is considered as the first law regulating the practice of auditing in Yemen. Society of Accountants was founded to include permitted and unpermitted accountants in its membership thus covering all those working in the field of auditing. It aims at developing the profession of accounting and auditing, and commitment to the ethics of professional conduct, and employing all potentials to meet development requirements for enhancing investors trust. In the early 1990s, Law No. 31 in 1992 concerning regulated practice of profession was issued under which Chartered
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Accountants Association was formed in February 1993. Compulsory membership of the Chartered Accountant once he gets the job permit and is sworn is indicated in article 11 of this law: “once the Chartered Accountant gets permit and is sworn, he becomes a member of Chartered Accountants Association and he has to complete joining procedures as per the association rules (21)”. Many regulating legislations for auditing were issued as well.

2.2.2: Legislations Regulating the Profession of Accounting and Auditing

There are several laws in legislations regulating the profession of accounting and auditing which are directly or indirectly related to the Auditing profession in Yemen. Such laws play an important role in the application of the audit profession in Yemen as well as the extent of contribution of the profession in the application of those laws, as it emphasizes the role of the auditor in the credibility of financial statements used by government sectors.

2.2.2.1: Laws Directly Related to the Audit Profession

Laws regulating the profession of accounting and auditing which are directly related to the duties of auditor can be listed as follows:

- Law No. 39 in 1992 concerning Central Organization for Control and Auditing.
- Law No. 26 in 1999 concerning Auditing Profession.
- Law No. 22 in 1997 concerning Commercial Companies.

| Law No. 39 in 1992 Concerning Central Organization for Control and Auditing |

The Central Organization was established as a supreme control authority under Law No. 54 in 1974 in Sana’a and Law No. 11 in 1982 in Aden. After Yemen’s unification in 1990, the apparatus (Central Organization) has been merged as the Central Organization for Control and Auditing which belongs to the president of the republic under Law No. 39 in 1992.

Item (B) of article 32 in this law reads: ‘Rules of Law No. 54 in 1974 regarding issuance of Central Organization for Control and Auditing law in Sana’a and Law No. 11 in 1982 concerning control and auditing which is issued in Aden are abolished (22).’ The function of the apparatus comes under the regulation of Law No. 39 of the year 1992, and the executive rule No. (2) in 1993 as well as the set of rules issued to regulate and manage the apparatus function. Under these rules, the Central Organization for Control and Auditing assumes the responsibility of controlling
different institutions in the field of revenues and expenditures. It also conducts the auditing, assessment, and follow up of all financial and economic plans and schemes of the state as well as those of private sector units which come under the control of the apparatus to ensure that they go in conformity with government plans in all aspects. The central apparatus enjoys legal control over the decisions made by units under the apparatus control in terms of financial irregularities. Besides, the apparatus aims at contributing to develop the performance of units coming under its control mainly in financial and administrative aspects.

- **Law No. 26 in 1999 Concerning Auditing Profession:**

This law replaced Law No. 31 in 1992 concerning on the system of chartered accountants. It is clear that the new Law No. 26 in 1999 has given more attention to auditing profession in Yemen in general and has given a wider scope for the profession than the previous law. It reveals that the aim of auditing as mentioned in article 3 is “to give an objective technical and impartial opinion about the fairness of the financial statements, leading to reliability by users and serve the economic and social development and to provide transparency in accordance with practical and scientific principles, and the standards that are adopted by the competent authorities”. It is noted that this article is consistent with scientific standards in determining the main objective of the audit profession, which is to show the objective neutral technical opinion about the fairness of the financial statements, and also consistent with professional standards that the auditing profession leads to enable users of financial statements to rely on it in making their economic decisions, and it enhances confidence on the information being audited.

This law has classified chartered accountants into two categories:

A- Working chartered accountants with permits of practicing the profession as per the rules of this law.

B- Non-working chartered accountants with permits of doing the job.

Law No. 26 is unique in article No. 62 in which the foundation of supreme council for auditing profession, this Council will develop the profession of accounting and auditing through adopting professional ethics and auditing criteria (23). Auditing profession law is related directly to the duties and responsibilities of the auditor.
Rights and Duties of Chartered Accountant:
The rights and duties of chartered accountant have been indicated in Auditing Law No. 26 in 1999, article 41 describing the major rights of chartered accountant as follows: (24)

1. The right to inspect the books and records, documents, and other documents, and the right to asking for data and clarifications necessary for doing assigned duties properly.
2. The right of obtaining all evidences supporting his opinion according to the profession rules and standards.
3. The right to express an opinion on financial statements in line with auditing standards.
4. The right of conducting annual seasonal inventory of the institutions under control and verifying their assets and commitments as well.
5. The right of getting information relevant to activities of the unit under audited from concerned individuals.
6. The right of attending the meetings of the general assembly, expressing opinions and calling the assembly for holding meetings as per effective rules.

Duties of Chartered Accountant:
Chartered accountant duties have been indicated in this law in the following articles:
Article (43): “the chartered accountant while conducting auditing should follow professional standards, pay careful attention to his duty, and express his opinion in the financial statements as a single unit, and clearly indicates the adequacy and appropriateness of disclosure in financial statements”.
Article (44) agrees with International Standard Auditing ISA250 on abiding by laws and regulations: “auditor should consider going abiding by effective laws and make sure they are applied constantly by clients”.
Article (45): “the auditor should always develop his skills, be in touch with studies and research relevant to his profession, and have continuing professional training”.
Article (46): “auditor should work to update and improve professional services, the methods of profession practice, and seek to develop the accounting and auditing profession”.
Article (47): “the chartered accountant should plan well to execute and distribute work on assistants and supervise them”.

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Articles (45), (46) and (47) agree with some quality control standards of auditing such as supervision, distribution of duties, professional needs, and skills and competence.

Article (49): the chartered accountant should refer to the consistent use and application of accounting standards while preparing auditing reports.

Article (50): the auditor should report in writing to concerned parties the financial irregularities, manipulation of accounts, forgery of documents observed in the unit in which he conducts the auditing.

Article (51): the chartered accountant must reveal whether or not the registers, accounts and account books of the unit under control conform to accounting and auditing standards, and he has to bring to notice in writing any irregularities he finds or asks for solving such irregularities.

**Responsibilities of the Auditor:**

The civil and criminal responsibility of the auditor have been indicated in the auditing profession law as follows:

**Firstly: Civil Responsibility of the External Auditor:**

Civil responsibility emerges in case of the auditor’s negligence of his job leading to inflicting damage to the client or the other. Civil responsibility is towards the client or a third party (the other).

- **Civil Responsibility of the Auditor Towards the Client:**

This responsibility is based on a contract relation between the auditor and the client. It can be a written contract involving all articles of rights and duties of each party. However, there is no written or present contract in most cases; it only includes broad guidelines of the auditing process.

These are the limits of the external auditor’s responsibility where an explicit or implicit contract exists between him and the client. This is the case of what happens in individual organizations and companies where the auditing scope is defined according to the contract articles and content. It is noteworthy that judiciary and law courts in several countries have issued many verdicts and rules regarding the auditor’s responsibility towards the client. It was the custom to resort to such rules when no explicit statement exists.
- **External Auditor’s Responsibility towards the Third Party (the Other):**

The civil responsibility of the external auditor can go beyond further to involve the third party (the Other) who may use financial statements which are the auditor’s control though no contract tie exists between the auditor and the third party. Examples of the third party include expected creditors, securities holders, investors, institution clients and probable partners willing to join the firm or start business relation with it.

Auditing profession law in Yemen contains legal statements over the auditor’s responsibilities towards his client or the third party. Moreover, it includes several articles relevant to civil responsibility of the auditor. Articles (57), (58) and (59) involve the bases of regulating the auditor’s responsibility regarding the harm caused to the client or the third party as a result of the auditor’s or assistants’ shortcomings and negligence. They are listed as follows:

Article (57) states: “the chartered accountant stands responsible before the institution where he carries out the auditing regarding the harm caused due to mistakes and shortcomings in his work. In addition, he assumes the responsibility regarding the harm caused to owners by such shortcomings and flaws. If there are more than one auditor, they share the responsibility of harm before the owners or others resulting from mistakes”.

Article (58) reads: “the chartered accountant is responsible for any negligence or dreadful professional mistake causing harm to the third party who has used financial statements passed by the auditor and on which he relied in making financial decisions in the field investment or loans provided that the third party has good will.”

Meanwhile, article (59) states: “the chartered accountant is responsible for the harm made to the institution or the owner or the third party resulting from the negligence or mistakes made by the auditor’s assistants”.

**Secondly: Criminal Responsibility of the External Auditor:**

The harm in criminal responsibility not only affects the party depending on accounting information after conducting auditing but also the society as a whole. In this case, it is necessary to specify the areas of criminal accountability of the external auditor as stated by all the profession legislations and rules, corporations laws and punishment law.

Statement of the auditor’s criminal responsibility is important for protecting the profession dignity, trust of users benefiting from auditing services.
This responsibility emerges when the auditor indulges in acts of cheating and forgery against the country’s rules and regulations. The auditor is responsible if he reduces commercial and industrial profits to help the company avoid payment of taxes. This results in loss and waste of the country’s resources and spread of false events to attract people to the company. The consequence of this imprisonment or payment of compensation or both.

The criminal responsibility of the auditor has been defined as per stated in various laws including Law No. 26 in 1999 concerning auditing profession and Law No. 22 in 1997 regarding commercial trading companies along with the executive regulations and amendments of this law.

The auditing profession law has included a number of legislative statements indicating what actions make the auditor assume criminal responsibility and it has defined the needful punishment as follows:

- Article (71) : Without violating rules of other severe punishments stated in other laws, the auditor/chartered accountant shall be imprisoned for a period of maximum two years and minimum six months if he:
  1. Provides false information in any report, account or document in his profession.
  2. Writes reports or passes documents contrary to reality.
  3. Approves distributing unreal profits.
  4. Does not report to concerned parties crimes of forgery, cheating, embezzlement mentioned in article (50).
  5. Discloses the company secrets.
  6. Passed and signed on the accounts reports which were not under his audited or under his assistants.

Article (72) of the same law specifies that: “a punishment of maximum one year and minimum six months in prison and a fine of minimum 100000 YR and maximum 300000 YR shall be imposed on any one of the following:
  1. The person who practices the profession of auditing without permit according to rules of law.
  2. The auditor working again in the profession without legal permit.
  3. The foreign auditor working in the profession without work permit as per rules of this law.”
4. The person who violates the rules of article (52) of this law. In this article, the auditor is prohibited to do the following things to ensure dependency and unbiased attitude of the auditor:

1. Working in government jobs or public, mixed and private sectors except for Yemeni university teachers.
2. Starting commercial or industrial businesses or any other profession.
3. Using the media for self advertising in a way that spoils the profession.
4. Competing with colleagues in the profession and speculation to get work in such a way that spoils the profession.
5. Accepting to work as a chartered accountant/auditor in any institution in which he is a partner, a member of its board, a trading or financial or administrative officer, and a relative of any board member or the director general.
6. Dealing with the units in which he conducts the auditing in matters of sales, purchase, rentals except for transactions made in line with general rules.
7. Doing audit work in a unit where he formerly worked as an employee. A period of at least three years should have passed since he had left work in that unit.

- **Law No. 22 in 1997 concerning Commercial Companies:**

This law was amended by Law No. 15 in 1999, Law No. 12 in 2001 and Law No. 28 in 2004. The appointment of the external auditor to do the audit work on the accounts of the company in which he will be selected for the same is indicated in this law in paragraph (g), of article (142) : “the chair of board of directors runs the company’s daily activities: he asks for appointing auditors from the general assembly”. This indicates the important role of auditor in imparting reliability on financial statements on which users will depend. The duties and responsibilities of auditor have been specified in this law as follows:

**Duties of Auditors:**

Ten articles for regulating the job of external auditor have been formulated in Law No. 22 in 1997 (articles 174 to 183). According to this law, the shareholder company must have one or more auditors and not more than three in number.

Law of commercial companies has specified what the auditors should reveal in the reports submitted to the general assembly and the ministry in paragraphs (b) and (c) of article (179) of this law:\(^{25}\):

“The auditor must indicate in the report the financial status of the company, the extent of accounts clarity, whether or not accounting books are organized and consistent in
originals, and recommendations for attestation of annual budget and final accounts absolutely or with reserving the right of referring them to board of directors. Besides, the auditor report the attitude of board of directors in terms of enabling him obtain needed data and information. He has to provide proofs in the report of the infractions financial irregularities that he finds in contrary to the company’s law and rules."

“The auditor report must be read out in the general assembly, and each shareholder has the right of discussing the report and asking for clarifications over the things mentioned in the report." It can be noted that this goes in line with the second principle of corporate governance of Organization of Economic Cooperation and Development. This is a principle for protecting shareholders’ rights though giving them the chance of asking the board of directors questions relevant to annual external auditing”.

**Responsibilities of Auditor:**

**Firstly: Civil Responsibility:**

Commercial companies law contains some articles relating to civil responsibility as follows:

1. Article (175) of commercial companies law specifies some prohibitions to ensure the independence of auditor. The auditor is prohibited to work both in auditing and any other work relevant to the company where he does the auditing in the same time. He stands responsible in case of violating this article.

2. Article (182) states: “The auditor must not disclose to the non-general assembly shareholders the secrets he has found in the company as a result of the audit work he conducts. Otherwise, he can be dismissed and asked him to pay compensation”.

3. Article (183) relates to auditor responsibility in compensating the company, the shareholder or the other as a result of the mistakes he makes in his job if they contain the following:
   a- The auditor is responsible for the harm he causes due to mistakes he makes while doing the audit work. More than one auditor making the same mistake stand responsible as well.
   b- No civil responsibility claim is valid after one year of general assembly session where the auditor report is read out. The responsibility claim remains valid if the action attributed to the auditor is a crime.
c- The auditor is asked to compensate the harm caused to the shareholder or the other because of his mistake.

**Secondly: Criminal Responsibility:**

Commercial companies law contains the following articles in this regard:

- Paragraph (a) of article (175) states that: “After appointment in the first meeting, the auditor must submit to the board of directors a confession of all the company shares he owns or bonds issued in his name or the names of his wife or children along with all changes in these bonds. The confession shall include the date of each respective transaction, number of shares and bonds along with sale and purchase rates”. Any auditor violating the rules of this paragraph stands dismissed.

- Article (288) of commercial companies law states that: “without violating the rules pertaining to severe punishments stated by other laws, an imprisonment of maximum three months and maximum two years or a fine of minimum sixty thousand YR and a maximum of four hundred eighty thousand YR” is imposed on the auditor who does any of the following things:
  1- Attests unreal profits and interests contrary to rules of this law and of the company contract or system despite prior knowledge of such violations.
  2- Receives finance rewards more than what is stated in this law.
  3- Intentionally writes false reports and hides core facts for shareholders or the general assembly.
  4- Discloses company secrets or uses them for his or others benefit.
2.2.2.2: Laws Indirectly Pertaining to Auditing Profession

The most important laws of indirect relation to auditing profession in Yemen Republic can be listed as follows:
- Law No. (38) in 1998 concerning Banks
- Law No. (17) in 2010 concerning Income Tax
- Law No. (15) in 2010 concerning Investment
- Law No. (37) in 1992 concerning Supervision and Control of Insurance Companies.
- Law No. (23) in 1997 concerning Regulating and Organizing Agencies and Branches of Foreign Companies and Houses.

- **Law No. (14) in 2000 Concerning Central Bank of Yemen**

This law underscores the need for audit work in the accounts of Central Bank of Yemen by one or more external auditors or by Central Organization for Control and Auditing so that a technical report on the accounts under auditing is submitted. Paragraphs (3) and (4) of article 56 of this law state the following (26):

- The bank’s accounts undergo annual audit work by one or more external auditor selected by the council of ministers. Their work cost is specified by the council.
- Without violating rules of paragraph (3) of this article, the prime minister has the right to ask the central Organization for control and auditing or the selected auditor to inspect and do audit work on the bank’s accounts at any time and submit a report accordingly.

This underscores the vital role played by external auditors in the process of control, supervision, performance assessment and expressing objective opinion in the audit reports pertaining to such accounts.

- **Law No. (38) in 1998 Concerning Banks**

All banks must appoint a chartered accountant annually as per this law. Central Bank of Yemen has the right to oppose such appointment. Paragraph (1) , article (29) of this law states that: “every bank has to annually appoint a chartered accountant / auditor and the Central Bank of Yemen can oppose such appointment in a maximum one month period after date of appointment. In case the Central Bank opposes appointment, another auditor must be appointed in place.”
As for regulating the auditing profession, paragraph (2) of article (29) states: “the duties of the auditor involve report to shareholders in the founder bank as per Yemeni rule and to headquarters of the bank abroad the general budget and annual accounts. The report has to indicate whether or not the general budget, loss and profit accounts are complete, correct, reliable and prepared well projecting a real pictures of the bank”.

As for the significance of the external auditor’s report, paragraph (3) states that: “the auditor’s report is reads along with the bank’s board of directors report in the shareholders annual meeting in any founder bank as per Yemeni law. It is then sent to the headquarter of each founder bank abroad. A copy of the report is further sent to the Central Bank of Yemen”. Regarding the external auditor’s independency and objectivity, it is stated in paragraph (4) that: “(27) working as an chartered accountant and participating in the bank’s foundation or its board membership is prohibited for the auditor. Further, he can not be an administrative officer or a consultant in that bank or having any interest in the bank after being appointed a chartered accountant there. Otherwise, he assumes legal responsibility of violating these rules.”

**Law No. 17 in 2010 Concerning Income Tax**

The role of auditors in credible declaration of tax submitted by tax assignees to Tax Authority is emphasized in this law. Finance companies and all those having commercial books are compelled under this law to get their declaration of tax attested by an accredited chartered accountant. Paragraph (e), article (96) of this law states: “(28) the imposition submitted by concerned assigned parties must be attested by an accredited chartered accountant already having work permit, and a valid tax card. The auditor’s attestation confirms that income tax as mentioned in the submitted imposition conforms to the rules of this law”.

Under this law, tax charged parties are committed to abide by accounting profession rules and maintain regular accounts as well as books and registers. The more accurate the data and information in the books are, the more reliable financial statements prepared in line with accounting standards. Tax authority depends on such statements for specifying tax commitments. Article (86) of this law states: “big and medium tax charged parties are committed to maintain regular accounts as per the nature of their work activities. The nature of books and registers along with their data are specified by the effective rule. Moreover, other parties charged with tax must keep documents and registers to be used for specifying their tax commitments”.

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Tax authority depends on financial statements attested by accredited external auditors for specifying tax commitments. Article (87) reads: “top tax charged parties are must submit a copy the contract with the chartered accountant to the Authority of Tax.” Reliability of the financial statements is imparted by the auditor in the report that he prepares in this connection”.

The chartered accountant is entitled to chair refutation Committees for considering tax refutations under this law. No meeting can be held in the absence of the head of committee (the chartered accountant). This strengthens the auditor’s role in considering declaration of tax submitted by tax charged parties. The committee makes decisions supporting or modifying tax imposed according to attached documents.

- **Law No. (15) in 2010 Concerning Investment**

The Central Organization for Control and Auditing is the major control, auditing and supervision body playing a crucial role in the improvement of professional performance in Yemen Republic. Law No. 15 in 2010 concerning investment underscores this role of the apparatus in terms of auditing, control of the finance of the investment authority and safeguarding the public finance. Article (21) of this law states: “The finances if the Investment General Authority are government finances and hence come under the control and supervision of the Central Organization for Control and Auditing” (29).

- **Law No. (37) in 1992 Concerning Supervision and Control of Insurance Companies**

Insurance companies are obligated under article (41) of this law to submit an annual budget attested by an accredited auditor to insurance controller. It states: “the insurance company must every year submit to the controller an annual budget of all insurance activities attested by an accredited auditor.”

In addition, under article (43) of this law, insurance companies have to select an auditor for its accounts (30): “each insurance and re-insurance company out of the supervision of the central Organization for control must appoint a auditor holding work permit in accordance with effective laws. The auditor must not be an employee in the company or a member of its board of directors. The company must make available all needful books, documents and data under the control of the auditor who in turn shall report to the company any mistake, flaw or irregularity he comes across while doing his job. If the company does not correct the mistake or remedy causes of
irregularities within one month, the auditor has to report the matter to the insurance controller."

- **Law No. (23) in 1997 Concerning Regulation of Foreign Companies Branches and Agencies**

  Article (33) of this law emphasizes the need for auditing service. It is stated in paragraph (a) of this article that: "the foreign company/house branch must organize and keep all its work accounts in the republic including the budget and profit and loss account prepared by an accredited chartered accountant" (31).

- **Law No. (8) in 1990 Concerning Financial Law**

  This law in articles (66) and (70) underscores the role of the central organization for control and auditing and the chartered accountant in credible attested final accounts and general budgets which will be used by other bodies like tax authority.

  Article (66) of this law reads: "the Central Organization for Control and Auditing assumes the control of public sector units, conducts audit work on their final accounts, and general budgets, attests them and prepares tax impositions. The apparatus can take the help of any chartered accountant working under its supervision" (32).

  It is stated in article (70) of this law that: "all economic sector units (public and mixed) and other units with independent budgets must acquaint the Ministry of Finance and the Central Organization for Control and Auditing with their final accounts tables along with attached general budgets and current transactions accounts attested by the chartered accountant and the concerned party".

2.2.3: **Accounting and Auditing Standards in the Republic of Yemen**

In Yemen’s business environment, there are no auditing or accounting standards except for the banking sector which follows the international accounting standards as per the terms of the Central Bank of Yemen. The absence of such standards can be attributed to several reasons. One important reason is that the Yemeni Chartered Accountants Association has not prepared professional criteria or ethics that regulate the profession of auditing so far. Though the expected role of the Association is to improve the audit profession in Yemen and promote the profession to international levels by contributing to the development of standards for the profession in the Republic of Yemen through international standards and local laws.

Under Law No. 26 in 1999 concerning Auditing profession, the mission of improving this profession has been assigned to the supreme council for auditing and accounting.
Improving the profession can be achieved by means of adopting (establishing) accounting bases, auditing standards and professional ethics. Up to date, such supreme council has not been established. This is the most important reason behind the absence of standards relevant to the Yemeni business environment.

**2.2.4: Authorities Responsible for Regulating and Supervising Auditing Profession**

There are several concerned authorities for supervising and regulating Auditing profession in Yemen the most important of which are as follows:

**2.2.4.1: The Central Organization for Control and Auditing:**

The Central Organization for Control and Auditing is the most important supervision and control authority playing a crucial role in improving professional performance. It is a supreme independent control authority that belongs to the presidency of the republic as per article (3) of Law No. 39 in 1999 regarding the Central Organization for Control and Authority.

Under this law, the apparatus aims at the following (33):

1. Contributing to the improvement of the performance of units under the apparatus control and supervision mainly in financial and administrative issues.
2. Contributing to development and enhancement performance level of accounting and auditing profession in Yemen.

The apparatus enjoys wide powers in controlling and doing audit work of the accounts of units and institutions coming under its supervision according to this law. It also has the power to supervise and control the plan implementation performance evaluation on the economic, efficient and competent basis. Legal control and assessment of organizational conditions in the units of public and mixed sector is another power which the apparatus enjoys.

Concerning the role of the Central Organization for Control and Auditing in credible reliable declaration of tax submitted by economic units of public and mixed sectors to Tax Authority, paragraph (e), article (96) of Law No. 17 in 2010 concerning income tax states that; (34) “the declaration of tax submitted by economic units of public and mixed sectors must be attested by the Central Apparatus for Control and Auditing according to the apparatus law”.
As for the relation of the Central Organization for Control and Auditing with external auditors, article (11) specifies the form of such connection as follows: (35)

- Paragraph (10) has stated that the apparatus controls and conducts audit work on the accounts of public and mixed sector units and institutions in which the government share exceeds 50% of its capital. Besides, the apparatus assumes the task of expressing views on and attesting financial statements. It is possible for the apparatus to take the help of permitted auditors in the republic of Yemen.

- Moreover, paragraph (11) states that only the apparatus appoints auditors and specifies their fees when needed to work in every unit in public or mixed sectors in which the government share is above 50% of the unit’s capital. The auditing programs submitted by these auditors can be modified by the apparatus. Going through the controllers’ work papers and supervising their work all come under the power of the apparatus of control and auditing. All in all, the auditors reports are submitted to the apparatus and the concerned authority. The financial statements are subsequently submitted to the control and auditing authority for attestation.

- As per paragraph (12), the apparatus has the right to object to auditor appointment in mixed sector institutions in which the government share is below 50% of capital. Specifying the auditors work fees and implementing their auditing programs depends on the apparatus approval.

Activating the role of Central Organization for Control and Auditing, article (18) of Law No. (31) in 1992 concerning Chartered Accountants’ System states that one member of chartered accountants’ committee must be from the Central Organization for Control and Auditing with a job rank of not below general director appointed as a member by the apparatus chairman. The powers of this committee can be listed as follows:

- considering chartered accountant work permit applications according to rules of this law and making recommendations.
- making suggestions that aim to improve the profession in coordination with Yemeni Chartered Accountants Association.
- interrogating violations attributed to chartered accountants and taking necessary penalizing action and reporting outcomes to the minister.

The role of the Central Organization for Control and Auditing in developing the profession of auditing has been emphasized and well established in the supreme
council for auditing and accounting through adopting accounting and auditing standards and criteria as well as commitment to professional and work ethics. This role is evident in the statement of article (64) of Law No. 26 in 1999 concerning auditing profession: “as per the recommendation of the Central Organization for Control and Auditing, the supreme council is formed by representative of concerned parties of auditing (36)”. Furthermore, the Apparatus functions to improve and develop accounting and auditing profession in the republic of Yemen by achieving and conducting evaluation studies of auditing in the Yemen. The major of these achievements is assigning Arthur Anderson’s company to make an evaluative study of accounting and auditing profession in Yemen and come out with recommendations and suggestions for developing the profession in Yemen.

The apparatus has worked on establishing a comprehensive mechanism of legal rules, plans, programs, work systems and clear professional performance instructions. The two books “Comprehensive Control Performance Guidebook” and “Performance Control Guidebook 2005” are two significant in this connection (37).

**2.2.4.2: Chartered Accountants’ Permit Committee**

This committee was formed under Law No. 26 in 1999 concerning auditing profession as a committee working for the Ministry of Supply. It is chaired by the ministry undersecretary. It includes members such as head of chartered accountants association, head of accounting department in a Yemeni public university, representative of the Central Organization for Control and Auditing with a job rank of director selected by the apparatus chairman, representative of tax authority having position of director selected by the head of the authority, a chartered accountant holding work permit chosen by chartered accountants association, and a general director of the concerned administration in the ministry. This committee issues and grants auditing work permits. Some of the tasks and powers of this committee can be listed as follows: (38)

1. Considering applications for obtaining chartered accountant work permit and making final decisions as per rules of this law.
2. Studying and approving models used in all activities of the committee.
3. Conducting scheduled examinations and tests.
4. Studying issues relevant to the profession referred by the minister.
2.2.4.3: Ministry of Supply and Trade
The Ministry of Supply and Trade issues work permits in accordance with article 27 of Law No. 26 in 1999 regarding auditing profession and with the recommendation of chartered accountants permit committee through competent department of auditors in the Ministry of Supply and Trade. The minister of supply and trade issues the decree of forming chartered accountants committee. Moreover, the ministry of supply supervises and controls offices of auditors to ensure accurate and sound implementation of auditing law rules through the concerned unit in the ministry which is responsible for the following tasks:

1. Opening and keeping registers.
2. Issuing and renewing permits and announcing yearly the names of chartered accountants who renewed their permits.
3. Keeping files of chartered accountants along with all relevant minutes, decisions and documents.
4. Addressing and corresponding with chartered accountants.
5. Announcing the committee’s decisions and recommendations over applications for chartered accountant permit.
6. Preparing monthly list of permitted chartered accountants displayed on notice board.
7. Submitting essential reports on the administration performance level to the minister.
8. Conducting field supervision and control of auditors’ offices to ensure sound accurate execution of rules of this law.

One of the duties of the general administration for regulating auditing profession in the ministry of industry and trade is to announce names of permitted accredited auditing companies and individuals. In 2010, the number reached eight auditing companies and one hundred thirty individual auditing offices.

2.2.4.4: Yemeni Chartered Accountants’ Association
The Association of Yemeni Chartered Accountant was founded in 1993 under article (11) of Law No. (31) in 1992 concerning of System of chartered accountants. The article states that: “after getting permit and being sworn, the chartered accountant becomes a member of the association of chartered accountants and he has to complete formalities of joining as per followed system”.

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Under article (79) of auditing profession law, this law was cancelled and was replaced by Law No. 26 in 1999 concerning auditing profession. It only referred to chartered accountants association in articles (65) and (66) of this law. They state that: 

Yemeni Chartered Accountants Association is an independent professional organization concerned with organizing its members and dedicated to improve auditing and accounting profession.

The desired role expected to be played the Association of Chartered Accountants is to improve auditing profession in Yemen Republic and bring it to international standards through the following:

- Contributing to establishing auditing standards in Yemen Republic through international standards and local laws.
- Promoting performance competence of Yemeni chartered accountants through symposiums, training courses, conferences and various activities in collaboration with concerned parties.
- Establishing professional charter involving all duties and responsibilities of members, and rules and ethics of professional conduct.

However, no professional auditing standards, and no constitution for profession ethics have been prepared since the foundation of the association.

It can be said that Yemeni chartered accountants association still faces some obstacles that prevented it from achieving desired goals. The obstacles can be listed as follows:

- Law No. 26 in 1999 concerning auditing profession has not included other articles indicating the Association organization, powers and regulations.
- The same law has not given the association the role of regulating the profession activities. Rather this role was assigned to the committee of chartered accountants working for the Ministry of Trade and Industry.
- The task of improving and developing auditing was assigned to the supreme council for auditing through adopting and establishing auditing and accounting standards and criteria along with code of ethics and principles.
- Scarce financial resources where the Association mainly depends on its members. The financial aid of the government and companies or institutions benefiting from auditing is still below expectations if not absent.
- There is no close relation or real interaction between the association members and its activities. Moreover, the legal legislations are restricted the role of association on one hand, and the rules of laws are not followed on the other.
In spite of all such obstacles and restrictions facing the association, the following achievements have been made (43):

1. Obtaining Arab Association for Chartered Accountants membership.
2. Participating in the preparation of Law No. 26 in 1999 concerning auditing profession.
3. Providing a number of copies of international auditing / accounting standards for members at nominal cost.
4. Following up developments and updates in accounting and auditing standards on the Arab and international levels for including them in the association library and providing it with magazines, journals and newsletters relevant to the profession.
5. The association board of directors approved in its meeting on 26 of December in 2011 adopting code of ethics issued by International Federation of Accountants which is a step in the right path towards promoting auditing level in the republic of Yemen.

2.2.4.5: The Central Bank of Yemen

Though the main objective of the Central Bank of Yemen is achieving price stability, providing adequate liquidity for creating stable financial system, supervising and controlling activities of banks and financial institutions, and issuing permits for them, the Central Bank of Yemen enjoys some powers over auditors. In this connection, paragraph (1) of article (29) of Law No. 38 in 1998 concerning banks states that every bank has to annually appoint a chartered accountant. The central Bank has the right of rejecting the appointment within a month period maximum from the date appointment. In case of the Central Bank rejects the auditor, another auditor has to be appointed in place of the previous one. If the bank does not appoint a chartered accountant approved by the Central Bank, the Central Bank of Yemen (CBY) has the power to appoint a chartered accountant in the bank. The bank in turn is committed to pay the fees of the auditor as specified by the Central Bank (44).

The CBY periodical newsletter No. (5) in 1997 forwarded to all working banks in the republic of Yemen states the following: “the CBY is entitled to be in contact with external auditors of banks to make clarifications and expand the scope of auditors’ work including getting the auditor’s work papers. The CBY has the right to ask for additional activities when necessary” (45). Furthermore, the same newsletter states
mentions that the CBY undertakes the task of evaluating external auditors’ work quality in terms of banking auditing considering the following factors (46):

1. **Auditors’ Competence**: which involves studying their qualifications, training and experience. Along with the number and qualifications of assistants working under their supervision.

2. **Auditors’ Independency**: which is based on looking for any financial economic ties between the auditors and the bank under audit work including consultation services offered by the auditor to this bank.

3. **Adequacy of Auditor’s Work Program**: which entails examining the auditor’s work papers and reports, assessing the method followed in internal control/audit evaluation, whether or not the findings concluded by the auditor are reported to the board of directors in the bank under control and the degree of follow up for corrective measures for the observed shortcomings.

**2.2.4.6: Tax Authority**

Tax Authority is one of the major user of financial statements. Accordingly, it plays a crucial role in increasing demand for auditing service through relying on financial statements attested by accredited auditors in specifying tax imposition. The role of Tax Authority is evident in its abiding by income tax law which obligates it to accept only declaration of tax submitted by finance companies and all tax charged parties keeping commercial book after being attested by a permitted auditor. The imposition submitted by economic units in public and mixed sectors and branches must be attested by the Central Apparatus for Control and Auditing in accordance with the apparatus law as stated in paragraph (e), article 96 of Law No. 17 in 2010 concerning income tax.

Under article (87) of income tax Law No. 17 in 2010, it is obligatory for top tax-charged bodies and institutions to provide a copy of the contract with the chartered accountant to the Authority of Tax within a month period of signing, renewing, modifying or cancelling the contract. This indicated the important role of the chartered accountant in making a more credible reliable financial statements on which Tax Authority will depend in accepting declaration of tax submitted by various tax-charged institutions and bodies.
2.2.4.7: Supreme National Authority for Corruption Fighting

Founded under Corruption Fighting Law No. (39) in 2006, the Supreme National Authority for Corruption Fighting is a supreme independent national authority with legal powers in fighting corruption and punishing the corrupt as per the rules of this law and effective laws.

In accordance with this law and without violating the Laws of Central Organization for Control and Auditing, the authority in collaboration with concerned parties (47) studies, evaluates and develops financial systems, government purchase bidding tenders systems, resources management systems, public assets, various control mechanisms, and accounting and auditing standards in order to ensure wise management and protection of public government finances and assets.

In addition, in coordination with concerned parties both in public and private sectors the, authority of corruption fighting studies and develops systems and measures relevant to private sector so as to achieve the following:

A. Enhancing transparent auditing and accounting criteria and standards and making regulations for auditing, general budgets and keeping regular financial accounting books.

B. Following procedures for preventing manipulation of accounts data.

C. Taking necessary measures to ensure easy access to registers for audit work by concerned parties as per effective legislations.
2.3.0. Introduction
The financial hardships encountering many big international firms around the globe have resulted in calling for essential regulations, norms and ethical and professional principles for achieving trust and reliability in financial statements data required by users mainly investors. In turn this has led to the emergence of corporate governance concept.

After a series of various financial crises, attention to corporate governance started to gain momentum. In the past few decades, corporate governance has become one of the significant issues in several developed and developing economic powers. Growing interest in corporate governance has also been felt in regional and international institutions and organizations. In 2008, an agreement between Yemeni Businessmen Club and Center for International Private Enterprise was signed to start implementing corporate governance project in Yemen funded by Middle Eastern Partnership Initiative. This section reviews corporate governance in Yemen.

2.3.1: Corporate Governance in Yemen
Owing to financial crises that swept several countries around the world, corporate governance has started to attract more and more attention. It has become an immediate need as a result of liberalization international stock markets and an accelerating speed characterizing globalization. Globalization has opened new doors and channels for investors to secure huge profits. It has become important for investors to look for organizations with sound structures and which practice governance for organization management and allowing investors to participate in supervise them. This has contributed to make Yemen like other countries give more attention to corporate governance. Despite the competition of developed countries in
issuing rules and regulations governing corporate governance in the 1990s, Yemen Republic like other Arab countries started to give attention to this concept only recently. It is Arab Republic of Egypt which was the first Arab country giving attention to corporate governance in the beginning of 2000.

In October 2000, the Egyptian Industrial Union in collaboration with the Center for International Private Enterprise organized a symposium titled “Methods of Practicing Wise Management and Decision Making” which aimed at throwing light on the nature and requirements of this new concept. In October 2005, Egypt published a guide book in corporate governance criteria and basics.

2.3.1.1: Reasons for Yemen’s Late Interest in Corporate Governance

Yemen started to take interest in corporate governance only recently because of several reasons which can be listed as follows:

- Less awareness in corporate governance on the part of shareholders and administration in joint stock companies in Yemen.
- Lack of promoting the concept of corporate governance and its importance if implemented.
- Absence of stock markets in Yemen which are the corner stone of corporate governance application.
- Small-sized economy in Yemen with unorganized projects and individual property and family organizations.
- Most Yemeni corporations are closed ones belonging to specific family members.
- Public organizations and authorities have no interest in adopting this concept. Attention has been limited only to civil society organizations “Yemeni Businessmen Club” and “Yemeni Polling Center”.
- Supervisory and regulatory authorities including Ministries of Industry and Trade and Central Bank of Yemen do not encourage companies and banks to implement governance system or hold training courses on governance.
- Business sector in Yemen faces several obstacles mainly poor institutional and administrative structure in most corporations.

2.3.1.2: Laws and Regulations Essential for Implementing Corporate Governance Principles in Yemen Republic:

Several factors mainly the focus of the government on encouraging and attracting foreign investments to Yemeni markets, privatization, bankruptcy of some Yemeni companies and banks including National Bank for Trade and Investment( a private
sector bank), the collapse of a number of state-owned companies including General Corporation for External Trade and Cereals and Textiles Factory, and the state fighting of corruption, all have resulted in issuing a number of laws and legislations by the government of Yemen. This came under the framework of financial, economic and administrative reform program adopted by the government since 1995 which realize the basis for corporate governance in Yemen. Those laws are seen as the mechanisms for realizing corporate governance in Yemen. Laws concerning fighting corruption, financial liabilities, bidding tenders, and completing reconstruction of civil service apparatus and central apparatus for control and auditing are considered as important foundations for the application of governance principles at the level of public and private sectors and civil society organizations. The most important of those laws are listed as follows:

2.3.1.2.1: Commercial Companies Law No. 22 In 1997
This is one of basic laws relevant to regulating business authorities in Yemen and it concerns commercial companies. It has been amended by law No. 15 in 1999, law No. 12 in 2001, law No. 28 in 2004, and law No. 37 in 2008. It is the basic law governing all forms of private sector and public sector companies in all industries and it is the main reference for corporate governance.

This law specifies the way companies are established and managed, how the company board of directors is formed and what are its duties and connection to stock holders and general assembly. This law includes articles concerning auditor in joint stock company. It also indicates the company’s relation with other parties and bodies. As for government control and supervision over companies, article No. (184) of this law stipulates: “the ministry supervises joint stock companies to verify the implementation of the rules stipulated in this law and the corporation system. The ministry has the right to conduct inspection and accounts auditing in the corporation and is entitled to ask for any further clarifications and information. It has also the right to assign this task at any time to the auditor who in turn can submit reports to the ministry.”

2.3.1.2.2: Law No. 35 in 1991 Concerning Public Companies and Institutions
Amended by law No. 7 in 1997, this law explains how to manage the activities of public companies and Institutions are run by a concerned board. The selection of board members, the regulations over their salaries, and the duties and responsibilities of the board are indicated in this law. This is one of the basic foundations of
strengthening and supporting corporate governance in Yemen. This law is seen as an important basis in practicing the principle of The Responsibilities of the Board which is a principle for corporate governance of the Organization of Economic Cooperation and Development.

2.3.1.2.3: Law No. 45 in 1999 Concerning Privatization

Corporate governance and the good practice of its principles is important for economy in that it helps in achieving high just and permanent growth rates which in turn lead to flourishing stock market and increasing investment rates. Besides, corporate governance supports the private sector and its competitive ability. Ethical behavior is also a pillar of corporate governance, and abiding by this behavior requires doing social responsibility and maintaining clean environment. Law No. 45 of 1999 concerning privatization aims at realizing the following objectives as mentioned in the third article:[51]:

- Emphasizing the role of government in economy management as per the market economics.
- Increasing competence in the performance of economic units on competitive basis.
- Encouraging private ownership and investment on competitive basis that does not lead to monopoly.
- Ensuring the flow of new investment and modern advanced technology which is environment-friendly.
- Encouraging the foundation of stock market.

2.3.1.2.4: Law No. 39 in 2006 Concerning Corruption Fighting

Corruption fighting is important in corporate governance to ensure honesty, transparency and efficiency of internal and external auditing as mentioned in the law concerning corruption fighting. Law No. 39 in 2006 concerning corruption fighting was issued. Accordingly, National Supreme Authority for Corruption Fighting was established with higher legal power in fighting corruption. The important objectives of this law can be listed as follows:

- Preventing and fighting corruption and its threats; chasing the corrupt and retaining finances and returns due to corruption.
- Establishing honesty and transparency in economic, financial and administrative transactions to achieve wise management of the country money and resources.
The authority in coordination with concerned parties in the government and the private sector study, evaluate and develop private sector systems and relevant procedures so as to achieve the following objectives according to article no. 23 of this law:

“Consolidating auditing and accounting standards and establishing regulations for auditing, general budgets and keeping regular financial and accounting books and registers; taking action that prevent manipulation of accounting data”. All these constitute the basic principles for the application of corporate governance in Yemen in governmental private and mixed sectors.

2.3.1.2.5: Law No. 15 in 2010 Concerning Investment

Companies that follow corporate governance principles enjoy an increasing trust of investors since abiding by such principles ensures safeguarding their interests. Hence, it is observed that investors in companies that apply governance principles properly may think deeply before selling their shares in such companies even when under crises. This helps make this sort of companies survive at times of crises.

With regard to encouraging the flow and attraction of foreign investments into Yemeni markets and facilitating business for foreign investors, Investment Law No. 15 in 2010 was issued by the Yemeni legislature. It includes a set of certain motives for investment encouragement. This law aims at attracting, attracting and developing local and foreign investments in line with the frame of the state general policy, the national goals and priorities in the field of economic and social development, and the encouragement and regulation of investing Yemeni, Arab and international capitals. Furthermore, the government grants Yemeni, Arab and foreign investors the freedom of investing in various projects. It also guarantees equal indiscriminating treatment of local and foreign investors in all rights, obligations and freedom of investment in any of the economic sectors. This includes total or partial ownership of the investment project as per the rules of this law that has been issued to conform to recent international developments in the field of investment, and in line with laws of Gulf Cooperation Council Countries and demand for joining World Trade Organization.

Laws must be focused on and justice has to be there while applying such rules so that the state can wisely run economy in light of events and developments in order to create the needful atmosphere for implementing corporate governance on the level of Yemeni companies suffering from negative administrative practices. We may need to make amendments of these laws as well. Other laws need to be developed such as
bankruptcy announcement law, stumbled companies law, financial stock market law, competition and monopoly law, and other regulating laws for the function of companies. This makes the legal framework conform to the best international practices in corporate governance as, to give an example, the principles of Organization of Economic Cooperation and Development (OECD) in corporate governance. It is noteworthy to point out that there is no point in issuing laws if they are not applied and executed by qualified honest cadre.

2.3.2: Emergence and Development of Corporate Governance in Yemen

Before going to the development and emergence of corporate governance in Yemen Republic, it is necessary to have an idea on the parties and institutions playing a role in preparing and issuing guide of corporate governance.

2.3.2.1: Civil Society and International Organizations Contributing to Preparation of Governance Guide in Yemen

These organizations played a crucial role in spreading and defining the concept of governance in Yemen through organizing various functions such as conferences, forums and workshops. Hence corporate governance guide and auditing committees guide have come into existence in line with the nature Yemeni environment. The following organizations are noteworthy in this respect:

1. Yemeni Businessmen Club.
2. Yemeni Polling Center.
3. Center for International Private Enterprise.
4. International Finance Corporation

- Yemeni Businessmen Club

This club was founded as a non-governmental, non-profit organization in 2002 that aims at connecting Yemeni businessmen, strengthening their ties and experience exchange, unifying their efforts, developing members skills and promoting the efficiency and competency of their trading, industrial and service institutions.

Since its foundation, the club has served the Yemeni society by means of various activities like purposeful conferences, forums, workshops and economic studies. In addition, it offers advice and consultation to the government in various issues.

The following forums, workshops and studies on corporate governance project in Yemen have been organized by the club:
- Institutions governance conference held in 2008 in cooperation with CIPE of American Commercial Chamber.
- First training work shop for members of the board of directors held in April 2009 aiming at training members on governance basics and rules.
- Preparing study on the reality of corporate governance in Yemen in collaboration with YPC and CIPE.

**Yemeni Polling Center**

Founded in 2004, Yemeni Polling Center is a non-governmental independent organization that has implemented dozens of quantitative and qualitative research projects in: media, social, economic and political development and human issues.

One of the efforts exerted by this center in the field of corporate governance in Yemen is understanding to what extent Yemeni companies abide by corporate governance principles. In coordination with YBC, the center was assigned the task of conducting an exploration poll survey on Yemeni companies and corporations. This poll came under the framework of corporate governance implemented by the center in collaboration with CIPE and YBC.

**Center for International Private Enterprise (CIPE)**

This is a non-profit center that belongs to the American Commerce Chamber. It is one of four major institutes established by National Democratic Fund. The mission of the center is promoting and supporting democracy all over the globe by means of private institutions and market reforms. Corporate governance is one of the eight major projects implemented by the center. The center works to enable concerned institutions improve governance thorough institutional development to enhance transparency, justice and legal accountability in both public and private sectors. These are major elements for reaching a diverse robust private sector.

**International Finance Corporation (IFC)**

Founded by the international community in 1956 for enhancing private sector investment in developing countries, the International Finance Corporation, a member of the World Bank, is an international investment and consultation corporation.

It encourages continuing projects in member developing countries characterized by economic benefit, financial and commercial safety and environmental social continuity. It also functions to strengthen economic development process through
encouraging productive institutions and efficient stock markets in member states. It helps itself in investing in financial companies and corporations, building economies and achieving revenues and returns from taxes. In collaboration with YBC, the IFC contributed to the field of corporate governance and its application in Yemen through holding special training courses and workshops.

2.3.2.2: Emergence and Development of Corporate Governance in Yemen

Interest in corporate governance in Yemen Republic began in 2008 by Yemeni Businessmen Club (YBC), a civil community non-profit organization. In spite of the importance of corporate governance in development, attraction of Arab and foreign investment in Yemen and openness to international market, it has not been adopted by official authorities supervising and controlling commercial and financial sector in Yemen. It is only the YBC which took the initiative by holding various forums and conferences on the reality of Yemeni companies and the importance of governance for achieving better performance levels and preventing risks. The Conference on Institutional Governance held in 2008 in collaboration with CIPE is an example in this connection.

In 2008, an agreement between YBC and CIPE was signed for starting corporate governance project funded by Middle Eastern Partnership Initiative (MEPI) in Yemen. Consequently, the first conference on corporate governance was held on February 6, 2008 under the title “Institutional Governance: The Present Reality and The Future” which aimed at the following:

1. Defining the bases and principles of governance.
2. Identifying possible means for applying governance principles in Yemen.
3. Identifying governance reality in Yemen and comparing that with governance reality in neighboring countries.

The most important recommendations of this conference on governance in Yemen are as follows:

1. Spreading awareness of governance among concerned parties of companies and institutions. This plays a role in making decisions which contribute to financial stability and economic growth in the Republic of Yemen.
2. Applying governance principles in public and private sector institutions and family companies. This helps in institutional stability and growth and attracting investment as well.
3. Training members of boards of directors, supreme leaderships in public and private institutions on efficient application of governance principles.

4. Conducting necessary studies and research to identify extent of regular implementation of corporate governance and to explain ways of facilitating hardships facing them.

5. Calling official authorities to encourage the application of governance principles in governmental and private institutions by all possible means.


As a result of this conference and following its recommendations, corporate governance workshop was held on 10 February 2008. The most important outcome of that workshop is forming a work team of corporate governance in February 2008 comprising 25 members from public and private sectors as well as civil society organizations. The aim of that work team was to gather major influential groups from governmental sector, businessmen community, academic and media circles, financial auditors and civil society organizations in order to promote awareness of the importance of corporate governance, increase knowledge in governance along with relevant technical experiences, conduct research and major studies, reform policies and develop a guidebook for improving the application of corporate governance in Yemen (52).

On 9 April 2008, a workshop of governance work team was held where three committees were formed as follows:

- Awareness committee.
- Guidebook drafting committee.
- Legal committee.

The aim was to issue a guidebook for corporate governance in Yemen. In this workshop, the role, aims and framework of work team have been specified.

**Firstly: Awareness Committee**

The aim behind this committee is to work with interested authorities to design a special website for “Yemen Governance”. The website aims at defining governance, following up developments, activities and work of governance enterprise in Yemen, holding necessary functions that define governance, and spreading and promoting awareness of governance culture among all sections of society in cooperation with particularly the media and journalistic sector.
Secondly: Guidebook Drafting Committee
This committee was formed with the aim of benefiting from the governance guidebook issued by several brotherly countries like Egypt, Lebanon and Arab Maghreb and Gulf states. In turn this enables the committee to prepare the guidebook of corporate governance in Yemen in accordance with Yemeni environment and take the help of Arab and foreign experts in this field to contribute to drafting and formulating governance guidebook. An Arab expert was invited to participate in the second meeting of governance work team which was held on 13 October in 2008.

Thirdly: Legal Committee
The task of this committee was to contract with concerned authorities for conducting a study on the legal organizational environment in Yemen with reference to corporate governance. In support of these committees, and in coordination, cooperation with CIPE, YBC and Middle East Partnership Initiative, a contract was made with KPMG consultation office which is one of the largest companies of chartered accountants in Yemen so as to help in preparing a study on legal organizational environment in Yemen with reference to corporate governance. As a result, on 2 February 2009, a report titled “A Report on the Legal and Organizational Framework of Corporate Governance in the Republic of Yemen” was prepared. This study is part of the corporate governance enterprise in Yemen.
This study aimed at (53) :-
- Reviewing comprehensively relevant rules and regulations to assess their conformity with basic principles of corporate governance.
- Documenting some cases of laws and rules which either agree or contradict with corporate governance principles and assessing the impact of such rules and systems on the business environment in Yemen.
- Recommending what should be changed or added to make the legal framework go in line with the best international practices in corporate governance as for instance the principles of OECD in corporate governance.

The committee of promoting awareness prepared for many functions and symposiums. In April 2009, it held a workshop on “The Role of Board of Directors, and the Administration of Risks, Disclosure, Shareholders Relations and the Family Companies and Corporations” which was organized by Yemeni Businessmen Club and the Union of Yemen’s Chambers for Commerce and Industry. The workshop was held in cooperation with IFC and under the supervision of CIPE in Yemen. More than
25 of board chairpersons, prominent business representing several Yemeni companies participated in this workshop.

Yemeni businessmen in public and private sectors are trying to give more attention to the best of corporate governance practices seeking to establish a stock market and improve investment climate in Yemen. This is the second workshop held in a series of workshops for enhancing corporate governance which will help in developing essential knowledge of applying the best practices of corporate governance.

Civil society organizations exerted efforts to identify the extent of commitment in Yemeni companies to the principles corporate governance. Of these efforts is assigning the YPC in coordination with YBC the task of conducting a poll exploring Yemeni companies. This survey comes under the framework of corporate governance enterprise in Yemen implemented in cooperation between CIPE and YBC in Yemen. The aim behind this research was to:

- Measure the level of awareness of governance principles in Yemeni companies and institutions.
- Identify the level of applying governance principles in companies.
- Identify the nature of the changes that Yemeni companies and corporations like to make and which will lead applying governance principles in these companies.
- Identify the sectors which apply governance principles the most and which are ready for applying them as well.

Field work was executed during the period from 4 October to 31 December 2008 by 22 researchers working for YPC. 200 direct interviews were made with businessmen, directors of companies and corporations in five governorates in Yemen (Sana’a, Aden, Taiz, Hodiedah, Hadhramout).

The most important findings of the study

1. Governance Principles: governance standards and principles are applied by a proportion of 79% of companies and corporation under the present study. 18.6% of companies do not apply or take into consideration such principles, while 1.7% of companies responded that they have no idea whether or not such principles are applied.

2. Board of Directors:

   a. Board of Directors Meetings/ Sessions: Participants in more than half of the companies under study reported that meetings of directors board are held on regular basis. In 13.5% of companies, such meetings are rarely held, while there
is no board of directors meeting held at all in a proportion of 5% of companies under this study.

b. **Powers of Members of Board of Directors:** 80% of companies clearly specify in its rules and policies the powers of the members of its board of directors. 17% of Participants reported that it is not specified in their companies’ rules while 1% responded they do not know whether or not the powers of members of board of directors are specified.

c. **Independent Members of Board of Directors:** There are no independent members of board of directors in 82.5% of companies. There is one independent board member in 17.5% of corporations.

3. **Shareholders’ Rights:** Profits are distributed on the basis of number of shares in 85.8% of corporations. As for voting and decision making in corporations, it is made on the basis shares’ ownership and size in 51.8% of these corporations. Shareholders have the right to question members of board of directors in 83% of corporations while 12.8% of such companies do not guarantee this right for shareholders. Besides, shareholders have the right to appoint financial auditors in 86.5% of corporations under study.

4. **Transparency and Disclosure:** The level of transparency in economic corporations and institutions is still very low. Survey findings reveal that 60.5% of corporations refuse to disclose their profits, while 57.5% reject to announce their top share owners. In contrast, 67% of corporations openly announce their strategies and objectives.

5. **Awareness of Governance Importance:** 81.4% of officials and decision makers in Yemeni business sector believe in the importance of introducing and applying governance principles in the business sector in Yemen.

Legal environmental organizational studies and surveys on the practices of corporate governance in Yemen’s business community reveal that the requirements of transparency and disclosure are practically absent except for what is applied in the banking sector. Yemen not only lacks accounting auditing standards but also unified authorities in charge of establishing such standards and criteria (55).

The committee of guidebook drafting have held several meetings and discussions in Yemeni business community including concerned governmental authorities. It relied on basic data used in the drafting of corporate governance in Yemen guidebook and the report on adopting corporate governance by Yemeni companies. On March 29,
2010, the final draft of “Corporate Governance in Yemen Guidebook” was published.

Owing to the privacy of Yemen economy and business sector, it was necessary for corporate governance team and the drafting committee to divide the guidebook into three parts:

1. General part: general governance guidelines which can be helpfully used in corporate and institutional governance in public and private sector as well as civil society organizations.

2. First appendix: governance guidebook for joint stock companies and financial banking institutions.

3. Second appendix: governance guidebook for individual family companies.

The guidebook declaration encourages the family companies and closed Companies to be more open, restructured legally and organizationally and become joint stock companies. Most commercial companies in Yemen are family based in the sense that work relations are mixed with family relations thus in many obstacles ahead of these companies growth and development. The guidebook is very helpful in overcoming such obstacles.

The guidebook complements effective laws statements in the Republic of Yemen. In the forefront of these laws is the Commercial Companies Law No. 22 in 1997 along with its amendments and rules.

Due to increasing emphasis on the role of auditing committees in corporate governance and introducing it to Yemen, Yemeni Businessmen Club YBC announced the publishing the guidebook of auditing committees’ duties on July 13, 2010. The guidebook was published in collaboration with IFC in accordance highest technical standards that will ensure better performance of corporations and companies. The guidebook embodies the efforts of concerned parties in public (governmental), private sectors and civil society organizations with the aim of improving the capability of Yemeni corporations for facing future challenges.

It is also a professional guide for auditing committees evaluating and controlling measures taken by corporations and institutions in the context of governance.

It can be concluded that the importance of studying corporate governance in Yemen is based on the fact that governance has become a major means for improving corporations’ performance and pushing forward the development process towards a
more democratic competitive market. It is the means that achieves the highest returns and prevents risks.

Good application of corporate governance in Yemen must be carried out through promoting awareness of governance issues among officials in corporations concerned with corporate governance. It must realized that governance plays a vital role in decision making which in turn contributes to financial stability and economic growth in Yemen. Official parties must encourage the introduction of governance principles into public and private institutions. The efficient application of such principles in public and private sectors and family companies ensures institutional stability and growth, and attract investment and prevent financial collapses.

At last, Yemeni economy can not be strong without a strong private sector. In order for the Yemeni private sector to compete on international level and get partners and funds, it must follow governance principles and transparency.

2.3.3: Advantages Realized by Corporate Governance in Yemeni Business Environment

Corporate governance is a new concept in the business environment in Yemen. Realizing several advantages as well as positive effects the most important of which are as follows:

Advantages for Companies:

1. Attracting Arab and foreign investment into Yemen where corporate governance leads towards openness to world stock markets and attracting a wide range of investors mainly foreign ones.

2. Enhancing competitive position of Yemeni companies in international markets. This in turn leads to pushing forward the wheel of development and increasing rates of economic growth.


4. Increasing financial liquidity.

5. Decreasing risks while dealing with banks.

6. Realizing justice and transparency and fighting corruption.
Advantages for Banks:
The advantages of applying governance in banks can be listed as follows:

1. Increasing funding opportunities.
2. Decreasing investment cost.
3. Stabilizing stock market.
4. Encouraging companies to follow principles of transparency and wise management.
5. Putting an end to hard debts and insurance risks in Yemeni commercial banks.

The existence of efficient corporate governance in companies and banks helps in providing trust, safety, transparency for efficient financial, administrative and accounting transactions. It also aims at improving work performance and competence, and it leads to fighting corruption.

Another advantage of applying corporate and banking governance in banks and corporations is that it reduces risks, simulates performance, increases chances of access to capital markets, improves marketing of goods and services, enhances leadership and points out to transparency and social accountability.
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