

## An analytical Study of Independence and Objectivity of Internal Auditing in Joint- Stock Companies in Yemen

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### **Abstract:**

The study aimed to explore and assess of the independence and objectivity of internal auditing in joint stock companies in Republic of Yemen in the various activities (financial, service, and industrial) and the evaluate differences between internal audit in companies which may be attributed to the nature of the activity. In order to achieve objectives of the study questionnaire was designed based on the standards (IIA)) and distributed questionnaire to the internal auditors in nine joint-stock companies.

The study findings showed that the internal audit in the joint-stock companies in the Republic of Yemen to the lack of independence and objectivity appropriate to enable it to perform its functions as it should. Because of the internal auditors do not disclose of any threats to their independence and objectivity, and they are largely involved in the activities which were their responsibility in the past, and functions of executive audit chief are not audited from any unite independent internal or external. As well as, the results showed that the current practices of internal audit in financial joint-stock companies were better than the industrial and service companies.

Keywords: Independence, Objectivity, Internal Auditing, Stock Companies, Yemen.

### **1. Introduction**

The assurance services provided by auditors derive their value and credibility from the fundamental assumptions of independence of mind and independence in appearance. Not surprisingly, a large body of research has examined auditor independence and objectivity, but this has been predominantly in the context of external audit. In recent years, there has been heightened interest in issues associated with the independence and objectivity of internal audit. Internal auditors are in a unique situation as providers of both assurance services within the organization and consultancy services to managers (IIA, 2012). This dual role has generated significant debate as it has the potential to place the internal auditor in a situation of conflict. Furthermore, as

organization's employees, the ability of internal auditors to exercise true objectivity has also been questioned (Stewart and Subramaniam, 2010).

The success of any internal audit begins with and ends at the level of independence (Hughes, 2004). Various studies have been made on internal audit, but the first most comprehensive study is the one carried out by the IIA (2006), which commissioned the global Common Body of Knowledge (CBOK) 2006 study, engaging researchers from around the world "to better understand the expanding scope of internal audit practice". This study has resulted in three related literature reviews. Cooper et al. (2006) examined the IA literature in the Asia Pacific region; Hass et al. (2006,2010) studied the literature from the Americas; while Allegrini et

al. (2006) performed a similar review of the European literature. Lastly AL-kra et al,2016 studied the literature from in the middle east and north Africa. The purpose of these reviews was to document changes in internal audit as a result of shifts in global business practices.

In addition to the above, there are many researchers and organizations that have investigated and analyzed independence and objectivity of IA, and have also identified differences between the two terms, i.e. 'independence' and 'objectivity'. IIA's distinction between the two terms appears to be that objectivity is a state of mind, while independence is the state of affairs that permits an internal auditor to operate with an objective attitude. While the IIA standards (IIA, 2009) emphasize independence at the organizational level, the definition indicates that it is also important at the individual, engagement, and functional levels.

In UK and Ireland, internal auditors should be aware of the consequences of their actions and the resulting impact on their independence and objectivity, which will be visible to the outside world (UK and Ireland, 2003). In the latest comprehensive study on independence and objectivity. In fact many scientific studies have confirmed that independence and objectivity in the performance of internal audit play a crucial role in company's policy, reducing risks as well as achieving the goals of business organizations and adding a value to the organization (Ebaid,(2011) Stewart and Suberanabiam (2010) ,Sakour and Laila ,(2015), Badara,(2016), George,(2015), Salehi,(2016), Al-Akra et al, (2016) (IIA,2014). In their study, Marias et al. (2009) have found that the independence and objectivity of the internal audit function constitute one of the most important requirements needed for adding a value to the business.

Because of the dramatic developments in the business environment, IIA has advised that

companies implement a comprehensive assessment of the internal audit function at least every five years. The reason for this is that internal audit is affected by a range of variables. A study by Arina et al. (2009) has revealed that 74 % of the 365 Italian companies investigated have an internal audit, but the performance of the IA function varied from one company to another, depending on the nature of and size of the business. Besides, Stewart and Suberanabiam (2010) and Mutchler (2003) and Al-Akra et al ,(2016) have also revealed that many of the studies around the world showed that the status of independence and objectivity of IA function differs somewhat from one business environment to another.

The growing debate has provided enough motivation for researchers to try examining the independence and objectivity of internal audit in companies in the Republic of Yemen. A recent scientific study (Alwachili, 2012) has revealed that the internal audit function in the Yemeni banks lacks adequate support and independence. On the other hand, and given Yemen's joining the World Trade Organization, organizations and government bodies have been increasingly calling for the need for joint-stock companies to apply the principles of corporate governance. As a result, in January 2014 and in collaboration with the World Bank, the Central Bank of Yemen issued Yemeni Corporate Governance Guidelines, of which one of the most prominent requirements is the re-evaluation and activation of the internal audit function as an essential cornerstone for the application of the principles of corporate governance in companies.

In fact, there is no previous literature that has attempted to reveal the reality about the status of internal audit in joint-stock companies engaged in industrial and service activities. Therefore, this study aims to explore and assess the status of the independence and objectivity of internal audit in joint-stock companies involved in

various activities (service, industrial, and commercial), measuring that in the study sample of companies and comparing that with the modern professional requirements (ISPPIA) issued by IIA in 2012.

## 1. REVIEW OF LITERATURE

This part highlights some of the studies that are directly relevant to objectives and hypotheses of this study. The study by Alwachili (2012) aimed to evaluate the nature and characteristics of the internal auditing function in Yemeni banks. The study results have revealed that internal audit in the banks targeted is ineffective and inefficient. Moreover, the results have also revealed that internal auditors lack the professional efficiency and experience, and that internal auditing does not give enough independence to perform the required tasks as should be.

Ebaid (2011) explored the nature and characteristics of the internal audit function in Egyptian listed firms. The findings of the study have revealed that the internal audit function in these firms is not mature enough, and has low levels of organizational independence, management support, and qualification of internal audit staff.

Stewart and Subramaniam In their study, (2010) reviewed recent literature on internal audit independence and objectivity, and discussed opportunities for future research. The topics examined are the organizational status of internal audit, the internal auditor's dual role as provider of assurance and consulting activities. The study summarized the existing body of knowledge related to internal audit independence and objectivity, and identified gaps in the literature where further research is needed.

Christopher et al. (2009) examined the independence of the internal audit function in a sample of 34 Australian companies, with a focus on the IA function's relationship with both

management and the AC. The findings showed threats, include CAE not reporting functionally to the committee, the AC not having sole responsibility for appointing, dismissing, and evaluating the CAE and AC members lacking expertise in accounting.

Zain and Subramaniam's (2007) study conducted on heads of internal audit from 11 organizations in Malaysia reflects the importance of the powerful position of ACs in enhancing internal audit objectivity. The study reveals that internal auditors place significant trust in ACs to take up the key questioning role in more formal settings. This finding raises the possibility of a cultural effect stemming from the fact that Malaysia is a high power distance nation.

Al-Tawijari, Rierlay and William (2003) conducted a research that aimed at identifying the evolution of the field of internal audit in Saudi companies from the perspective of institutional theory. The study concluded that internal auditing in Saudi companies did not develop due to some reasons: (1) the lack of qualified staff in IA departments, (2) the existence of some restrictions imposed on internal auditors, limiting their independence, and (3) limiting internal auditing job to compliance review rather than auditing.

In 2013, Alzeban and Sawan conducted another Saudi study to explore IA practices in the public sector. Similar to previous Saudi studies, independence was found to be lacking due to poor organizational status. Specifically, reporting levels were lower than the IA department and some departments refused to be audited using confidentiality of work or immunity from audit as an excuse.

Alktani and Ghareeb (2014), investigated the quality of IA in the public sector. The study is aimed at exploring the challenges facing IA as well as factors that promote IA independence and external auditor reliance on IA work. The

study reported that organizational independence was lacking as a result of interference of top management in IA work. Top management further interfered in the appointment and dismissal of a chief internal auditor who also lacked privacy during IA meetings.

Abu-Azza (2012) examined the perceived effectiveness of IA in Libyan firms and identified seven factors related to effectiveness: independence, competence, scope, performance, cooperation with external auditors, management support, and awareness of the benefits of IA effectiveness. The results revealed that IA departments lacked independence, including organizational independence. Threats to IA independence resulted from a lack of communication with the board of directors, restricted access to organizational documents and activities, and the lack of awareness of the role of IA.

Meziani (2012) conducted a study of 22 public Algerian companies exploring IA practices and the degree of compliance with the IIA (2008) standards. The study found that most of the surveyed companies adhered to the IIA standards. However, IA was required to report to management, who also had to approve the annual audit plan, and was responsible for employment of IA, thus compromising IA independence.

AL-Akra et al ,(2016) study reviews the MENA region literature dealing with recent regulatory reforms in internal auditing, focusing on independence and objectivity, assurance versus consulting services, and the IA role in consulting activities. He finds that while the majority of the region has introduced reforms to the IA function, more needs to be done to (1) insure independence and objectivity; and (2) involve IA in consulting services, particularly with respect to risk management, control and governance.

## **2. OBJECTIVES OF THE STUDY**

The study aims to do the following:

- Explore and valuate the status of independence and objectivity of internal audit in joint-stock companies in Republic of Yemen, compared to the international requirement for the professional practice of the international audit (ISPPA) issued by IIA in Oct., 2012.
- Investigate the differences in independence and objectivity of IA in joint-stock companies in Republic of Yemen in terms of the nature of company's activity (commercial, industrial, or service).
- Identify the points of strength and weakness of IA objectivity and independence at joint-stock companies in Yemen.

## **3. IMPORTANCE OF THE STUDY**

The importance of the study lies in the following:

- It is the first study to discuss the independence and objectivity of internal audit in joint-stock companies in Yemen compared to the international requirement for (ISPPA) issued by IIA in Oct., 2012.
- It keeps pace with the international interest in internal audit, especially with regard to corporate governance, given that IA is considered as one of the most important pillars in meeting and applying corporate governance requirements.
- Research results are expected to contribute to the improvement and development of the status of IA objectivity and policy joint-stock companies in Yemen.

## **4. HYPOTHESES OF THE STUDY**

The study hypothesizes the followings:

- The internal audit function at Yemeni joint-stock companies possesses independence and objectivity which enable it to perform its roles in accordance with the requirements of the international standards for the internal audit professional practice ISPPIA issued by IIA in Oct., 2012.
- There are significant differences at the levels of IA objectivity and independence in Yemeni joint-stock companies due to the nature of company's activity.

### 5. METHODOLOGY

In addition to the theoretical information garnered from previous literature written on or in relation to the points of interest here, this study uses questionnaire as the main tool for data collection.

### 6. POPULATION AND SAMPLE OF THE STUDY

The study population comprises almost all internal auditors in selected joint-stock firms in the Republic of Yemen according to a list of companies provided by the Yemeni Ministry of Commerce and Industry as of the end of 2013. The researcher has selected a sample that consists of all internal auditors working in certain joint-stock companies selected with

reference to being the highest in terms of capital and the oldest in terms of establishment. Nine companies, these nine companies are distributed to all sectors of activity: i.e. 3 industrial companies, 3 commercial companies, and 3 service companies.

### 7. STUDY TOOL

The researcher has depended on a questionnaire to gather preliminary information from the study sample. The questionnaire has been designed based on the latest standards issued by IIA in 2012. It has been presented to a number of arbitrators, who are specialists in accounting, to express their opinion over the relevance, value and cohesion of the questionnaire in relation to what it has been prepared for. A test of validity and reliability of the questionnaire has been applied, and the value of the reliability coefficient was (97) and the value of the test result was high greater than 70%. This suggests that the used questionnaire is capable of high internal consistency.

After the tests, the questionnaire was distributed to all internal auditors in the study sample companies directly by meeting them in person, and they were given an appropriate time to answer the questions. The results of the distribution are shown in Table 1.

**Table 1: Questionnaires Distributed to/Retrieved from the Study Sample**

	Service companies		Financial companies		Industrial companies		Total	
	No.	Rate	No.	Rate	No.	Rate	No.	Rate
Distributed questionnaires	16	100	27	100	24	100	67	100
Returned questionnaires	15	93.75	24	88.89	22	91.76	61	<b>91.05</b>
Invalid questionnaires	Nil	-	Nil	-	-	-	Nil	0
Valid questionnaires	15	93.75	24	88.89	22	91.76	61	91.05

Source: Author based on Primary Data.

Then, the researcher analyzed the results by using (SPSS ,16 ), calculating the mean and standard deviation to measure the extent of agreement of the sample versus the default mean average (3). One Sample T Test was also used to examine the first hypothesis while One-Way (ANOVA) was used to examine the second hypothesis.

## 8. BACKGROUND

IIA (2004) definition of IA is:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

This definition highlights the independence and objectivity of IA with respect to both assurance services and consulting. Independence and objectivity are closely related. However, the *Glossary to the IIA Standards* distinguishes between the two concepts in the following way.

In the same vein, IIA (2010) has issued a number of standards, and associated practice advisories relating to independence and objectivity. Standard 1100 states that "the internal audit activity must be independent, and internal auditors must be objective in performing their work." Before we go into the main details of the analysis of results, it would be wise to highlight what is meant by the terms 'independence' and 'objectivity', and what are the professional standards addressing the concept.

### **Internal auditing Independence**

According to IIA (2012), independence is "The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. Such threats must be managed at the individual auditor, engagement, functional and organizational levels".

In other words, independence can be taken to imply that management can place full reliance on audit findings and recommendations. Salehi, (2016) refer to independence as a mental and intellectual matter, i.e. the auditor should have independence in his thinking and in offering his professional opinion honestly and faithfully. To

achieve the required degree of independence, the chief audit executive (CAE) should have direct and unrestricted access to senior management and the board.(IIA,2014) and this can be achieved by a dual reporting relationship.(Chambers,2014).

Most of the existing scholarship agrees that the concept of independence must involve constituents that are consistent with the standards in the following points:

### **Independence in Auditing Performance:**

The IIA standards include a specific statement for this type of independence:

**1110.A1** – The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results.

It means that the internal auditor is not influenced by others' opinions while planning for auditing process or checking or reporting. Al-Khuraifat (2005: 50) finds that this independence is achieved when the auditor is independent in selecting the manners, procedures and scope of auditing. This independence includes having access to all the documents and records with freedom to audit the organization's activities with no constraints Stewart and Suberanabiam (2010) ,Sakour and Laila ,(2015), Badara,(2016), George, (2015), Salehi, (2016), Al-Akra et al,(2016). Another study by Mubarak (2010) showed that the independence of internal auditing greatly influences the quality of the internal auditing performance. The independence in the internal auditing can be achieved through written internal regulations that decide the scope, roles and responsibilities of the internal auditing approved by the board.

### **The Professional Independence (Organizational):**

The organizational independence has got the attention of IIA since 1978 and still has. All the existing scholarship emphasized the importance of the organizational independence to assure the effectiveness of the internal auditing. What is the organizational independence? The standard 1110 states that

The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

According to Fakhra and Mahmoud (1996: 406), this means that the internal auditor is associated with the highest level of the organization or auditing committee. Cohen et al. (2004) maintain that the reinforcement of the internal auditing profession can be achieved when reports are sent directly to the auditing committee rather than to the board. Kagomann et al. (2007) confirm that from the functional perspective the best way for IAF is to present its reports to the auditing committee. Therefore, it is clear that standard 1111 regarding Direct Interaction with the Board states that "The chief audit executive must communicate and interact directly with the board."

Due to the importance of organizational independence, a study by IIA (2005) has recommended that the internal auditing independence improvement must be included in the by-law of auditing committee. Namely, auditing committee should provide a complete internal auditing independence by assuring unrestricted communication with all parties including board members, setting up Internal Auditing plans and budget, and supervising the appointment/dismissal of IA executive manager. It must also play an active role in supporting the independence of Internal Auditing and ensure it has enough resources to provide the appropriate

level and quality of information.

The results of a study by Bariff (2003) which aimed at evaluating the internal auditing function (IAF) in Chicago have revealed that it is necessary to activate the role of auditing committee regarding IAF reports and supervision of the appointment/dismissal/assessment of IA executive manager. Similarly, a study by Christopher et al. (2009) in Australia has provided a critical analysis for IAF in Australian companies, and shown that the major threats to IAF independence include the lack of directing IAF reports to the auditing committee and/or entitling the auditing committee with the responsibility of appointing/dismissal/assessment of the auditing executive manager. Both studies above emphasize the same result, despite being related to different times and contexts.

Goodwin and Yeo (2001), Badara,(2016), (Ebaid,( 2011) Stewart and Suberanabiam (2010) ,Sakour and Laila ,(2015), Salehi,(2016), Al-Akra et al, (2016) . have revealed that the strong relationship between internal auditing and auditing committee has an impact on the independence and objectivity of internal auditing performance, particularly when the auditing committee involves independent managers. Nagy and Cenker (2002),Din et al ,(2014),

AL-Kaddash (2013), Badara, (2016), maintain that all the internal auditing managers targeted in their study indicated that the internal auditing function was not supported enough to perform its tasks.

The European Confederation of Institutes of Internal Auditing (ECIIA, 2005) emphasizes that "The audit committee should safeguard internal audit independence by regularly reviewing and approving the internal audit charter and mandate. In this context, it should be consulted for hiring and firing the chief audit executive."

### **Technical and Financial Independence:**

This means that the institution's policies should give the auditor the authority necessary to perform the job. That authority should include free access to any records necessary for the proper conduct of the audit. Moreover, the internal auditor should have the skills and experience necessary to perform the work, and this can be achieved by providing the auditor with the required qualification and training (Al-Rahahleh, 2006: 100) that enable the auditor to absorb the recent developments and technological advances in the auditing profession (Al-Kebsi, 2011). In the same token, Al-Twajry et al. (2004) have revealed that the effectiveness of internal auditing is influenced by the objectivity and efficiency of the internal auditor.

Financial independence (IIA, 2009) is achieved through the non-intervention of the executive management in the budget of IAF and in determining the salary or bonus of the internal auditing director. It also lies in the absence of the requirements for the internal auditing work (UK and Ireland, IIA 2003). Technical independence refers to the ability of the internal auditing manager to obtain suitable advice or opinions from outside or inside the establishment for his work without any restrictions from the board. Most theoretical and practical studies agree that IAF independence reinforcement is achieved through the independence of internal auditing from any control, supervision or influence by the executive management.

Therefore, it is clear that internal auditing independence is based on two major elements i.e. individual as well as organizational independence. Individual IA independence means that the internal auditor must be independent in his opinion, judgment and performance of duties without any pressure. On the other hand, organizational IA independence

refers to occupational independence through its association in the organizational body to the board or auditing committee or to the highest authority in the organization. A study by Cooper et al. (2006: 832) has revealed that there was, and still is, confusion regarding the independence of internal auditors. This is made more complex by the definition of internal audit which encompasses both the expectations of the consulting role and the assurance role. Internal auditors are uncertain as to how to balance independence in both roles.

### **Internal Auditing Objectivity**

There are several definitions for the term 'objectivity' of which IIA definition (2010) is the most commonly accepted one, and states that objectivity is:

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters to that of others.

Objectivity can be seen as a state of mind. Both objectivity and independence are inseparably complementary to each other. According to IIA (2010: 11), objectivity is influenced by personal conflict of interest. Therefore, the Attribute Standard 1120-Individual Objectivity relates to individual objectivity and requires internal auditors to "have an impartial, unbiased attitude and avoid any conflict of interest". Hence, the related Practice Advisory 1120-1 stresses the need to avoid potential and actual conflicts of interest and bias at the individual level and suggests that staff assignments should be rotated periodically. Conflict of interest here refers to a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfill his or her duties impartially. A conflict of interest exists even if

no unethical or improper act results. IIA (2010: 4) maintains that a conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

On the other hand, a study by Fadzil et al. (2005) has shown that professional efficiency and objectivity greatly influence the internal auditing controls in Malaysian companies. Regarding Arab business environment, it has been found that objectivity has a great influence on the quality of IAF (Al-Twaijry, 2004; ISSA, 2008; Mousa,2013; Abu-Azza (2012) and Mubarak 2010). It has been confirmed (Mubarak, 2010; and Krisbanamoorthy, 2002;Desai et al, 2010) that a number of studies at the international level have concluded that external auditor's dependence on IAF is influenced by the following factors: IA competency, quality of IA performance, and IA objectivity. Mubarak (2010) has also observed that a number of studies have concluded that internal auditors' decisions become impartial when they take part in executive activities. These conclusions have been reinforced by IIA (2005), i.e. the rules of conduct specify that the internal auditors:

- shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment;
- shall not accept anything that may impair or be presumed to impair their

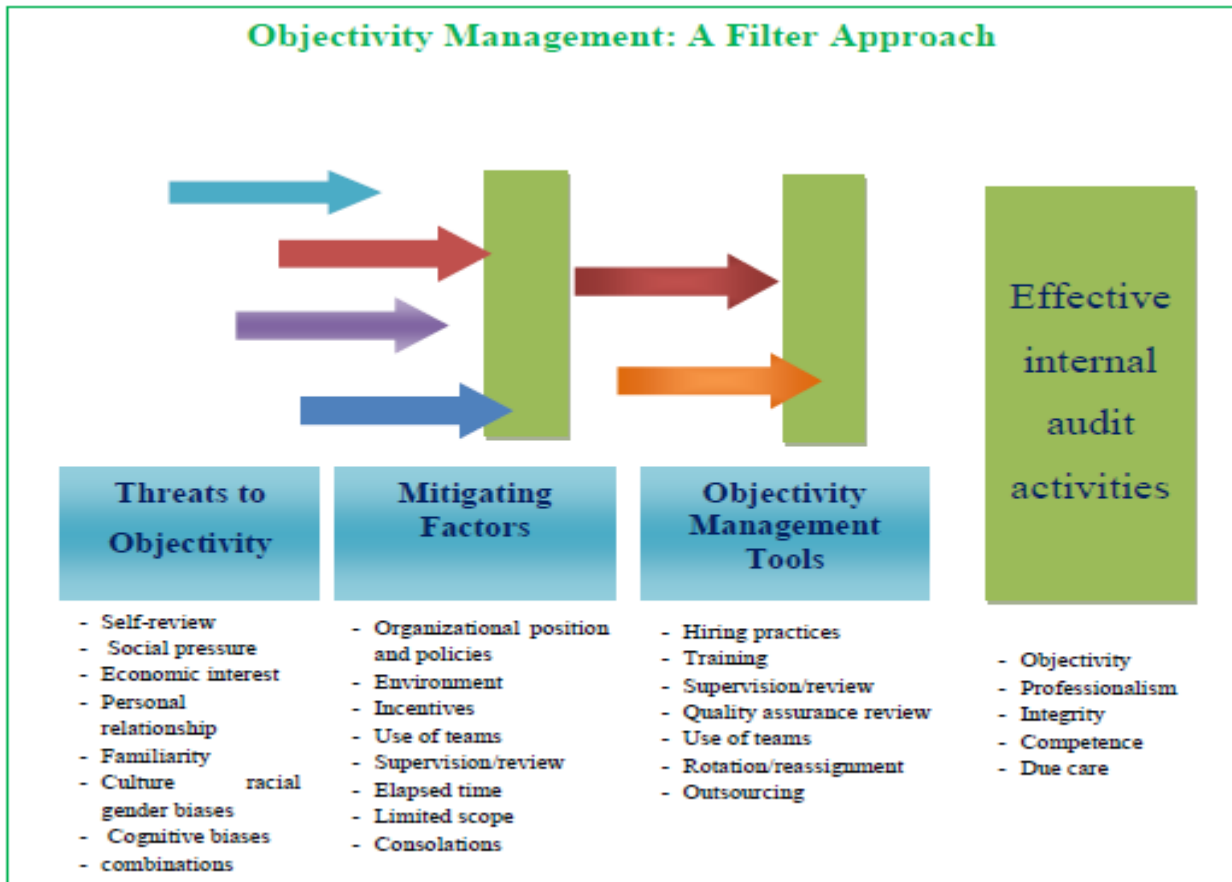
professional judgment; and

- shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review

A number of studies (Fadzil et al., 2005; Peurseem, 2005; and Horwath, 2011) revealed that objectivity, as a human behavior, is influenced by a set of factors and challenges. Such factors, as some studies indicate, are personal – such as righteousness, independence, self-criticism, professional competence, conflict of interest – or/and related to the organizational environment and the general environment – such as social pressure, culture, supervision, to mention a few. Therefore, it is noticed that IIA (2010) has emphasized in the code of conduct and professional ethics on objectivity as a doctrine of ethics that internal auditing practitioners must adhere to.

The CAE should continuously seek out ways to improve the level of objectivity throughout audit and some of the relevant matters have been mentioned earlier. A great deal of this hinges on installing suitable policies and procedures. The aim is to remove any potential barriers to the auditor's ability to perform fair and unbiased work. (pickett,2011,p145).

Mutchler (2003: 257) has indicated views by many scholars regarding the challenges that encounter internal auditor's objectivity, and has come up with some suggestions, tools and programmes in order to reduce the impact of such challenges – see the filter approach shown figure below.



Source: Mutchler (2003: 257)

**Figure 3. 1: Objectivity Management: A Filter Approach**

Such challenges can also occur at the internal audit function level, particularly when the function is involved in both consulting and assurance activities.

**Impairment to Independence or Objectivity**

Attribute Standard 1130 discusses the need to adequately disclose to appropriate parties any impairment to independence or objectivity. According to Attribute Standard 1130, if independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment. Examples of impairment include internal auditors assessing operations for which they were previously responsible. Other impairments noted in the Glossary of the

Standards are personal conflicts of interest, scope and resource limitations, and restrictions on access to records, personnel, and property.

**9. THE ANALYSIS AND EXAMINATION OF THE HYPOTHESES**

**10.1. The Analysis and Examination of the First Hypothesis**

It is hypothesized that: “The internal audit function at joint-stock companies possesses independence and objectivity which enable it to perform its roles in accordance with the requirements of the international standards for the internal audit professional practice ISPPA issued by IIA in Oct., 2012”.

In this regard, Table (2) below presents the following data.

**Table (2): The Means, Standard Deviations, and the Test Value (T) of Independence and Objectivity of the Internal Auditors in the joint –stock Companies**

No	Standard	Mean	Standard Deviation	(T)	Sig	R
	The objectives of the IAF clearly stated in the charter.	2.885	1.234	0.723-	0.472	10
	The providing assurance services to the organization is defined in the IA charter.	3.164	1.331	0.962	0.340	7
	The charter of IA includes all consulting tasks and services to be carried out by of the company	2.639	1.225	2.299	0.025	12
	Assurance services includes when provided to parties outside the organization..	3.443	1.323	2.613	0.011	3
	The CIA review and present the IA charter to the board for approval.	2.951	1.175	0.327-	0.745	9
	The definition, code of ethics, and standards of IA are recognized to all auditors and others	2.672	1.300	1.969-	0.054	11
	Approving of IA charter by the Board.	2.328	1.234	4.252-	0.000	13
	The CAE discusses with the board the definition, the code of ethics, and the standards of IAF	3.246	1.164	1.650	0.104	5
<b>Total</b>		<b>3.082</b>	<b>0.854</b>	<b>0.745</b>	<b>0.459</b>	

The table above reveals the following:

1. The mean average of the total variables above has come to be (3.082), with a standard deviation of (0.859) at a rate of (61.64) percent. This shows that the status of the independence and objectivity of internal auditors in joint-stock companies in the Republic of Yemen is low compared to IIA requirements.
2. The findings above reveal that variable (No. 1) has occupied the highest rank in the application level, with a mean of (3.657) and a standard deviation of (1.181). The high value of standard deviation indicates that there is

dispersion in the application level from one company to another. The high mean average can also be attributed to the high level of application of objectivity and independence in banks, considering that the internal by-laws of banks provide that internal auditing responds directly to the board.

3. The table above reveals that variable (No. 12) has obtained the lowest position in the application level, with a mean of (2.328) and a standard deviation of (1.234). This implies that the level of application of objectivity by internal auditors is low, particularly when they provide consulting services.

4. The findings indicate that the mean averages obtained by the variables (No. 6, 8, 10, 11, and 12) are lower than the default average of the study (i.e. 3). Besides, standard deviation values have come to be very high. This implies that the application level varies greatly from one company to another. Such values can be seen as an indicator that the application of independence and objectivity is not in a desirable status to correspond adequately to the purpose and objectives of internal auditing and the requirements of international auditing standards.
5. The findings also reveal that though variables (No. 7, 3, 4, 5, 7, 9, and 13) have obtained mean average values higher than the default average value (3), the values of these mean averages have ranged between (3.443 - 3.098), which do not meet the requirements of international auditing standards.

Generally speaking, the findings in Table (2) above reveal that the internal auditing function lacks the independence and objectivity necessary for IAF to perform its responsibilities adequately. This deficiency can be attributed to several reasons, of which the following are the most important:

1. IAF in some joint-stock companies responds to the executive manager rather than the board, is subjected to restrictions as regards the performance of its responsibilities, and does not get enough support from the higher management.
2. There are two companies in the service sector in which the internal auditing is performed by external auditor. This could be the reason behind the high values of standard deviation of all variables.

3. IAF is not regulated by a specific legal or organizational framework, particularly in the service and industrial companies. Therefore, IAF performance is left to the higher management's understanding and consideration of the importance of conducting internal auditing. It is important here to note that the results of this study are consistent to a great extent with the results of Alwachili (2012) carried out on Yemeni banks, concluding that the IA independence level is low and not receiving enough support.

Moreover, Table (2) reveals that the signification levels of T-test for most variables reflected lack of signification, i.e. they came higher than the minimum acceptable signification value of (0.05). The total calculated value of T-test has reached (0.745) and the signification value has come to be (0.459), i.e. came higher than the minimum acceptable signification value of (0.05).

Based on the findings above, the alternative hypothesis  $H_{a1}$  is rejected and the non-hypothesis  $H_{o1}$  – which states that “The internal audit function in Yemeni joint-stock companies does not possess independence and objectivity which enable it to perform its roles in accordance with the requirements of the international standards for the internal audit professional practice ISPPA issued by IIA in Oct., 2012” – is accepted.

### **10.2. Analysis and Examination of the Second Hypothesis**

$H_{a2}$  states that: “There are significant differences at the levels of IA objectivity and independence in Yemeni joint-stock companies due to the nature of company's activity”.

The suitable statistical tools have been used to examine this hypothesis. The descriptive analysis has shown that the mean average values for the

application level of the requirements of independence and objectivity in service, financial, and industrial companies have come to be (2.913, 3.529, and 2.71) with standard deviation values of (0.778, 0.0727, and 0.859), respectively. The results show that the application level in the financial companies was found to be higher than other types of companies (i.e. service and industrial). The mean average values for the other types of companies have even come lower than the

default average (3), whereas the standard deviation values high and varied, implying that there are differences in the application levels of independence and objectivity in IAF.

The One-Way ANOVA test has also been used to examine the differences between the subordinate variable of the nature of the company's activity and the independent variable of the position of independence and objectivity in joint-stock companies in Yemen. The table below shows the results of ANOVA Test.

**Table (3): Test of One-Way ANOVA**

	Sum of squares	Df	Mean square	F	S.q
Between Groups	8.269	2	4.135	6.663	0.002
Within Groups	35.989	58	0.621		
<b>Total</b>	<b>44.259</b>	<b>560</b>			

The findings in the table above show that there are significant differences, i.e. the signification of F is less than the default acceptable level at (0.05). Therefore, the non-hypothesis  $H_{02}$  is rejected while the alternative hypothesis  $H_{a2}$  – which states that “There are significant differences at the levels of IA objectivity and independence in Yemeni joint-stock companies due to the nature of company's activity” – is accepted.

## 10. CONCLUSION

The study concludes with the following:

I. Internal auditing lacks enough independence and objectivity in joint-stock companies in the Republic of Yemen, and this can be attributed to the following reasons:

1. Internal auditors do not disclose to the higher management the challenges/threats to their independence and objectivity while performing consulting services.
2. Internal auditors participate, to a great extent, in auditing of activities

they had been previously responsible for, and this impinges on their objectivity in assessing those activities.

3. The responsibilities of the chief audit executive are not subjected to any monitoring or reviewing by any internal or external entity. This means that such responsibilities may not be performed properly, more particularly as IA Standards have entitled IA director with a wide range of authorities in planning, supervision and communication with the board and the auditing committee in the organization.
- II. There are significant differences at the level of internal auditors' independence and objectivity in private joint-stock companies, based on the nature of activity the relevant companies are engaged in (i.e. service, finance or industry). The reasons behind these differences in the level of application

tend in favor of the financial activity, while the application levels of independence and objectivity by internal auditors in industrial companies have come to be lower, followed by service companies. This is perhaps because the companies engaged in the financial activity are often subjected to quality standards that regulate their operations, such as Basal Committee Standards,

monitoring by International Monetary Fund as well as government authorities, on one hand. Besides, the fact that financial companies are exposed to higher risks than other types of companies makes it mandatory to apply certain measures to protect its operations in an effective and efficient way, on the other hand.

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