Table 15

	Terms of references (charter)	N	Mean	Std. Deviation	t-test for Equality of Means	
					t	Sig. (2-tailed)
4.1 Planning the Audit	1	91	7.831595	2.420700	2.109	.044
	0	22	6.256379	3.294284		
4.2 Examining and Evaluating Information	1	91	7.187968	2.201490	3.238	.003
	0	22	5.005381	2.970433		
4.3 Communicating Results	1	91	8.516779	1.746834	2.109	.046
	0	22	6.982901	3.301091		
4.4 Following Up	1	91	8.10	2.99	3.004	.006
	0	22	5.44	3.89		
ST400	1	91	31.637442	6.612714	3.243	.003
	0	22	23.681024	11.037434		

1= there is a charter, 0= there is not.

Table 16

	Terms of references are totally consistent with SPPIA	N	Mean	Std. Deviation	t-test for Equality of Means	
					t	Sig. (2-tailed)
4.1 Planning the Audit	1	44	8.496494	2.276457	3.437	.001
	0	72	6.853831	2.822103		
4.2 Examining and Evaluating Information	1	44	7.722215	2.212110	3.644	.000
	0	72	6.081650	2.566945		
4.3 Communicating Results	1	44	8.903401	1.773053	3.106	.002
	0	72	7.672676	2.481438		
4.4 Following Up	1	44	8.03	3.13	1.202	.232
	0	72	7.27	3.52		
ST400	1	44	33.149383	6.763159	3.570	.001

Table 13

	member of IIA = 1 not member =0	N	Mean	Std. Deviation	t-test for Equality of Means	
					t	Sig. (2-tailed)
4.1 Planning the Audit	1	27	8.687949	1.759826	3.462	.001
	0	89	7.109516	2.879905		
4.2 Examining and Evaluating Information	1	27	8.031180	1.877135	3.803	.000
	0	89	6.301285	2.607135		
4.3 Communicating Results	1	27	9.310104	.655434	5.182	.000
	0	89	7.784377	2.509843		
4.4 Following Up	1	27	8.86	2.70	2.660	.010
	0	89	7.16	3.48		
ST400	1	27	34.888493	4.538526	5.048	.000
	0	89	28.359224	9.001144		

Table 14

	familiar with the SPPIA	N	Mean	Std. Deviation	t-test for Equality of Means	
					t	Sig. (2-tailed)
4.1 Planning the Audit	1	74	8.313604	2.078155	4.271	.000
	0	42	6.002735	3.137683		
4.2 Examining and Evaluating Information	1	74	7.417076	2.179308	4.029	.000
	0	42	5.447443	2.710001		
4.3 Communicating Results	1	74	8.708441	1.887442	3.388	.001
	0	42	7.137089	2.648134		
4.4 Following Up	1	74	8.18	3.14	2.622	.011
	0	42	6.46	3.55		
ST400	1	74	32.622905	6.454013	4.475	.000
	0	42	25.044410	9.838834		

1= familiar, 0= not familiar.

Table 10

	Size of the staff of the IAD 5 > large =1 5 <= small =0	N	Mean	Std. Deviation	t-test for Equality of Means	
					t	Sig. (2-tailed)
4.1 Planning the Audit	1.00	33	8.574089	2.206512	2.800	.007
	.00	79	7.201267	2.708869		
4.2 Examining and Evaluating Information	1.00	33	7.751808	2.180357	2.975	.004
	.00	79	6.329653	2.584139		
4.3 Communicating Results	1.00	33	8.859762	1.194537	2.771	.007
	.00	79	7.863605	2.606372		
4.4 Following Up	1.00	33	7.42	3.45	-.234	.816
	.00	79	7.58	3.39		
ST400	1.00	33	32.603841	6.616990	2.348	.021
	.00	79	28.979336	9.134925		

Table 11

	Size of the Budget of the IAD 0.5m > large=1 0.5m <= small=0	N	Mean	Std. Deviation	t-test for Equality of Means	
					t	Sig. (2-tailed)
4.1 Planning the Audit	1.00	29	8.760616	1.925788	3.034	.003
	.00	66	7.287348	2.668692		
4.2 Examining and Evaluating Information	1.00	29	8.314720	1.572512	4.572	.000
	.00	66	6.325973	2.619514		
4.3 Communicating Results	1.00	29	9.073305	.912470	2.920	.004
	.00	66	8.093468	2.352814		
4.4 Following Up	1.00	29	7.66	3.33	-.024	.981
	.00	66	7.67	3.20		
ST400	1.00	29	33.803814	5.253608	3.055	.003
	.00	66	29.379516	8.694967		

Table 12

	Knowing about the IIA	N	Mean	Std. Deviation	t-test for Equality of Means	
					t	Sig. (2-tailed)
4.1 Planning the Audit	1	79	8.231525	2.067036	4.027	.000
	0	37	5.865706	3.281639		
4.2 Examining and Evaluating Information	1	79	7.342551	2.173797	3.841	.000
	0	37	5.340397	2.799627		
4.3 Communicating Results	1	79	8.695376	1.842146	3.503	.001
	0	37	6.952639	2.751302		
4.4 Followlng Up	1	79	8.13	3.16	2.597	.012
	0	37	6.35	3.57		
ST400	1	79	32.396035	6.392420	4.302	.000
	0	37	24.504688	10.263200		

1=know, 0=doesn't know

Table 7

	Bank=1 Others=0	N	Mean	Std. Deviation	t-test for Equality of Means	
					t	Sig. (2-tailed)
4.1 Planning the Audit	1	31	8.420962	2.439017	2.425	.018
	0	85	7.132609	2.772793		
4.2 Examining and Evaluating Information	1	31	8.129888	1.415303	5.034	.000
	0	85	6.183879	2.685146		
4.3 Communicating Results	1	31	9.216667	.728412	4.795	.000
	0	85	7.746655	2.555869		
4.4 Following Up	1	31	8.34	2.88	1.649	.104
	0	85	7.28	3.52		
ST400	1	31	34.103001	5.231243	4.228	.000
	0	85	28.338437	9.110876		

Table 8

	Manufacture=1Otherwise=0	N	Mean	Std. Deviation	t-test for Equality of Means	
					t	Sig. (2-tailed)
4.1 Planning the Audit	1	39	7.091981	2.827282	-1.061	.292
	0	77	7.671874	2.688996		
4.2 Examining and Evaluating Information	1	39	6.427375	2.634694	-.816	.417
	0	77	6.844008	2.522219		
4.3 Communicating Results	1	39	7.800928	2.521948	-1.074	.287
	0	77	8.310989	2.192415		
4.4 Following Up	1	39	7.06	3.44	-1.129	.263
	0	77	7.81	3.35		
ST400	1	39	28.376694	8.804287	-1.324	.190
	0	77	30.639859	8.483973		

Table 9

	Legal Status Joint Stock=1 Others=0	N	Mean	Std. Deviation	t-test for Equality of Means	
					t	Sig. (2-tailed)
4.1 Planning the Audit	1	92	7.276814	2.862572	-1.870	.068
	0	24	8.243944	2.069510		
4.2 Examining and Evaluating Information	1	92	6.733366	2.570734	.243	.810
	0	24	6.591106	2.553610		
4.3 Communicating Results	1	92	8.041796	2.464808	-1.150	.255
	0	24	8.514048	1.569212		
4.4 Following Up	1	92	7.78	3.29	1.287	.207
	0	24	6.72	3.67		
ST400	1	92	29.830237	9.126121	-.144	.886
	0	24	30.065765	6.488806		

Appendix

Table 5

		4.1 Planning the Audit	4.2 Examining and Evaluating Information	4.3 Communicating Results	4.4 Following up
4.1 Planning the Audit	Pearson Correlation	1.000	.690***	.640***	.326***
	Sig. (2-tailed)	.	.000	.000	.000
4.2 Examining and Evaluating Information	Pearson Correlation	.690***	1.000	.590***	.337***
	Sig. (2-tailed)	.000	.	.000	.000
4.3 Communicating Results	Pearson Correlation	.640***	.590***	1.000	.442***
	Sig. (2-tailed)	.000	.000	.	.000
4.4 Following up	Pearson Correlation	.326***	.337***	.442***	1.000
	Sig. (2-tailed)	.000	.000	.000	.

*** Correlation is significant at the 0.01 level (2-tailed). N=116 in all cases

Table 6

		4.1 Planning the Audit	4.2 Examining and Evaluating Information	4.3 Communicating Results	4.4 Following up	ST400
Director of IAD experience in the audit dept.	Pearson Correlation	-.019	-.053	-.107	-.166*	-.115
	Sig. (2-tailed)	.842	.575	.259	.080	.227
	N	113	113	113	113	113
Director of IAD experience in the other dept.	Pearson Correlation	-.134	-.223**	-.174*	-.131	-.207**
	Sig. (2-tailed)	.150	.016	.062	.160	.026
	N	116	116	116	116	116
Director of IAD experience as an auditor outside this firm	Pearson Correlation	.048	.149	.090	.044	.101
	Sig. (2-tailed)	.610	.109	.337	.639	.281
	N	116	116	116	116	116
Director of IAD experience other than auditing outside this firm	Pearson Correlation	-.003	-.061	-.031	-.081	-.059
	Sig. (2-tailed)	.974	.518	.744	.385	.528
	N	116	116	116	116	116
Educational degree of the director of IAD	Pearson Correlation	.029	.121	.074	.139	.120
	Sig. (2-tailed)	.755	.195	.431	.137	.201
	N	116	116	116	116	116
His age	Pearson Correlation	-.026	-.055	-.098	-.053	-.072
	Sig. (2-tailed)	.778	.557	.296	.574	.445
	N	116	116	116	116	116
No. of employees	Pearson Correlation	.138	.144	.078	-.208**	.022
	Sig. (2-tailed)	.190	.172	.458	.046	.836
	N	92	92	92	92	92
Log sales	Pearson Correlation	.207	.326**	.079	-.073	.161
	Sig. (2-tailed)	.112	.011	.547	.578	.219
	N	60	60	60	60	60
Log assets	Pearson Correlation	.136	.244**	.193*	.057	.188*
	Sig. (2-tailed)	.207	.022	.072	.600	.080
	N	88	88	88	88	88

*** Correlation is significant at the 0.01 level (2-tailed).
** Correlation is significant at the 0.05 level (2-tailed).
* Correlation is significant at the 0.10 level (2-tailed).

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sector achieved a significantly better professional performance of audit work than the other sectors did. It was also found that when a charter for internal audit did exist, a much higher professional performance was achieved. Finally, the analysis of the state's influence confirmed that the differences in practicing the internal audit function among the Gulf States were generally insignificant, and thus it suggested that harmonization was possible in this profession.

The implication of these findings is twofold. First, to enhance the performance of internal auditing in the Gulf Region, the guidelines of the SPPIA should be implemented and internal audit departments need to maintain an effective charter and be led by professional personnel. Second, it is probably more efficient for the six GCC countries to work closely to develop the internal audit profession in the region.

For future studies, each of the four elements of the performance of internal auditing, i.e. planning the audit; examining and evaluating information, communicating results and following up, needs further investigation. For example, to what extent might the cultural background affect these practices? And what better role could top management, audit committees and external auditors play to enhance the performance of the internal audit? Finally, how might the independence of an internal audit unit affect the performance of internal audit work?

significant ($p < .01$) association with enhanced compliance with the three of the specific standards (the exception is to Follow Up, $p > .20$) and the overall Standard 400 (see Table 16). Table (17) shows that, if the audit department had written policies and procedures to guide the audit staff, the average compliance with the four specific sub-standards and the general standard was better than if the department did not have such formal documents. However, the differences between the two groups are only significant ($p < .05$) in the case of Follow Up.

THE INFLUENCE OF THE STATE

There has been a call for harmonization of accounting and auditing standards among regional organizations. For example, it was suggested by several studies, that harmonization of accounting and auditing could be enhanced with less opposition when standards are constructed for an individual grouping of countries which share homogeneous factors (Wood 1993; Rivera 1989; Doupnik 1986). It is interesting to test the above theory using performance of internal audit work in the States of the Arabian Gulf Region. The member countries of the Gulf Cooperative Council (Saudi Arabia, Kuwait, United Arab Emirates, Qatar, Bahrain, and Oman) share similar and strong economic, social and religious cultural characteristics and trade links.[19]

Although as Table (18) shows there are some differences in the means of compliance with the Performance of Audit Work Standard and its specific standards, using the ANOVA test, these differences are not statistically significant at conventional levels of significance in Examining and Evaluating Information, Communicating Results, Following Up, and the overall Standard 400.[20] Nevertheless, at the 10% level of significance, the mean compliances with Planning the Audit, statistically differ among the Gulf States.

SUMMARY

This study in focusing on the SPPIA has explained how the internal audit function was performed in the region of Arabian Gulf. It is clear that the vast majority of the internal audits performed were done in a professional way when the audit was planned, although some issues, for example special opportunities to achieve benefits and changes in audit staff, were ignored during the planning stage in the majority of performed audits. Examining and evaluating information were in adherence to the guidelines of the SPPIA in the majority of the audits, though flowcharts and summaries of interviews were in less use (< 50%). One of the major problems facing the internal audit function in the rejoin was that, in many cases (> 55%), the ultimate report did not reach the board of directors or audit committee. Another important issue, not usually recognized by the majority of respondents was that significant audit findings and recommendations (in about 70% of the surveyed firms) were not immediately brought to the attention of management.

This study also highlighted that the size of companies did not have a strong impact on the professional performance of internal audit functions. Nevertheless, the size of the internal audit unit did have a significant positive correlation, with such a performance. The banking

[19] Alshammiry (1994) identifies and discusses the similarities in the environmental circumstances among the Gulf countries.

[20] One of the Gulf States (Oman) was excluded since there were not enough observations to run the test. Therefore, the comparison is between Saudi Arabia, Kuwait, UAE, Qatar, and Bahrain.

overall Standard 400. However, compliance with Following Up was not significantly ($p > .90$) affected by the size of internal audit department in terms of budget.[18]

In any organisation, it is likely that the director of the internal audit function will significantly influence the level of compliance with the Performance of Audit Work Standard, and this is perhaps even more so in the relatively hierarchical business environment in the Arabic Gulf region. Here, there is an association between the age, experience, academic and professional background, and the IIA knowledge of the director of the internal audit and compliance with Performance of Audit Work general and its specific standards.

Both the age and educational background, as shown in Table (6), had no significant statistical association with the Performance of Audit Work general standard or with any of its specific sub-standards. Similarly the audit experience of the director of the internal audit department and his non-audit experience outside the current firm had no significant influence on the compliance with any of the four specific standards and the overall Standard 400. Surprisingly, the experience of the director of the internal audit department had a negative significant ($p < .10$) correlation with the Follow Up sub-standard. In addition, but perhaps not surprisingly, the experience of the director of the internal audit department, in the other departments within the same company had a negative significant correlation with Examining and Evaluating Information ($p < .05$), Communicating Results ($p < .10$) and the overall Standard 400 ($p < .05$). However, the coefficients of these correlations are small.

Clearly the level of the director of internal audit's knowledge of the IIA and its standards is likely to influence compliance with audit performance. In seeking to gauge the importance and strength of this factor, the impact of the following three factors on the compliance with the Performance of the Audit Work Standard and its specific standards were tested: general knowledge about the IIA, familiarity with the Internal Audit Standards and the Code of Ethics issued by the IIA, and membership in the IIA. Tables (12, 13, 14) set out the results of the mean comparisons under these factors and as can be seen the means of scores in all cases (Planning the Audit, Examining and Evaluating Information, Communicating Results, Following Up and the overall Standard 400) are significantly higher ($p < .01$ in all cases and $< .05$ in Follow Up) when the director of internal audit department was a member of the IIA, and was familiar with the Internal Audit Standards and Code of Ethics issued by the IIA or knew about the IIA.

CHARTER'S EFFECT

The existence of a charter for an internal audit department is expected to positively influence compliance with the Performance of the Audit Work Standard. The mean comparison results, as in Table (15), show that those internal audit departments which had formal terms of reference exhibited higher compliance with this Standard ($p < .01$) and all the specific standards: Planning the Audit ($p < .05$), Examining and Evaluating Information ($p < .01$), Communicating Results ($p < .05$) and Following Up ($p < .01$). The extent to which these terms of reference were consistent with those set down by SPPIA also had a highly

[18] A further two mean tests were run with the zero-one variable as the director of the internal audit department's assessment of the adequacy of the size and budget of the internal audit department as the respective independent variables. These results, as presented in Tables (19, 20) showed that those departments which perceived (by their directors) to have sufficient staff and budget to successfully carry out its duties and responsibilities perform the audit better than the other departments.

of the sample of the 116 companies as operating in the banking sector. Table (7) sets out the mean scores achieved in Planning the Audit, Examining and Evaluating Information, Communicating Results, and Following Up and the overall Standard 400 for both the banking and non-banking groups.

As can be seen, the overall mean compliance achieved by the banks (34.10) is noticeably higher than that in the other industries (28.34), and the difference between these two means is statistically significant (at the 1% level). The banking sector achieved better scores in Planning the Audit (sig < .05), Examining and Evaluating Information (sig < .000), Communicating Results (sig < .000), and Following Up (sig < .10).

It may be that the longer length of the production cycle in manufacturing and the greater scope for performance and quality audit would suggest that internal audit compliance with the Performance of Audit Work Standard will be greater in manufacturing as compared to non-manufacturing companies. Table (8) shows no statistical significant difference in compliance with the four performances of audit work specific standards (p > .26) and the overall Standard 400 (p = .19), both for manufacturing and non-manufacturing groups. From this lack of a significant difference, it might be inferred that the performance of internal auditing in manufacturing, does not significantly differ from the other industries.

One particular feature of joint stock companies in the Arabian Gulf Region is that they are expected (required by law in some states such as Saudi Arabia) to have audit committees. In that audit committees may well seek both to empower the internal audit and to monitor the work of internal audit, it may be that compliance with the Performance of Audit Work Standard is greater in these companies. However, as Table (9) shows, the differences in means in all cases (except for Planning the Audit Standard where non-joint stock companies achieved better mean which is significant at the 10% level of significance) are not statistically significant in any instance.[17]

THE SIZE OF THE INTERNAL AUDIT DEPARTMENT AND ROLE OF ITS DIRECTOR

A priori, one would anticipate that large internal audit departments would exhibit greater compliance with the Performance of Audit Work Standard. Both the total number of internal audit staff and the internal audit budget were used as indications for size, and a difference-of-means test based on a simple dichotomy between small (£ 5 staff) and large (> 5 staff) internal audit departments was carried out. The results of this test are shown in Table (10). As indicated in this table, internal audit departments with more than five staff members exhibit significantly (p < 0.01) greater conformance to three of the specific standards (Planning the Audit, Examining and Evaluating Information and Communicating Results), but there is no significant association with Following Up (p > .80). The Compliance on Performance of Audit Work Standard was better achieved (p< .05) when the size of the internal audit department was large. Departments having budget of more than half a million Saudi Riyals achieved, as in Table (11), had significantly (p < .01) better compliance with Planning the Audit, Examining and Evaluating Information, Communicating Results and the

[17] P > 0.20 in three specific standards and the overall standard.

The Effect of Specific Variables on Professional Performance of Audit Work

The differing scores achieved by individual companies can be used to provide insights into how a number of specific variables impact upon overall levels of compliance with the Performance Standard. Four separate categories of variables were subject to investigation: the company-specific variables, the size of internal audit and the characteristics of its director, the terms of reference of the internal audit department and the influence of the state.

COMPANY-SPECIFIC VARIABLES

On the basis of review of the prior literature and the interview evidence, the following four company specific variables were chosen for examination: size, industry classification, legal form and size of the internal audit department.

Three separate figures were used as indicators of firm size: total sales, total assets and total number of employees. The Pearson Correlation between these size measures and the compliance with specific standards (Planning the Audit, Examining and Evaluating Information, Communicating Results and Following Up) and the overall Standard 400 compliance were run. The results as shown in Table (6) indicate that there are no significant statistical associations ($p > .10$) between all the size figures and Planning the Audit. The size of the firm in terms of number of employees has a significant ($p < .05$) negative correlation with Following Up, while sales variables have a positive, significant ($p < .05$) association with Examining and Evaluating Information. Total assets are significantly correlated with Examining and Evaluating Information ($p < .05$), Communicating Results ($p < .10$) and the overall Standard 400 ($p < .10$).

Although comparable data for other countries is not available, the weakness of the statistical association does suggest that the likelihood of large Gulf companies not having an internal audit function is greater than that found in more developed countries. This supports both the findings of the interview process and the observation of the researcher as to the patchiness of the internal audit function in large companies, with many such companies either having no internal audit function or one that is too small to be effective. Whereas in some companies the internal audit department staff was more than 70 in number, in two of the twenty largest Gulf companies, the entire internal audit function comprised just one individual whose duty, in one of these firms was restricted to checking payment vouchers.

The history of the development of internal auditing, both internationally and in the Gulf region, would suggest that companies in certain industry categories would be more likely to comply with the Performance of Audit Work (400) Standard than others. In particular, there was a strong expectation that compliance levels would be higher in the banking sector than in other industrial categories. A rather less strong expectation was that compliance in the manufacturing sector would be higher than in service industries.

Industrial classifications were taken from both the Top 1000 Saudi Companies 1997/1998 and the GCC Countries Manual of the Joint Stock Companies 1995, and this identified 31

FOLLOWING UP

As suggested by Burr (1997), follow up is one of the keys to a successful internal audit. He noted, "The largest cause of failure in internal audits is the lack of effective corrective action...."

In 88 (76%) companies, the internal audit department was responsible for follow up and for ensuring that corrective actions were taken. However 28 (24%) of the responding departments did not follow up.[16] The following was a comment noted by a respondent:

> Since there is not enough staff, follow up is not possible.

In those departments where follow up did take place, there was a formal policy for a subsequent audit follow-up in 88% of the cases. Interestingly, in 101 (87%) of the responding companies, internal audit departments followed up with the external auditor's recommendations.

To ensure that an internal audit department performs its work effectively and efficiently, the SPPIA recommends implementing a quality assurance review. The review can be of different forms: internal (i.e. audit committee) and external (i.e. external auditors). The potential respondents were asked whether periodic reviews of the internal audit department were conducted and by whom. More than half of the respondents (60 respondents, 52%) disclosed, "no reviews are conducted." 41 (35%) respondents claimed that either, or both, board of directors and audit committee conducted such reviews, and only in 15 (13%) of the surveyed companies did 'external parties' provide periodic reviews of the internal audit department.

ANALYSIS OF DATA

From the correlation matrix, as presented in Table (5), there are strong significant ties (corr. > 0.50, $p < .01$) between each two pairs of the following Specific Standards: (a) Planning the Audit (410), (b) Examining and Evaluating Information (420), and (c) Communicating Results (430). However, although the Following Up (440) Specific Standard is significantly ($p < .01$) correlated to the above three standards, the correlation coefficients are smaller (corr. < 0.5). This may indicate that even though an internal audit department did a good job in performing the audit work, follow up procedures were neglected.

[16] Comparing these finding to a study which was carried out in Japan (Aoki and Sakurai 1989) in more than 98% of responded companies, the internal audit department conducts follow-ups.

These figures suggest that the majority of the internal audit departments of the Gulf corporate sector, included audit programs (84%), copies of important contracts and agreements (75%), results of control evaluations (75%), results of audit tests and analyses (80%) and the management's responses to audit reports (73%) in their audit working papers. Control questionnaires and checklists were only used by about half of the surveyed departments (52%). More than half the internal audit departments in the region did not include either flowcharts (56%) or summaries of interviews (53%) in their audit working papers. The requests for access to these audit working papers were subject to approval of the director of internal auditing in 54 (47%) departments and could be accessed without the director's approve in 62 (53%) internal audit departments.

COMMUNICATING RESULTS

Communicating the audit results to the right people, at the right time, using the right format is a significant part of audit performance procedure. After completing the audit, 95% of the internal audit departments who responded, submitted a signed, written report that included the audit purpose and scope (84%), audit findings and conclusions (98%), audit recommendations (96%), and auditees' views about findings and recommendations (80%). The question, "Does the auditee's management review the draft of audit reports," was asked to the potential respondents. Three quarters answered 'yes'.

The ultimate report went to the board of directors in 30% of the surveyed companies, audit committees in 15%, general managers in 46%, and lower positions in 9%. These figures suggest that in more than half of the internal audit departments in the Gulf corporate sector the recipient of the internal audit report was an individual and, according to Montondon (1995), this could negatively affect the independence of internal audit function: "If the internal auditor reports solely to that individual, the appearance of tampering with the internal audit findings is present and possibly harmful to the internal auditors' perceived independence."[15]

The significant audit findings and recommendations were immediately brought to the attention of the management in 37 (32%) departments, within 10 days in 34 (29%) and within one month in 18 (16%). 27 (23%) of the responding internal audit departments only brought these findings to the attention of the management in the periodical report.

[15] Ridley and D'Silva (1997) suggest that for best practice internal auditing should be accountable to the full board for the services it provides.

Table 3
Frequencies of Respondents who Considered the Underlined Activities during Audit Work Schedules

The Activity	Yes	%	No	%
The date and results of last audit	97	0.84	19	0.16
Financial exposure	54	0.47	62	0.53
Requests by management	82	0.71	34	0.29
Potential loss and risk	87	0.75	29	0.25
Special opportunities to achieve benefits	30	0.26	86	0.74
Changes in audit staff	23	0.20	93	0.80
Major changes in operations and systems	73	0.63	43	0.37

During work scheduling, more than 70% of the respondents took into account, the date and results of last audit, requests by management and/or potential loss and risk, while more than half (53%) of the respondents did not consider financial exposure. However, the majority of the respondents did not take notice of special opportunities to achieve benefits (74%) and changes in audit staff (80%) when preparing the audit work schedules. The question, "Are the audit work schedules flexible enough to cover unanticipated demands," was asked of the potential respondents (the surveyed internal audit departments). 79 (84%) of them answered 'yes', and 19 (16%) answered 'no'.

Examining and Evaluating Information

An internal auditor is required to gather, examine and evaluate data with regard to tasks that are subject to auditing. The respondents were asked how frequently analytical auditing procedures (such as ratios, trends, regressions and comparisons) were used to examine and evaluate the collected information. Only 36 (31%) of the respondents answered 'always'. In about 40% of the surveyed departments, such procedures were uncommon. Table (4) shows the number (and percentages) of the respondents that include or do not include the following items in the audit working papers:

Table 4
Frequencies of Respondents Including the Underlined Items in the Audit Working Papers

The Item	Yes	%	No	%
Audit programs	98	0.84	18	0.16
Control questionnaires and checklists	60	0.52	56	0.48
Flowcharts	51	0.44	65	0.56
Summaries of interviews	55	0.47	61	0.53
Copies of important contracts and agreements	87	0.75	29	0.25
Results of control evaluations	87	0.75	29	0.25
Results of audit tests and analyses	93	0.80	23	0.20
The Management's responses to audit reports	85	0.73	31	0.27

[14] In a study carried out in USA in 1989, 88% of the responded internal auditors reported that checks of financial control systems is almost always carried out by internal auditors (Wood and Wilson 1989)

Table 2
Frequency of Respondents Who Undertook
The Underlined Activities at the Audit Planning Stage

Activity	Yes	%	No	%
Prior audit working papers and reports are reviewed.	96	0.83	20	0.17
The resources (e.g. number of staff and qualifications) necessary to perform the audit are reviewed.	78	0.67	38	0.33
Reports by other agencies, where applicable, are obtained.	82	0.71	34	0.29
The objectives and goals of the activities to be audited are obtained and reviewed.	95	0.82	21	0.18
Preliminary communication is made with auditees.	82	0.71	34	0.29
A written audit program is established.	94	0.81	22	0.19
The recipient of the audit report is identified.	80	0.69	36	0.31
Organisational information (e.g. job description and organisational charts) is obtained.	87	0.75	29	0.25

Although the above activities were carried out by the majority of the respondents, the resources (e.g. number of staff and qualifications) necessary to perform the audit were not reviewed by more than 30% of the respondents. Nor were the recipients of the audit report identified. Furthermore, nearly 30% of the responding internal audit departments did not obtain applicable reports of other agencies, and with a similar percentage of the respondents, no preliminary communication with auditees took place.

92 (79%) of the surveyed departments indicated that the plan for each audit section covered goals, 61 (53%) staffing plans and financial budgets, 93 (80%) activities to be audited and 81 (70%) audit work schedules. These findings suggest that in about half of the responded internal audit departments, the plan for each audit did not cover staffing and budgeting.

The respondents were asked about whether or not certain risk factors were considered when determining the scope of the audit engagements. Competence, adequacy and integrity of personnel were considered by 84 (72%) departments, and 77 (66%) of the respondents agreed that they took into account the asset size, liquidity, and transaction volume of the audited section. However, in only 48 (41%) of the respondents, were financial and economic conditions considered. The adequacy and effectiveness of the system of internal control was considered by 104 (90%) of the internal audit departments, and in more that 70% of the departments, both the data and results of previous audits and the degree of computerised information systems were considered. In about half of the respondents internal audit departments, risk factors represented in acceptance of audit findings and corrective action taken, were not considered when determining the scope of the audit engagements.

Table (3) represents some of the activities recommended taken into account, when preparing the audit work schedules and the number (and percentages) of responding companies that consider such an activity.

certain questions, there was the possibility of complete conformance, no conformance at all or an intermediate level of conformance. Responses to these questions were converted to a score between (and including) 0 and 1. In determining the conversion, it was, on occasion, necessary to use some subjective judgement.

The questionnaire responses were coded and entered into the computer. Data-entry checking procedures with regard to blank responses, responses below minimum or above maximum values and the validity of the coded responses were employed. These responses were then weighted on the basis of their importance to the underlined standards.

Performance of Internal Auditing in the Arabian Gulf Corporate Sector

The Institute of Internal Auditors has promulgated five general standards and twenty-five, specific sub-standards aimed at improving the quality of the internal audit service. They are also aimed at the value that the internal audit service can add to the entity and society. Standard 400 (Performance of Audit Work) focuses on how the internal audit work can be performed in a professional manner. This standard encompasses the following four specific standards: 410 Planning the Audit; 420 Examining and Evaluating Information; 430 Communicating Results; 440 Following Up.

Out of the 250 companies included in the sample it was established that in 61 companies (24%), no internal audit function existed. In the majority (> 70%) of the companies responding to the questionnaire, there was an internal audit unit. The size of the internal audit department was small in terms of number of staff (# 5). Moreover, in several firms, only one internal auditor worked for the company.

PLANNING THE AUDIT

"You will spend almost as much time preparing for the audit as you will be doing it" (Burr 1997, p. 75). The first key of a successful internal audit is planning, that takes various factors into account: what the audit is all about, the available resources and how to conduct the audit. There are the three factors to be considered during the planning stage, and these factors need to be set out before proceeding into the audit fieldwork.

The respondents were first asked whether they carried out a formal procedure for planning an audit. 83 (72%) of the respondents always did have such procedure, while 33 (28%) of the responding departments did not always follow a formal procedure when planning an audit. Only 46 (40%) of the responding internal audit departments made a preliminary survey if they found it necessary. However in 30 (26%) departments, such a survey was not often used. Table (2) shows the activities to be undertaken at the audit planning stage, as recommended by the SPPIA, and the number (and percentage) of companies that did practice such activity.

[13] Previous studies indicated that responses to internal audit surveys could be as low as 5%, and for many, response rates in the range 10 to 30% were achieved.

Table 1
Questionnaires Distributed to and Collected from Directors of Internal Audit Departments and Their Response Rates

Place & Type of Companies in the Study Sample		No. of Companies in the Sample	No. of Questionnaires Sent	Returned Questionnaires	
				No.	%
Saudi Companies	Joint stock	90	89	55	76%
	Other private companies	67	46	23	62%
	Total	157	135	78	72%
Other Gulf Companies (joint stock)	Kuwait	27	27	15	75%
	UAE	31	31	9	32%
	Qatar	11	11	7	70%
	Bahrain	13	13	6	50%
	Oman	11	11	1	10%
	Total	93	93	38	48%
Total		250	228	116	61%

Concerns as to non-response bias are mitigated in this study because of the relatively high response rate. That is, this rate understates the "true" response rate in terms of companies with an internal audit function, as some of the non-respondents are likely to be companies without an internal audit function. Unsurprisingly, the response rate for Saudi companies, where both preliminary and follow up procedures were more detailed, was higher than that for the Gulf companies. This is despite the fact that, although the non Saudi response rate, which was slightly less than 50% of eligible respondents, is still high by the standards of international mail surveys.[13]

EVALUATION AND ANALYSIS

In this study significant attention was paid to the problems associated with aggregating and weighting the responses, and a separate questionnaire instrument was administered for the purpose of obtaining justifiable weightings across the categories of questions asked.

The majority of the questions asked were drawn explicitly or implicitly from the guidelines that accompany the IIA Standards. The responses to these questions had to be interpreted to determine whether they indicated compliance or non-compliance with the relevant standard. For these questions requiring a yes/no answer, 'yes' scored one and 'no' zero. However, for

[10] Internal auditing departments in Gulf firms utilize different names. In some companies, it is called the check office or division, while in some others, it is known as the inspection unit, review section or supervision department. The director of the internal audit department is referred to in some banks as "The General Auditor" and in some firms as "The Manager of Auditing."

[11] Other than to those companies where it had been established that there was no internal audit function

[12] Bourque and Fielder (1995, p. 14) remarked that the low response rate to the mail questionnaire is one of its greatest disadvantages. 12 In addition, Vinten (1994) notes that the response rates to questionnaire-based internal audit research are usually low.

A questionnaire method was employed to collect data on the practice of internal audit in Arabian Gulf companies. The data helped in evaluating the compliance of the internal audit function in those companies with the Performance of Audit Work General Standard (Standard No. 400) of the Standards for the Professional Practice of Internal Auditing (SPPIA) issued by the IIA.[9]

The majority of the questions were closed-ended and encouraged the identification of a specific response from a given selection. In a number of questions, there was scope for an answer outside the range given. Originally, the questionnaire was constructed in English. Because the general language of the target population was Arabic, the questionnaire had to be translated into that language.

Pre-testing a questionnaire instrument is an important step in seeking to ensure its reliability and validity (Thomas 1996). Pre-testing procedures involved the input of the following bodies and individuals: the IIA standards committee, the IIA Chapter in Saudi Arabia, academic faculty members, CIA holders, the researcher's colleagues, and language specialists. As a consequence of pre-testing, a number of stylistic changes were made to enhance clarity and to encourage response.

Bourque and Fielder (1995) identify the possibility that response rates can be improved if preliminary contact is made with the potential respondent ahead of sending the actual questionnaire. Given the particular nature of the Saudi business culture, it was judged essential to establish such preliminary contact. Thus an attempt was made to communicate with the entire study sample within Saudi Arabia (and some of those outside Saudi) via letter, telephone calls, e-mail and/or personal contact. Letters were sent to the joint stock companies, but contact was sought with private companies by means of a telephone call. These preliminary contacts also served to establish whether or not the company had an internal audit function.[10]

The questionnaire was sent to the study sample[11] in July and August 1998. A follow up letter to non-respondents was sent at the end of August 1998 and in the second half of September further follow-up procedures in the form of visits and telephone calls were initiated.

In total, 228 questionnaires were sent out. In 39 instances it was established that these companies did not have an internal audit function. From the remaining 189 questionnaires, 116 usable responses were obtained. This response rate of 61% is much higher than that found in most questionnaire surveys of this type.[12] Table (1) categorises the responses received across type of company (for Saudi responses) and by country (for non-Saudi responses).

[4] For eleven companies telephone contact could not be established.

[5] Contact information (address and telephone number) for joint stock companies was obtained from the *Saudi Joint Stock 6 Companies Director*, 1997. Riyadh Chamber of Commerce.

[6] Contact information (address and telephone number) for these companies was available in the *Top 1000 Saudi Companies 1997-1998*. 5th Edition.

[7] The large joint stock companies were chosen because the probability of their having a functioning internal audit was relatively high in addition to the fact that contact information was also available.

[8] These companies were listed in the *GCC Countries Manual of the Joint Stock Companies (1995)*.

[9] The standards, sub-standards and their guidelines are from the then latest issue of the *Standards for the Professional Practice of Internal Auditing (1997)*, The Institute of Internal Auditors, Florida, USA.

order for internal auditing to continue providing value-added services, the role and performance of audits should be shifted in focus from control to risk management.

While risk can be in a variety of forms, employee fraud is considered to be among the greatest risks to the organisation (Internal auditing, October 1999: pp. 11-15).
Hillison *et al.* (1999) note that in spite of the Statement on Internal Auditing Standard (SIAS) No. 3 [Deterrence, Detection, Investigation and Reporting of Fraud], internal auditors are still responsible for, and their role should include, examining and evaluating the entity's internal controls. The prevention of fraud, of course, is one purpose of such controls. Hillison *et al.* suggested several steps to help internal auditors reduce the occurrence of fraud.

On the other hand, Glover *et al.* (1999) saw that it was essential for internal auditors to be involved in enterprise resource planning (ERP) systems. They suggested "internal auditors can be part of the solution by being appropriately and actively involved in ERP adoptions, from start to finish." In their study, Wood and Wilson (1989) tested the impact of stress (which is not directly addressed by the SPPIA) on performance of audit work. From the responses to a questionnaire survey of 518 (response rate 28%) of UK and Canadian members of the IIA, the authors concluded that internal auditors who were under high stress would not be able to perform as well as others not experiencing such stress.

RESEARCH METHODOLOGY

In any sample-based, survey study, it is necessary to clearly define the population being surveyed and to seek to ensure that the sample selected provides an accurate representation of that population (Weisberg and Bowen 1977, Thomas 1996). In concept, the population of this study consists of all Gulf companies that have an internal auditing function. However, given the relatively low incidence of internal auditing in Gulf-region companies, and in order to carry out the survey in an economical and efficient manner, it was necessary to carry out a preliminary survey to establish those types of companies within which internal audit departments were typically to be found.

For this purpose a sample of 100 companies was randomly selected from a listing of the 1,000 largest[2] Saudi companies[3] and telephone interviews conducted to establish the existence or otherwise of an internal audit function. In all, 89 responses were obtained.[4] In eighteen instances, the company did have an internal audit function and in seventy-one it did not. The great majority of companies with an internal audit function fell into one of the three categories: 1) joint stock companies, 2) group companies, and 3) large (in the top 100) private companies. In consequence, the survey sample was based on these three categories giving the following sample numbers:

i) All Saudi Joint stock companies (90).[5]
ii) All Saudi Group companies – in the top 1000 (25).[6]
iii) Saudi Large private companies – in the top 100 (42).
iv) The sample of the Arabian Gulf companies was selected on the basis of the inclusion of all the large (turnover in excess of SR 20m) joint stock companies[7] operating in the area (93).[8]

[2] Small companies were excluded because they usually do not have an internal audit function. The researcher contacted, personally and by telephone, several of such companies and none of them had an internal audit function or its equivalent.
[3] *Top 1000 Saudi Companies 1997-1998.* 5th Edition. Published by IIT, Saudi Arabia.

LITERATURE REVIEW

Since no study was found focussing particularly on performance of internal auditing in the Arabian Gulf Region or any of its States or on compliance with Performance of Audit Work Standard and its specific sub-standards worldwide, this literature review will cover the studies that discussed performance of internal auditing and improving its quality, in general terms.

Standards of Professional Practice of Internal Auditing (SPPIA) emphasized that "audit work should include planning the audit, examining and evaluating information, communicating results, and following up." SPPIA saw planning the audit work to be the first step to be embraced by internal auditors and so in the Performance of Audit Work Standard, planning was the first of its specific sub-standards. IIA-UK (1988) reported that external auditors mentioned "quality control of audit work, planning, supervising and review of work" as important criteria to be considered when evaluating the internal audit function. One important aspect of the planning process is the preliminary survey that, as noted by Robertson (1993), helps familiarize auditors with the activity being audited and helps identify problem areas. Familiarization with the audited activity and problem area identification are the reasons why internal auditors commonly begin the audit engagements with a preliminary survey (Brody and Kaplan 1996). Wynne (1999) emphasizes that planning is an essential part of current internal auditing, and in order to do it successfully, Wynne suggests taking the following three objectives into account when doing the audit planning process: assurance, risk management and external audit reliability.

A great majority of the recent comments and research on which internal auditing is supposed to focus more, hold that risk assessment is a domain in a successful internal audit performance.[1] See, for example, Maynard (1999), Everest-Hill and Young (1999), McNamee and Selim (1999), and Bachman (1999). Risk assessments should be considered early in the planning audit work stage (SPPIA 1999). Lampe and Sutton (1994) noted that internal auditors commonly select the auditable units for "scheduled internal audit assignments" using "risk assessments procedures." The researchers found that such assessments should be considered during the fieldwork, when internal auditors review and monitor control structure, policies and procedures. The trend towards approaching internal audit using risk assessment, is a new phenomenon. This was noted by Everest-Hill and Young (1999): "although control self-assessment and risk assessment have been around for a decade, only in the last few years have these procedures become widely used in internal audit departments." McNamee and Selim (1999) also noted: "During the past decade, control models have been a dominant factor in improving internal audit performance and managing organizational risk. Now, risk-based auditing pushes those models a step further and points internal auditors toward the future."

Selim and McNamee (1999) studied the involvement of internal auditing in risk management when performing the audit work. They noted, "If the auditor focuses on risks, the audit is more likely to address the full range of issues that concern management" (p. 162). They also suggested that internal auditors should identify and focus on risks instead of testing controls. In their conclusion, Selim and McNamee (1999) emphasised that, in

[1] The title of the October 1998 issue of *Internal Auditor* was 'Risk'.

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AN EVALUATION OF THE PERFORMANCE OF INTERNAL AUDITING IN THE ARABIAN GULF REGION

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Abstract

The manner in which internal audit work is performed is a significant issue of successful auditing. How to perform professional audit work was the focus of the Standards of Professional Practice of Internal Auditing (SPPIA), promulgated by the Institute of Internal Auditors (IIA), in particular Standard 400. The aim of this work is to examine the performance of internal audit work in the Gulf Region, in connection with the guidelines attached to Standard 400, and to identify some of the key factors affecting the quality of the performance. In general terms, the majority of the responding firms follow professional procedures when performing audits. In most of these firms, however, the ultimate report does not reach top management. There was evidence of the effect of some internal factors, such as the size of the internal audit department, the role of its director, and the existence of a charter for the department, on the professional performance of the internal audit work, but no proof of different performance practices of internal audit within different Gulf States.

INTRODUCTION

The Arabian Gulf Region is an important part of the world, since a great proportion of the world's oil resources come from this area. The Gulf States, as a result of extracting and exporting large quantities of oil, are amongst the richest countries worldwide. Accordingly, since companies have been rapidly increasing in number and growing in size and developing in information technology (IT) in the corporate sector of the Gulf Region, they require better monitoring and control. Internal auditing, which is described as an aid for management (Jerome, 1953), can perform an invaluable service not only for the organization itself, but also for society in general, if performed in a professional manner. Thus, the purpose of this paper is to shed light on the performance of internal auditing in the corporate sector of the Arabian Gulf region, using the standards and guidelines issued by the Institute of Internal Auditors (IIA) as a benchmark to evaluate such performance. Specifically, this paper seeks to evaluate the performance of internal auditing in the following four areas, as defined in the Performance Standard of the SPPIA: planning the audit, examining and evaluating information, communicating results and following up. Additionally, the factors that may have some effect on the quality of the performance in the above areas are also discussed. Such factors include the size of the internal audit department, the role of the director of the internal audit department and the existence of a charter for this department.