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## Internal auditing in the Middle East and North Africa: A literature review



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### ABSTRACT

The Institute of Internal Auditors (IIA) has conducted several surveys to understand the development of the internal auditing (IA) profession worldwide. In its latest survey, the Middle East and North Africa (MENA) region was expected to experience the most significant changes in the regulation of internal auditing (IIA, 2010). This 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. We find 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. This review and its findings are timely given the vast advances the IA profession is witnessing, and has implications for both the IIA and MENA countries' regulators. The study also hopes to motivate further research in this region.

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## 1. Introduction

Recently, the IIA issued the International Standards for the Professional Practice of Internal Audit (IIA, 2013). Yet, compliance with the standards has been inadequate due to cultural and legal factors influencing the practices of internal auditors (Abdolmohammadi & Sarens, 2011). Consequently, the IIA conducted the Global Internal Audit Surveys to monitor and analyse recent developments in the internal auditing regulation and practice throughout the world (IIA, 2010).

A significant finding of the survey is that the MENA region (encompassing the Middle East and North Africa) is where most significant change in the regulatory context is expected. The main driver for this potential change is the recent, rapid growth of formal corporate governance guidance in this region. However, research in IA in the MENA region is relatively scarce. Previous IA research reviews the literature in the Americas (Hass, Abdolmohammadi, & Burnaby, 2006), Europe (Allegrini, Paape, Melville, & Sarens, 2006) and the Asia Pacific region (Cooper, Leung, & Wong, 2006), but to date, no study has reviewed research relating to the MENA region.

This review is timely as it sheds light on practices in the MENA region by examining research studies and other surveys relating to the IA function conducted by other international institutes (e.g., the World Bank) and provides insights on where potential change could be most beneficial. It also reviews the regulatory codes pertaining to IA within the MENA region. Additionally, the study offers a better understanding of the internal audit practices in the MENA region. This is particularly

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significant to MENA businesses attempting to compete internationally, and may help restore international investors' confidence following the accounting scandals in the region during the past decade. Finally, we provide information on the extent of adherence of the MENA region to IIA standards.

The paper begins with background information about the MENA region. Next, it reviews the recent research studies and explores IA regulations relating to each. The final section concludes and provides recommendations for regulators and researchers.

## 2. The MENA region – a brief sketch

The MENA region includes the following countries: Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates UAE, West Bank and Gaza, and Yemen. The region's area is over 15 million square kilometres and is occupied by approximately 355 million people (World Bank, 2011), comprising six percent of the world's population.

The MENA regions' countries share close cultural and historical backgrounds despite their economic differences. Culturally, MENA region societies are collective in nature with a strong commitment to families and tribes. This extends to organisations, where centralised structures, inherent inequalities and control and command are prevalent. Furthermore, the majority of MENA countries are tied to the Islamic faith which plays a significant role in societies as well as the politics influencing rules and regulations.

Economically, some of the region's countries enjoy rich natural resources, particularly oil, despite being poor in human resources (Saudi Arabia, Kuwait, Bahrain, Qatar, and UAE). Other countries in the region are oil rich as well as labour-abundant (Algeria, Iran, Iraq, Syria) (Dahi & Demir, 2008). Other mineral and non-mineral resources include phosphate (in Algeria, Morocco, Tunisia, Jordan, Syria and Morocco), potash (in Iran, Israel, and Jordan), iron ore (the Islamic Republic of Iran), coal (the Islamic Republic of Iran), ammonia and urea (the Islamic Republic of Iran and Qatar), cotton (Egypt and Sudan), tobacco (the Syrian Arab Republic), and coffee (the Republic of Yemen). Almost all MENA countries have coasts and fishing grounds which contribute to their economic livelihood. The MENA's regions' trading partners are mainly the USA, the European countries, and Japan. The main exports (accounting for around 75 percent of the regions) are petrol and its products. In addition, phosphate and its derivatives, iron ore and cotton, are also important exports (World Bank, 2011).

In response to globalisation, the IA profession in the MENA region is attempting to grow certain critical skills. A survey by the IIA (2010) reported that the region is expected to introduce the most IA regulatory requirements (83 percent) as compared to other developing countries in Africa and Latin America (at 80 percent and 77 percent respectively). Further, the role of IA in the MENA region, particularly in risk management and governance, is expected to expand in a parallel manner to its African and Latin American counterparts (IIA, 2010).

Table 1 shows whether a code of corporate governance exists in the MENA region countries. It also provides the IIA status for these countries. Only three countries have no code of governance (i.e., Djibouti, Kuwait and Libya) despite several corporate collapses worldwide. The table also shows that half the countries in the MENA region have an IIA chapter, reiterating the importance of IIA membership to IAs in growing their support systems, advancing their knowledge base, boosting confidence, and ultimately promoting value adding skills. Interestingly, the three countries that do not have a code of governance are among the countries that do not have an IIA chapter.

**Table 1**  
MENA Corporate Governance and IIA status.

	Country	Corporate governance code	IIA membership
1	Algeria	Yes	Yes
2	Bahrain	Yes	No
3	Djibouti	No	No
4	Egypt	Yes	Yes
5	Iran	Yes	No
6	Iraq	Yes	No
7	Israel	Yes	Yes
8	Jordan	Yes	No
9	Kuwait	No	No
10	Lebanon	Yes	Yes
11	Libya	No	No
12	Morocco	Yes	Yes
13	Oman	Yes	Yes
14	Qatar	Yes	Yes
15	Saudi Arabia	Yes	Yes
16	Syria	Yes	No
17	Tunisia	Yes	Yes
18	United Arab Emirates	Yes	Yes
19	West Bank and Gaza	Yes	No
20	Yemen	Yes	No

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