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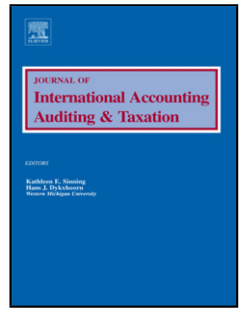

Title: Internal Auditing in the Middle East and North Africa: A Literature Review

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PII: S1061-9518(16)30004-0
DOI: http://dx.doi.org/doi:10.1016/j.intaccaudtax.2016.02.004
Reference: ACCAUD 209

To appear in: *Journal of International Accounting, Auditing and Taxation*

Received date: 5-2-2015
Revised date: 14-12-2015
Accepted date: 19-2-2016

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.

Keywords: Internal Auditing, Regulatory Reforms, MENA Region, Compliance, Consulting.

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 and 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 et al., 2006), Europe (Allegrini et al., 2006) and the Asia Pacific region (Cooper et al., 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 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 labor-abundant (Algeria, Iran, Iraq, Syria) (Dahi and 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 globalization, 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.

INSERT TABLE 1 ABOUT HERE

3. The IIA Definitions

New demands from regulatory and legislative bodies, high-profile reports (both nationally and internationally), and the rapid expansion in the business environment all contributed to the increased demand for IA services (Ramamoorti, 2003). Ramamoorti argued that internal auditors needed to acquire new skills and competencies as well as an enhanced organisational status to enable them to take on their elevated responsibilities. As such, the IIA recognised the changing role of IA, and formulated a comprehensive framework manifested in its definition of internal auditing which now includes risk management and corporate governance:

> *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.*

To accommodate the new changes, many countries revamped their corporate governance systems including those in the MENA region (IFC, 2008).

The next section reviews IA-related MENA region studies, regulations and codes, and focuses on three significant areas related to the aforementioned IIA definition: independence and objectivity; assurance versus consulting activities, and risk management's role in control and governance.

3.1.1 Independence and Objectivity

Independence is the cornerstone of the IA definition and a crucial condition to the effectiveness of IA functioning, and objectivity is considered essential for internal auditors' proper discharge of their responsibilities (Christopher et al., 2009). IIA (2012, p.21) defines independence as "the freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional and organizational levels". The IIA (2012, p.22) defines objectivity as "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."

MENA region studies suggested that IA independence and objectivity were aspects crucial to the functioning and effectiveness of IA. Some of these studies tested IA independence and objectivity from external auditors' perspective and the impact they have on their work. Others examined compliance of IA departments with IIA standards. For example, Al-Twaijry et al. (2003) examined the nature, practice and development of IA in Saudi companies including IA independence. Al-Twaijry et al. explored factors that compel companies to establish an IA department and the degree of compliance of that department with the IIA standards. Their results indicated that while IA independence was significant to their work, independence was lacking and access of IA to documentation and the board of directors was restricted largely because of poor management support and the fact that organizational status of IA departments hindered IA effectiveness.

Al-Twaijry et al. (2004) investigated the level of cooperation and coordination between internal and external audits in Saudi Arabia in light of the recent expansion of the IA role to include consulting services. The authors also tested levels of reliance of external auditors on internal audit work and the factors explaining this reliance. The results revealed that while external auditors perceived the IA role as potentially adding value to their companies, external auditors were concerned with internal auditing practices and their scope of work due to lack of independence and objectivity. These factors led to poor quality of IA work and affected external auditors' reliance on IA work.

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 organisational 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.

Another Saudi study, Alktani and Ghareeb (2014), investigated the quality of IA in the public sector in light of the recent IA regulations stipulated by Saudi Arabia. The study also 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 organisational 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. Further, external auditors expressed dissatisfaction with IA work as a result of unqualified IA staff, lack of training programs, and the poor organisational status of the IA departments.

Al-Twaijry (2004) examined internal audit practices in the Gulf Region and the extent to which these practices conform to IIA Standard 400 (performance of audit work). The study also investigated the factors that impact the quality of IA work and found that most of the 116 surveyed firms followed professional procedures when performing audits. However, the audit report rarely reached top management which was at odds with IIA requirements leading to weak organizational independence.

An Israeli study, Cohen and Sayag (2010) examined the effectiveness of IA using metrics for audit quality, auditee’s evaluations, and value added by IA. The authors tested the associations of IA effectiveness with the following: the sector of the organisation; professional proficiency of IA; quality of audit work; organisational independence; career opportunities; and top management support. The study showed that IA organisational independence increased auditees’ evaluations and that support from top management was a strong determinant for IA effectiveness.

A UAE study by Alkafaji and Majdalawieh (2012) explored internal audit practices and its contribution to corporate governance. The results revealed encouraging levels of IA independence with around 70 percent of the respondents indicating that the internal audit department was independent of management, and that most of the directors of audit (around 60 percent) reported to the audit committee. Another important finding was that the board of directors was responsible for the dismissal of IA (approximately one-third of respondents) with the approval of the audit committee (around 85 percent). It is worth noting that Saudi Arabia, Israel and the UAE are among the MENA countries that incorporated independence/objectivity clauses within their code of corporate governance. Yet, the above review indicates that IA independence was lacking in Saudi companies.

The following review addresses studies from Egypt, Jordan, Libya and Algeria: countries with no independence/objectivity clauses in their code of corporate governance. Ebaid (2011) explored a number of internal audit functions in Egyptian listed firms: insourcing and outsourcing, organisational status, internal audit activities, and interactions with external auditors. He also assessed the ability of IA function to fulfil its role in corporate governance. The author found that while a large proportion of Egyptian listed firms had internal audit functions, it was not adequately developed, and lacked organizational independence, management support, and qualified staff, all of which negatively influenced independence and objectivity.

In a Jordanian study, Suwaidan and Qasim (2010) examined the reliance of Jordanian external auditors on internal auditors and the factors that may influence that reliance. The findings showed that external auditors ranked the importance of three factors when relying on IA work. These included IA objectivity (i.e., the existence of a mission statements, the existence of an audit committee and IA independence), competence (i.e., professional certification, experience, knowledge of the standards, educational level and professional development), and work performance (i.e., efficient filing systems and proficiency in computer usage in their auditing practice).

Another Jordanian study conducted by Salameh et al. (2011) examined IA effectiveness in fraud prevention in Jordanian banks. The authors reported that internal audit was effective in fraud prevention, however, IA independence and objectivity were compromised as auditors feared top management retaliation. The authors argued that full compliance with IIA standards, a more active role by the audit committee and unrestricted access to top management would promote IA independence and objectivity.

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 organisational independence. Threats to IA independence resulted from a lack of communication with the board of directors, restricted access to organisational 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.

The above review suggests several major weakness in IA in the MENA region: a lack of internal auditors' independence including poor organisational independence, and weak management support which reduces audit quality. This warrants an examination of the regulatory requirements in MENA countries which might explain these findings.

INSERT TABLE 2 ABOUT HERE

Table 3 summarises regulations and codes relating to independence and objectivity. It shows that only a few countries including Israel, Saudi Arabia, UAE, Morocco, Qatar, Syria, Tunisia, the West Bank and Gaza and Yemen, have incorporated clauses that relate to IA independence and objectivity. It also is evident that the lack of IA independence is still a matter that recent reforms have failed to resolve in most countries. For instance, in some MENA countries, regulations require IA independence with no guidance on how to ensure independence (i.e. Syria). In fewer cases, IA independence and objectivity is addressed through the provision of access to the company's transactions and activities (i.e. Israel, Qatar and Tunisia) and through the requirements that IA should report to the audit committee in accordance to IIA requirements. This might explain the results reported by Israeli studies. Accordingly, regulators in the MENA countries may wish to follow the lead of the Israeli regulatory requirements to improve the independence of their IAs. Hence, a more rigorous enforcement of rules to ensure that IA report to audit committees may enhance independence.

The findings of four Saudi studies reviewed are interesting given that two of them were conducted before the regulatory reforms (Al-Twaijry et al., 2003; AL-Twaijry et al., 2004), while the other two were conducted after (Alzeban and Sawan, 2013: Alktani and Ghareeb, 2014). The four studies agreed that IA lacked independence including organisational independence indicating that the recent regulatory reforms did not enhance IA independence and objectivity. Reasons for these findings were attributed to the cultural and societal norms prevalent in Saudi Arabia and the majority of the MENA region countries where family and tribal considerations take precedence over business dealings and control is centralised in the hands of top management. Indeed, the significant impact of culture on IA professionalism, uniformity, and independence is well documented (Abdolmohammadi and Tucker, 2002; Kosmala, 2007; Abdolmohammadi & Sarens, 2011; Alzeban, 2015).

While the Saudi studies provided insights into the reasons for the lack effectiveness of the regulatory reforms pertaining to IA, it is not clear whether these results are generalizable to other jurisdictions. Further, prior research showed that the regulatory reforms undertaken by many of these countries did not produce the required effect. Hence, comparable research within the MENA region can enhance our understanding of whether certain regulatory measures may have been more effective than others. Specifically, research examining whether mandating certain governance mechanisms (e.g., experience or knowledge requirements for IA, including knowledge of IIA standards), could influence independence and objectivity. Moreover, the impact of other governance mechanisms such as audit committee structure and/or its role on IA independence is an interesting area for future investigation. The majority of the aforementioned studies examined features of IA functions with particular emphasis on IA independence. Hence, future research can examine IA objectivity and ways of identifying threats to objectivity and how such threats can be managed.

INSERT TABLE 3 ABOUT HERE

3.1.2 Assurance Versus Consulting Activities

Internal audit has evolved to a stage where it is regarded as a value adding service to organisations (Al-Twaijry et al., 2003). The IIA definition of internal audit stresses the value-adding role of IA by broadening the scope of IA to consulting activities in addition to assurance ones which elevates internal audit to a more strategic role in the organization (Chapman, 2001). The IIA (2012) defines assurance services as those that "involve the internal auditor's objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, system, or other subject matter. The nature and scope of the assurance engagement are determined by the internal auditor." Consulting services, on the other hand, are "advisory in nature, and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client" (IIA, 2012).

Selim et al. (2009) argued that the most common IA consulting assignments are risk management, project management, governance, and contingency planning and disaster recovery. Other consulting activities include conducting internal control training, providing advice to management about the control concerns in new systems, drafting policies, and participating in quality teams (Anderson, 2003).

Generally, MENA region studies reported that the role of IA is limited to the traditional assurance services. For instance, Al-Twaijry et al. (2003) examined the role of IA departments in Saudi listed companies and reported that IA role was mostly confined to traditional services including attesting to financial statements accuracy, compliance with regulations and internal control services, while less attention was devoted to other value adding services such as risk management. The authors identified reasons for this restricted role which included lack of qualified staff, lack of technical support (all manuals are in English), the small size of IA departments, and reduced budget allocations for IA to perform such services. Al-Twaijry et al. (2004) reported similar results on the limited role of IA as perceived by external auditors in Saudi firms. However, the authors found that the banking sector enjoyed more effective IA departments due to the raised level of internal control and the employment of highly qualified auditors and accountants. This was reflected in the higher cooperation between IA and external auditors within banks compared to other sectors.

In another Saudi study, Abu-Musa (2008) examined the impact of information technology (IT) on IA performance by investigating IA's activities related to IT risk evaluation. The author also investigated the association between IT audit and a number of factors such as industry type, IA experience and number, and age of computers used. The results revealed that there was an emphasis on non-traditional IT risks and controls as well as evaluating compliance with policies and regulations especially IT asset safeguarding, application processing and operating system processing. By contrast, less attention was provided to system development and acquisition activities, system implementation and system maintenance due to a lack of skills and knowledge. IA in banks and the financial sector, however, commit more attention to IT related evaluation activities.

In a more recent Saudi study, Alzeban and Sawan (2013) examined the role of IA in the Saudi public sector and found similar results. The authors explained that the role of IA in Saudi firms did not reach beyond assurance services due to the lack of appropriately qualified staff as well as the lack of awareness of IA role in consulting activities. In a study of IA effectiveness in the Saudi public sector, Alzeban and Gwilliam (2014) investigated the association of stakeholder's perceptions with IA effectiveness. They reported that the IA role was still restricted to the traditional services of compliance with policies and regulations. Results also showed that higher IA effectiveness was associated with competent IA staff, IA department size, IA independence, relationship of IA with external auditors and support from top management (the highest significant impact). The authors argued that top management support was important to widening the scope of IA work by allocating more resources to IA departments, increasing training, securing IA independence, and supporting IA relationships with external auditors.

Ebaid (2011) found that the role of internal auditors in Egyptian firms also was limited to the traditional services with approximately 94 percent of audit time spent on financial audit and internal control compliance, and only 6 percent on risk management, consulting, and governance activities. The inability of IA to undertake new responsibilities, due to an unqualified staff, resulted in low cooperation with external auditors.

Penini and Carmeli (2010) reported that increased organisational support increased audit quality as measured by learning from the audit findings, deterring improper behaviour, auditing as a motivation, and improving processes across the organisation. As such, the value added role of IA was enhanced with increased organisational support. The other Israeli study, Cohen and Sayag (2010), examined whether the quality of audit work (e.g., compliance with IIA standards requiring IAs to engage in consulting services) and management support (e.g., funding current training and development) promoted the effectiveness of internal auditing. While they found that management support was the most significant factor to IA effectiveness, quality of audit work through value-adding services also was important. The previously discussed Israeli studies provide similar conclusions and suggest that management support is key for IA to add value.

In Algeria, Meziani (2012) reported that the IA role was highly focused on assurance services rather than consulting largely because of a lack of organisational and employee awareness to the expanded role of IA. Similarly, Abu-Azza (2012) reported that the role of IA in Libyan companies was limited to traditional assurance services (with the exception of banks). The author explained that lack of management support resulted in inadequate budget allocations to IA training which in turn led to low levels of competence and limited IA roles. Furthermore, the study found that there was a lack of awareness of a role for IA in risk management, except for financial risks (i.e., fraud detection). The same results were echoed by Alkafaji and Majdalawieh's (2012) UAE study which reported that the majority of IA work reviewed by audit committees was related to financial reporting, internal control and compliance with laws and regulations.

The above studies (summarized in Table 4) imply that the IA function is still limited to traditional assurance services. Egyptian and Saudi studies echo similar trends despite the two countries initiating significant reforms to corporate governance in 2005 and 2006 and expanding the role of IA to include consulting services (World Bank 2009a; World Bank 2009b). Accordingly, it can be inferred that recent regulatory reforms were largely ineffective in enhancing IA's role. The reviewed studies suggest that lack of top management support and inadequate budget allocations for IA departments were largely responsible for this result.

This has negatively affected skills and knowledge as less attention is devoted to training and professional development. Lack of awareness of the expanded role of IA to consulting activities is another significant impediment that is minimising IA scope. To enhance the scope of the IA, the regulatory reforms in MENA countries need to echo the revamped IA role as per the IIA definition. To be able to assume their expanded role, more attention must be devoted to IA training and professional development. This can be established through cooperation between regulators and IIA chapters.

INSERT TABLE 4ABOUT HERE

The above studies suggest several gaps in the MENA region literature. For instance, while many of these studies offer reasons for the limited role played by IA in consulting, future research can identify and test factors associated with increased consulting services and suggest ways of conducting and improving such services. Further, the evidence indicated that IA in banks provide more consulting services than their counterparts in other industries. Detailed comparative studies can shed light on the reasons for this difference and create ways to enhance IA's role in providing consulting services across all industries.

IA consulting services in the region is still in its infancy. However, an investigation of whether providing such services would compromise IA independence and objectivity is warranted. Further, the above studies need to be replicated across different jurisdictions with different groups of internal auditors to determine the generalizability of the findings.

INSERT TABLE 5 ABOUT HERE

3.1.3 Internal Audit's Role in Risk Management, Control and Governance

The IA profession has become a key driver of the concept of enterprise risk management (ERM), defined by the Committee of Sponsoring Organizations (COSO) (2004, p. 2) of the Treadway Commission as:

A process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

While risk management is the responsibility of the board, everyone in the organisation plays their role in ensuring successful enterprise wide risk management. To that end, the IIA (2009) issued a position statement on the role of internal audit in ERM, outlining the recommended roles of internal audit in ERM. According to the position paper, internal auditors need to provide assurance on three areas; 1) risk management processes, design and how they work; 2) management of risks including the effectiveness of the controls and the responses to them; and 3) reliable and appropriate assessment of risks and reporting of risk and control status (IIA, 2009).

As noted earlier, banks employ more qualified IA staff resulting in a more pronounced role in consulting services. Ismail (2012) explored risk management models employed by Egyptian banks and IA role in such services. The author also examined whether the type of bank ownership (private domestic, state or foreign) had any impact on the effectiveness and quality of IA in risk management. The results indicated that IA in banks were knowledgeable and employed risk management models using a risk-based audit approach. The results also showed that IA along with audit committees played an active role in risk management enhancing the effectiveness and quality of risk-based audit processes. State and privately owned banks were found to have better governance hence they employed better quality risk-based audit which was at odds with previous research. Moreover, the author argued that foreign competition might have compelled domestic- privately owned banks to improve their risk management practices.

Abu-Musa (2008) examined IT-related audits for the management of IT-related risks and whether these vary in accordance to audit objectives and organisational characteristics in Saudi firms. The author reported that the main emphasis of IA was on non-traditional IT risks and controls with less attention provided to system development and acquisition activities, system implementation and system maintenance as a result of lack of skills and knowledge. The study also found that banks and the financial sector committed more attention to IT related audit activities.

Al-Sawalqa and Qtish (2012) examined the association between IA role in internal control systems (including risk assessment) and the effectiveness of IA work in Jordan. The results revealed that risk assessment was a very significant component of internal control systems, enhancing audit effectiveness. Yet, the results for other components of internal control systems (control activities and control environment) were not significant indicating that companies need to upgrade the procedures that they use in their internal control systems.

Alkafaji and Majdalawieh (2012) surveyed internal auditors in the UAE inquiring about the IA role in governance and whether the audit committee reviewed IA findings. The authors reported that around 97 percent of respondents agreed that the head of the internal audit department communicated with the audit committee about management’s response to IA reports. During such meetings, which were mostly private, the audit committee also reviewed the IA scope and difficulties faced while performing their role.

In a Lebanese study, El-Kassar et al. (2014) examined the impact of the quality and characteristics of IA work on the quality of corporate governance within multinational organisations operating in Lebanon. The authors reported a significant association between IA work quality and the quality of corporate governance.

Al-Shetwi et al. (2011) investigated the impact of IA quality by examining IA's relation with the audit committee, management and owners on one hand and financial reporting quality in Saudi firms on the other. The authors found a weak association between IA quality and financial reporting and attributed their results to the weak corporate governance rules and enforcement of these rules. Saudi companies are required by law to have an IA department, however, many companies established IA departments merely for compliance purposes, and hence benefits of internal auditing were not appreciated. Another reason for this result was due to the weak support IA received from audit committees. Saudi companies also are required by law to establish audit committees composed of independent directors and are responsible for reviewing IA report. Yet, neither audit committee directors' independence nor reviewing IA's reports were complied with resulting in low quality audits and low quality financial reporting.

Table 6 suggests that the research efforts in consulting services are scarce. It also is evident from Table 5 that the regulations in these countries require internal auditors to undertake some consulting services mainly in relation to risk management, control and governance. However, the degree of involvement of internal auditors in these consulting services is not detailed.

INSERT TABLE 6 ABOUT HERE

The scarcity of literature examining consulting activities in the MENA region can be attributed to the limited role IA play in the conduct of those services. Future studies may wish to investigate the extent and types of such services in banks and financial institutions as they employ more consulting services. They also can test the impact of undertaking these services on IA objectivity. The investigation can be extended to examine whether there are differences in the role played by IA in consulting services across different industries.

Researchers also may wish to compare the types of services performed by internal audit departments and explore variations in both the level of consulting and the nature of consulting activities across different jurisdictions within the region. Accordingly, future studies may assess how internal auditors perceive their role in risk management and the extent of their involvement in control and governance. There also is a need for more in-depth examination of differences in the role played by internal auditors in risk management and its implications for objectivity across different sectors, industries and business structures.

4. Conclusion, Recommendations and Future Research

The purpose of this study is to review MENA region literature relating to the IA function. Specifically, the study reviewed studies related to the three areas that comprise the definition of internal auditing (IIA, 2012). This literature review showed that internal auditors' independence and objectivity are lacking despite the recent governance reforms the regions' countries embarked upon. The studies also indicated that the internal auditor's role in the region mainly focused on checking the reliability of financial reports, compliance with rules and regulations, and evaluation and examination of internal controls, with less emphasis on value adding activities. The studies showed that IA role in the provision of consulting services was mostly in risk management, control and governance. Such findings were largely impacted by the effect of cultural factors on IA professionalism, uniformity of practice, and independence due to the collective nature of MENA societies where family and tribe considerations take precedence. This societal effect reduces management support to IA departments thus hindering IA independence, reducing budget allocations to IA, and ultimately reducing IA training, skills, and knowledge.

The study also surveyed regulatory provisions and codes related to IA and revealed that the majority of the MENA region countries have introduced codes of governance incorporating reforms to the internal audit function in line with IIA recommendations and global best practices. While most of the region's countries have recognized the significance of the evolving role of IA in consulting as well as assurance services, the codes were lacking in detailing the nature and extent of these services. Monitoring compliance and enforcement are critical to ensuring that rules are stringent enough and followed. As such, more needs to be done in terms of ensuring IA independence and objectivity and stipulating its role particularly in relation to consulting activities. More importantly, the effects of cultural and societal influences need to be considered when formulating rules and regulations. To that end, cooperation between the regulators and IIA chapters is crucial to enhancing internal auditor awareness of their expanded responsibilities and equipping them with the necessary skills.

MENA region countries are witnessing extensive reforms to IA, therefore, the region promises to provide ample opportunities for future research. The scarce research in the region should motivate researchers to undertake more studies that both replicates and extends to different situations and diverse countries to determine the generalizability of the findings.

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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

Table 2

MENA Region Studies Examining IA Independence and Objectivity

Authors	Country	Methodology	Objective	Sample	Results
Al-Twaijry et al. (2003)	Saudi Arabia	Survey using questionnaires and interviews	Explore the nature and practice of IAF	135 questionnaires sent to directors of internal audit departments and 39 external auditors. These were supplemented by 120 interviews both structured and unstructured (face-to-face and on the phone).	Lack of awareness of IAs to their role and reporting lines to management compromises independence.
Al-Twaijry et al. (2004)	Saudi Arabia	Survey using questionnaires and interviews	Investigate EA perception of IAF, the level of cooperation and reliance on their work and factors influencing that reliance.	135 questionnaires were administered to both IAs and EAs followed by 28 interviews	IA departments lack objectivity, independence from management. IA work is perceived to be of low quality which explains low levels of reliance of external auditors IA work. This is because of lack of qualified audit staff.
Alzeban and Sawan (2013)	Saudi Arabia	Semi-structured interviews	Explore IAF within public sector organisations	29 semi-structured interviews including 9 IAs, 10 managers in the Saudi public sector and 10 external auditors	Authors report lack of IA independence due to lack of management support, weak organisational status, and contentious levels of reporting.
Alktanii and Ghareeb (2014)	Saudi Arabia	Survey using questionnaires and interviews	Explores the impact of the recent regulations on IA quality. It also aims at examining challenges facing IAs within the Saudi public sector.	Using 85 questionnaires and interviews with IA directors	The study reports lack of IA independence from top management who interfere in their work, planning, and appointment and dismissal. Lack of privacy during meetings is another hindrance to IA independence. IA work quality is lacking resulting on low external auditors' reliance on IA work. This is because of lack of qualified IA staff and poor organisational status.
Al-Twaijry (2004)	Gulf States	Survey questionnaires	Examines IA practices within the Gulf states and their level of compliance with Standard 400	using 116 survey questionnaires	The findings indicate that mostly IA is in compliance with Standard 400, however, organisational independence is lacking as the IA report rarely reaches top management.
Cohen and Sayag (2010)	Israel	Survey	Investigate the determinants of IA effectiveness	108 Israeli organisations, 75 public and 33 private ones	The results indicate that top management support is significantly related to IA effectiveness, while organisational independence is significantly related to auditees' evaluations.
Suwaidan and Qasim (2010)	Jordan	A questionnaire survey	External auditors' perceptions are investigated as to the level of reliance on IA work and the factors that impact their reliance.	Uses a sample of 100 external auditors.	The study indicates that external auditors do rely on IAs work and perceive objectivity, competence and work performance as the most important factors impacting their decisions to rely on IA work.
Salameh et al. (2011)	Jordan	A questionnaire survey	Explore IA effectiveness in fraud prevention in the Banking industry.	Survey of forty five senior managers in fifteen banks.	The study finds that IA is effective in fraud prevention, however, fear of retaliation from management is compromising IA independence and objectivity. The study emphasises the importance of IA in eliminating risk of fraud by providing a fraud prevention framework.
Ebaid (2011)	Egypt	Survey using a questionnaire and interviews	Explores the features of IA and its role in corporate governance	Interviews of IA management within 7 Egyptian listed firms and a questionnaire administered to 109 Egyptian listed firms.	The author reports that IAF is less developed lacking organisational independence, management support and qualified staff.
Abu-Azza (2012)	Libya	Semi structured interviews	examined the perceived effectiveness of IA in Libyan firms and identified seven factors related to effectiveness including independence,	58 management (CEOs, managers of administrative affairs, managers of financial affairs) and auditing personnel (directors of internal audit and external auditors)	IA independence is lacking as a result of lack of access to management and necessary documents due to weak management support and lack of awareness of IA role.
Meziani (2012)	Algeria	Questionnaire survey	The study explores IA practices and degree of compliance with IIA standards.	22 public companies administering109 questionnaires	There is a high degree of compliance with IIA standards (around 81 percent), yet independence and objectivity may be compromised due to IA having to report to top management exclusively.
Alkafaji and Majdalawieh (2012)	UAE	Survey questionnaires	The study explores IA practices in relation to corporate governance	249 internal auditors participating in the 11th Annual Regional Gulf Audit Conference in Abu Dhabi in 2010.	IA is independent of management reporting mostly to the audit committee and dismissed by the BoD with the approval of the audit committee.

Table 3
Regulatory Requirements Pertaining to Independence and Objectivity

Country	Independence & Objectivity Requirements	Explanation
Algeria	no	No regulation pertaining to establishing IA, its independence or to whom the IA should report (OECD, 2010).
Bahrain	no	No guarantees of IA independence or objectivity (KOB, 2010)
Egypt	no	Egyptian Corporate Governance is silent on IA independence and objectivity. IA must submit a quarterly report to the CEO (World Bank, 2009a).
Iran	no	-
Iraq	no	-
Israel	yes	The Israeli 1999 Company Law, Chapter 5 (B) mandates the independence of the auditors from the company directly and indirectly. Also, chapter 4 of the same law, article 152 stipulates that the IA submits a report to the chairman of the board of directors, to the general manager and to the chairman of the audit committee (Israeli Company Act, 1999). No mention of objectivity
Jordan	no	IA reports to the audit committee. The Jordanian corporate governance framework is silent on independence and objectivity (JSC, 2012).
Lebanon	no	IA reports directly to the audit committee of the Board and to senior management. Independence and objectivity are absent from the governance framework (AbuSharma and Bishara, 2010).
Morocco	yes	The Moroccan Corporate Governance is silent on IA independence and objectivity (but encouraged in banks). IA reports to the CEO or CFO (World Bank, 2010).
Oman	no	Article 9 states that the IA unit should have a high degree of independence, while article 10 requires the IA unit to submit the internal audit reports to general manager/CEO of the company (with copies marked to audit committee/ board of the company) at least twice every year (ECGI, 2010a)
Qatar	yes	IAs must independent and objective and have access to all company's activities and must be. IA reports to the audit committee and board of directors (QFMA, 2009).
Saudi Arabia	yes	Operational independence must be ensured and full and direct access to the audit committee and top management. In addition, the Chief Audit Executive (CAE) should report directly to the audit committee (CMA, 2009). Objectivity is not mentioned.
Syria	yes	IA must be independent and report to the general manager (SCFMS, 2008).
Tunisia	yes	IA must be provided with sufficient material, organizational and human resources to ensure independence and objectivity. IA must be independent from activities under audit in a way to preserve neutrality and objectivity and should inform the senior management when neutrality or objectivity is threatened. IA reports periodically to senior management (ECGI, 2008).
UAE	yes	Article 8 of the Ministerial resolution No (518) (Ministry of Economy, 2009) stipulated that the board of directors determines the objectives, duties and powers of the internal control department that shall enjoy adequate independence to perform its duties and shall directly report to the board of directors .
West Bank and Gaza	yes	Companies are encouraged to ensure the IAF independence. IA is to report preferably to the audit committee and GM (CGNC, 2009). No mention of objectivity.
Yemen	yes	Article 18 of the Yemeni code of governance, advises the board to ensure the independence of the internal auditor through providing him/her access to all the company's transactions (ECGI, 2010b). Objectivity is not mentioned.

Table 4
MENA Region Studies Relating to Assurance vs. Consulting Services

Authors	Country	Methodology	Objective	Sample	Results
Al-Twaijry et al. (2003)	Saudi Arabia	survey using questionnaires and interviews	Explore the nature and practice of IAF	135 questionnaires sent to directors of internal audit departments and 39 external auditors. These were supplemented by 120 interviews both structured and unstructured (face-to-face and on the phone).	IA role is limited to traditional services as a result of lack of qualified staff, absent management support and weak organisational status as a result of lack of the state's support.
Al-Twaijry et al. (2004)	Saudi Arabia	survey using questionnaires and interviews	Investigate EA perception of IA role	135 questionnaires were administered to both IAs and EAs followed by 28 interviews	The role of IA is limited to traditional services as perceived by EA. The banking sector enjoyed more effective IA departments due to the raised level of internal control and the employment of highly qualified auditors and accountants.
Abu-Musa (2008)	Saudi Arabia	Survey and several analyses including regression analysis.	Exploring the use of IT by IAs within Saudi originations.	700 survey questionnaires	Results indicate that IA do perform some non-traditional activities as well as the evaluation of compliance with policies and regulations. IAs in banks and financial services companies devote more attention to IT related evaluation activities.
Alzeban and Sawan (2013)	Saudi Arabia	semi-structured interviews	Explore IAF within public sector organisations	29 semi-structured interviews including 9 IAs, 10 managers in the Saudi public sector and 10 external auditors	IA role is confined to the traditional services due to lack of qualified staff and awareness of IA role in consulting activities.
Alzeban and Gwilliam (2014)	Saudi Arabia	two separate surveys	The study investigates the factors that impact IA effectiveness	203 managers and 239 IA from 79 Saudi public organizations	IA role is still restricted to traditional services. IA effectiveness is significantly related to top management support, IA staff competence, size of IA department, IA independence and the relation between external auditors and IAs.
Penini and Carmeli (2010)	Israel	A questionnaire survey	Examine the impact of organisational support on audit quality and, in turn, organisational outcome.	254 questionnaires to local authorities and 254 questionnaires to IAs and received 182 responses.	The study reported that quality audit contributed to the value-adding role of organisational performance.
Cohen and Sayag (2010)	Israel	Survey	Investigate the determinants of IA effectiveness including IA engagement in consulting services	108 Israeli organisations, 75 public and 33 private ones	The quality of audit work through value-adding services was a significant determinant of IA effectiveness.
Ebaid (2011)	Egypt	Survey using a questionnaire and interviews	Explores the features of IA and its role in corporate governance	Interviews of IA management within 7 Egyptian listed firms and a questionnaire administered to 109 Egyptian listed firms.	The study showed that IA role is yet to expand to consulting services as a result of the lack of qualified staff.
Abu-Azza (2012)	Libya	semi structured interviews	examined the perceived effectiveness of IA in Libyan firms and identified seven factors related to effectiveness including independence,	58 management (CEOs, managers of administrative affairs, managers of financial affairs) and auditing personnel (directors of internal audit and external auditors)	The author found that IA role is still confined to traditional services as a result of lack of management support and lack of awareness of a role for IAs in consulting services.
Meziani (2012)	Algeria	Questionnaire survey	The study explores IA practices and degree of compliance with IIA standards.	22 public companies administering109 questionnaires	IAs role has not expanded beyond assurance services.
Alkafaji and Majdalawieh (2012)	UAE	survey questionnaires	The study explores IA practices in relation to corporate governance	249 internal auditors participating in the 11th Annual Regional Gulf Audit Conference in Abu Dhabi in 2010.	The study showed that IAs plays an active role in governance meeting privately with the audit committee and discussing the audit report findings, management response to the audit report, audit scope and difficulties facing IAs.

Table 5
Regulatory Requirements Pertaining to IA Role: Assurance vs Consulting Services

Country	IA Role Includes Consulting Activities	Explanation
Algeria	no	-
Bahrain	yes	IA may review the adequacy and effectiveness of the company's risk management, control, and governance processes (KOB, 2010)
Egypt	yes	The internal audit department should design systems to evaluate risk management approaches, plans and procedures and the company's proper implementation of corporate governance (EIoD, 2011).
Iran	no	-
Iraq	no	-
Israel	no	Article 151, Chapter 4 of the company Act requires IA to examine the propriety of acts of the company from the point of view of compliance with the law and proper business administration (Israeli Company Act, 1999)
Jordan	no	-
Lebanon	yes	The mission of the internal audit unit should include: auditing the Company's operations; ensuring compliance with all laws and regulations, preparing periodic reports at least quarterly on its audit activities, identify and assess problems with risk management, and reporting any known violation of the internal control system of the Company (The Lebanese Transparency Association, 2010).
Morocco	yes	IAs oversee the following functions: internal controls, risk management, compliance, business continuity, and foreign branch activity (World Bank, 2010).
Oman	yes	The capital market authority ECGI (2010a) stipulated the duties of IA to include: review and/or examine the procedures and internal control of the company; provide information to the board/ management about the adequacy and effectiveness of the company's system of internal administrative, accounting and financing controls; review the ways and means to safeguard assets; review internal administrative and accounting controls; review all operational areas for their stewardship of resources and compliance with established policies; establish and maintain a quality assurance program; participate in manual and automated system design as an advisor upon internal controls; review the controls in systems; promote the awareness of risk management issues; and audit capital projects.
Qatar	yes	IAs duties include: control and oversight procedures of financial affairs, investments, and risk management; comparative evaluation of the development of risk factors and the systems in place to respond to drastic or unexpected market changes; assessment of the performance of the Board and senior management in implementing the Internal Control Systems; internal control failure, weaknesses or contingencies that have affected or may affect the company's financial performance; compliance with applicable market listing and disclosure rules and requirements; compliance with Internal Control systems in determining and managing risk; and all relevant information describing the Company's risk management operations (QFMA, 2009).
Saudi Arabia	yes	The internal auditor is responsible for appraising risk management strategies and internal controls (IMF, 2012).
Syria	no	Limited role to traditional services. SCFMS (2008) requires IA to acknowledge all the company's records, registers, correspondence and minutes of meetings and ensures that the inventory statements, balance sheets, reports and records are duly and regularly submitted as required by the effective laws and legislations; monitor the company's compliance with all related laws and legislations in force.
Tunisia	yes	The internal auditors of any company should: evaluate the extent to which operations and program objectives are conform to those of the company; collaborate with senior management to develop adequate criteria to determine whether the company's objectives have been accomplished; and assess risks relevant to the activity under audit. (ECGI, 2008).
United Arab Emirates	yes	Internal audit's primary responsibility should be to ensure that the risk management approach is being followed throughout the company and that appropriate internal controls are in place and are operating effectively (Dubai SME, n.d.)
West Bank and Gaza	no	IA role is limited to traditional duties including checking the employees' implementation of the internal controls and that all the assets are safeguarded from misuse; examine the financial statements and disclosure and their adherence to internal controls and the International Accounting Standards (IAS) and all other regulatory and legal requirements (CGNC, 2009).
Yemen	no	-

Table 6
MENA Region Studies Relating to IA Role in Risk Management, Control and Governance

Abu-Musa (2008)	Saudi Arabia	Survey and several analyses including regression analysis.	examined IT-related audits for the management of IT-related risks and whether these vary in accordance to audit objectives and organisational characteristics in Saudi firms	700 survey questionnaires	The main emphasis of IA was on non-traditional IT risks and controls with less attention provided to system development and acquisition activities, system implementation and system maintenance as a result of lack of skills and knowledge. The study also found that banks and the financial sector committed more attention to IT related audit activities
Al-Shetwi et al. (2011)	Saudi Arabia	A questionnaire survey and information from the companies' annual reports is gathered.	The study examines the association between IA quality and financial reporting quality	Data from 44 companies and interviews with 27 IA and 13 external auditors are conducted.	Weak association between IA quality and financial reporting. The results were attributed to the weak corporate governance rules and enforcement of these rules.
Al Sawalqa and Qtish (2012)	Jordan	A questionnaire survey	The study examines the association between internal control systems and IA effectiveness	102 auditors	Risk assessment is a very significant component of internal control systems improving IA effectiveness while the results for control activities and control environment are not significant.
El-Kassar et al. (2014)	Lebanon	Questionnaire survey	Investigate the impact of IA work quality on corporate governance within multinationals in Lebanon	80 heads of IA departments, audit committee chairs and CEOs.	The results show significant impact of IA quality in terms of independence and qualified staff, and audit committee and internal management quality.
Ismail (2012)	Egypt	A questionnaire survey	Investigates the risk management framework within Egyptian banks and IA role and the quality and effectiveness of IAs in performing risk management services.	39 Egyptian banks	Egyptian banks employ risk management models and IA are active along with audit committees in enhancing the effectiveness and quality of risk-based audit practices. Banks ownership are found to be related to risk management processes in that domestic-privately owned ones are associated with better risk management procedures.