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Full Length Research Paper

The role of internal audit function in the public sector context in Saudi Arabia

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This paper contributes to the debate on the role of internal auditing in the public sector by focusing on the nature and practice of internal auditing in organisations that are subject to audit by the General Audit Bureau. Archival and documentary analysis, supported by 29 semi-structured interviews revealed that the underpinnings of the Saudi Internal Audit Regulation did not tie in directly with perceived international best practice - the International Standards for the Professional Practice of Internal Auditing. Institutional factors are also likely to play a part in terms of the existence of the state-required 'Follow-up department' in all organizations, tasked with performing investigation and inspection, the 'auditing department' (which monitors the propriety of transactions and accounting), and the work of the mandatory 'Financial Representative (Controller)'.

Key words: Saudi Arabia, internal audit, public sector, competence, audit regulation.

INTRODUCTION

In the broader context of governance and control, increasing importance has been attached to the internal auditing function (Prawitt et al., 2008), and questions as to its effectiveness in discharging its responsibilities are being asked with greater frequency. Indeed, the various corporate scandals, coupled with the recent worldwide financial crisis have fuelled debate on whether internal auditing is being performed appropriately, not only in terms of ensuring compliance with the range of controls to which organizations are subject, but also in respect of its role in risk management, much more recently assumed by the function. In consequence, the regulatory framework has demanded greater disclosure of governance information, and internal audit function (IAF) has risen to this challenge, adopting an enhanced focus on corporate governance processes generally. Without doubt, IAF is inextricably linked with governance, given its role within the organization, and should therefore, be capable of responding to all regulatory requirements effectively.

However, the IAF is not developed to the same extent

in all organizations. For example, in Australia, a large number of listed firms either do not operate any IAF at all, or employ only one or two staff for this activity (Goodwin and Kent, 2006; Carey et al., 2000). And in the United States, Nagy and Cener (2002) found that where the IAF is in evidence, its character differs substantially, appearing in its traditional role in some organizations, whilst assuming risk management and consultancy operations in others, and taking a middle road elsewhere. Moreover, there is evidence (Maher and Akers, 2003) that CEOs in America do not generally want internal audit involvement in the development of organizational systems. Clearly, the influence of senior management is a determining force in the scope of the IAF, as noted by Sarens and De Beelde (2006b), reporting on Belgian firms.

In the Saudi Arabian context, internal audit has traditionally concentrated on the propriety of transactions and accounting, and indeed until 2004, there was no legal requirement for such a function to exist. However, with the issue of Resolution No 235 (2004), all organizations that are subject to audit by the General Audit Bureau (GAB) are required to establish an IAF. Nonetheless, currently, there are still many large organizations that have not complied with that directive, and are operating

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without IAF (Alzeban and Gwilliam, 2012).

Against this background, this paper explores current practice of IAF in Saudi Arabia's public sector organisations, with the intention of determining the present state of internal auditing in the public sector, and how its performance is influenced. This involves a consideration of the development of internal auditing in Saudi Arabia, concentrating on the competence of the internal audit, independence and objectivity of internal audit, management support for internal audit, internal audit activities, and interaction between audited organisations and external auditors (as performed by the GAB). The paper contributes to the understanding of the nature and characteristics of the IAF by empirically exploring these aspects of the function in the Saudi Arabian context. Previous studies into the role of audit and internal audit in Saudi Arabia have largely been focused toward the private sector (Al-Shetwi et al., 2011; Al-Twaijry et al., 2004; Woodworth and Said, 1996; Asairy, 1993) and to date there has been few systematic academic enquiry into the role of internal audit in the public sector (Alzeban and Gwilliam, 2012). Given the dominance of the public sector within the Saudi State and economy this research seeks to make a contribution to redressing this imbalance.

The paper is structured as follows: the next section presents the development, in general, of internal audit in Saudi Arabia, and the manner in which it was established in the public sector. A summary of the related literature appears in the section thereafter, and the paper then proceeds to describe the nature of the research work conducted, including the rationale underlying the semi-structured interview methodology utilised in the study. The main results of the interviews are subsequently described, and the final section provides an overview and conclusion.

Saudi Arabia: internal audit background

The development of internal audit in Saudi Arabia

The Kingdom of Saudi Arabia has a relatively recent development trajectory. Since oil was discovered in the 1930s, its economy has gradually prospered, reaching the stage where it is now the largest oil supplier worldwide. Indeed, the world's largest oil company, ARAMCO (Arabian American Oil Company) is wholly owned by the state, and despite a slight drop in oil revenues over recent years, they continue to account for over 75% of the state's income (Ministry of Economy and Planning, 2009). Accompanying this rapid economic growth has been a large and dominating public sector (characteristic of most developing countries), which operates according to a set of strong and deeply-rooted cultural beliefs underpinned by Islamic values and tribal relationships. It can be understood, therefore, that ideas regarding

accountability and audit that have emerged in western economies are somewhat alien in the Saudi environment, but nonetheless, in the last few decades they have been introduced incrementally, and have spread since they first appeared in the banking sector and in very large companies (Al-Twaijry et al., 2003).

The first IIA Chapter was formed in 1982 in Saudi Arabia, being in ARAMCO, with the purpose of increasing the number of IIA members, and supervising CIA examinations to allow internal auditors within the region to gain the CIA qualification (Al-Twaijry et al., 2003). Additionally, it aimed at encouraging good practice and disseminating information through such media as newsletters. The Chapter gained in size and operation, developing links with King Fahad University in Dhahran, and at the time of Al-Twaijry's study, there were approximately 75 members, a quarter of these being Saudi nationals. During its operation, the Chapter has suffered from resource shortages and legal limitations on the scope of its activities – but that said, it has been innovative in facilitating the uniform CIA examination in the Kingdom (Al-Twaijry et al., 2003). Now, as a result of the various efforts over the last 30 years to professionalise the IAF, the Council of Ministers has passed a resolution to establish the Saudi Institute of Internal Auditors (SOCPA, 2011).

This came in the aftermath of Resolution No 235 (2004), requiring all organizations to establish an IAF to be monitored by the GAB, and the subsequent Resolution No 129 (2007) containing additional guidance and addressing issues such as: the requirements and objectives of internal audit, recruitment of the head of internal audit and audit staff, responsibilities of the head of internal audit, scope of work, internal audit reports, relationship with other parties, and adherence to professional auditing standards.

Not surprisingly, given the gradual acceptance of the IAF in Saudi Arabia, there has been some interest in this respect by scholars (Al-Shetwi et al., 2011; Al-Twaijry et al., 2004; Woodworth and Said, 1996; Asairy, 1993) but they have concentrated on the private sector, and very few researchers (Alzeban and Gwilliam, 2012) have considered the IAF in public sector organizations. Clearly, this situation reflects a serious omission that should be rectified considering the fact that the Kingdom is dominated by the public sector. This study attempts to remedy that imbalance in literature.

The resolution of 2004

As already indicated, over the last quarter of a century, Saudi Arabia has developed considerably in all aspects, such that significant economic expansion has been witnessed. This is characterised by the increased involvement of the private sector, much diversification of activity, significant business activity both within and out-

side of the Kingdom, and an increased concentration and expenditure on development projects. Naturally, these levels of development have raised the appreciation of financial monitoring and reporting as crucial in all organisations since ultimately the country prospers or suffers according to the way in which its financial resources are employed. The GAB, with responsibility for financial oversight, recommended the establishment of IAF in all organisations that are subject to its audit, and as a logical outcome to that recommendation, Resolution No 235 issued in 2004 mandated all such organisations to establish an IAF.

Commenting on the motivation for that resolution, Al-Rahaily and Al-Zahrany (2007) highlighted several reasons for its issuance. An important one was the need to eliminate the corruption existing in public sector organisations and to reduce the number of errors, irregularities and fraud. Associated with this was the need to identify and remove weak internal control systems, and replace them with robust systems. Furthermore, the increased number and size of government organisations had led to additional government expenditures and greater complexity of transactions, all of which were too many for the GAB to monitor efficiently and effectively, given the Bureau's lack of qualified staff. Moreover, it was clear that some organisations did not take the IAF seriously, not being prepared to improve their financial errors and irregularities from one year to the next. Additionally, was the need to respond to the request from the International Organisation of Supreme Audit Institutions (INTOSAI) to establish IAF in all public sector organisations, and the growing awareness within the GAB of the importance of the need to provide a means to safeguard assets and public resources.

The resolution of 2007 for the internal audit regulation

In 2007, Resolution No 129 was issued in respect of the Internal Audit Regulation (IAR). According to Al-Rahaily and Al-Zahrany (2007), several steps were involved in drafting the regulation before its final approval and release by the Council of Ministers in 2007. The first was the formation of a committee by the GAB President after the Resolution in 2004, to issue an IAR in collaboration with the Institute of Public Administration. The first draft of the draft of the regulation was issued in May 2005. This was followed in October (2005), when the King requested the GAB to re-consider the regulation in co-operation with four other bodies - the Institute of Public Administration, the Ministry of Finance (MoF), the Ministry of Civil Service (MCS), and the Investigation and Control Board (ICB). The next year (March 2006), the second draft was released and submitted to the King who in turn, referred it to the Bureau of Experts at the Council of Ministers. Finally, in 2007, the Regulation was released as

Resolution No 129.

LITERATURE REVIEW

Within the literature, there are different approaches to the exploration of IAF. In this study, the focus is on competence of internal audit, independence and objectivity of internal audit, management support for internal audit, internal audit activities and interaction between audited organisations and external auditors.

Competence of internal audit

The competence of all staff involved in the IAF is crucial, being clarified as a prime component of effective internal audit activity (IIA, 2006). Internal auditors must be sufficiently qualified, and in possession of all the requisite knowledge and skill to discharge the responsibilities associated with audit duties *International Standards for the Professional Practice of Internal Auditing* (ISPPA).

Previous academic studies have focused on the need for personnel to be appropriately qualified if a high level of IAF is to be achieved (Alzeban and Gwilliam, 2012; Vijayakumar and Nagaraja, 2012; Unegbu and Kida, 2011; Ahmad et al., 2009). Internal audit quality is very much identified as reliant upon the competence, as demonstrated by qualifications and experience, of the auditors involved (Gramling and Hermanson, 2009; Zain et al., 2006). Moreover, two types of skill are suggested by Seol and Sarkis (2005) as being relevant, these being cognitive skills and behavioural skills. In the case of the former, the auditor is required to demonstrate technical, analytic, and appreciative skills, whereas in behavioural terms, it is essential that s/he has good interpersonal and organizational skills. These ideas are echoed by other scholars. For example, Harrington (2004) concentrates on paper qualifications, experience and IT skills, whilst Pickett (2004) highlights the value of abilities in the cognitive domain (that is being focused, helpful, decisive and balanced). Not surprisingly, superior communication skills are pinpointed as crucial (Smith, 2005; Sawyer et al., 2003; Loss, 2000).

Independence and objectivity

The independence and objectivity of the IAF is also paramount. The ISPPA and IIA Practice Advisory indicated that this can be achieved by: ensuring appropriate reporting mechanisms such that the internal audit department has direct access to the Board and senior management, by giving it the authority to access any records it deems fit, by allowing full access to all employees and departments, by placing strict conditions on the appointment and removal of the head of internal audit,

and by not undertaking non-audit work. Internal audit independence is challenged by the function being used as a stepping stone to other positions, by empowering the CEO or CFO to approve the IAF's budget and interfere with the internal plan, and implicitly, in the relationship between the internal audit manager and the audit committee (Christopher et al., 2009). The audit committee must be invested with the authority to appoint, dismiss and assess the performance of the internal audit manager. IAF should be treated and therefore, seen, as credible. In this respect, it was shown by Sarens and De Beelde (2006b) in their examination of the expectations and perceptions of senior management and internal auditors in Belgium, that objectivity is absent when the IAF operates mainly to support management, and when it has a weak relationship with the audit committee. Three factors have been suggested by Peursem (2005) as impacting upon internal auditors' ability to be independent from management, these being: their professional status, the presence of a formal and informal communication network, and the internal auditors' reporting position.

Ahluwat and Lowe (2004) argue that internal auditors are highly influenced by their reporting position, and hence, a reporting hierarchy that includes senior management is inappropriate. That said, Leung et al. (2004) observe that despite best practice suggesting chief internal auditors report to the audit committee, in Australia, more than 22% of a sample of such individuals were found to report to the CEO or CFO. This is clearly a poor national situation, since when reporting is to senior management rather than the audit committee, internal auditors are not able to protect the organization against fraudulent activities (James, 2003). In this circumstance, the close relationships between management and the IAF render the assurance of objectivity and independence extremely difficult (Glascock, 2002). Additionally, where internal auditors are in receipt of incentives-based compensation, which include reported earnings as one measure of performance, their objectivity and independence may well be hampered (DeZoort et al., 2000).

Management Support for Internal Audit

Irrespective of the need for internal auditors to have access to the audit committee, the IAF must nonetheless, interact with senior management on a close and regular basis since, the character of the function is determined completely by senior management's resource allocated to it, and the support and credence it gives to the role of organization-wide. Additionally, the involvement of senior management in formulating the work plan is both necessary and unavoidable (a requirement of the ISPPA), since it is through top managers that internal auditors are empowered to secure access to the various functional departments. Hence, the ease with which internal auditors perform their duties is a reflection of senior

management's sponsorship. Having access facilitated, internal auditors must keep senior managers informed of all activities it performs, and of the conclusions reached (Badara and Saidin, 2012). Reporting in the Malaysian public sector, Ahmad et al. (2009) observe management support to be the second highest contributor to internal audit effectiveness, and that with such support, sufficient resources are usually allocated for the function, and its recommendations implemented; whereas without it, a lack of commitment to independence on the part of internal auditors is likely. Further, it is also reported in studies conducted in the public sector that management support has a strong impact upon the effectiveness of the internal audit function, and management support is important as a construct in its own right but also via its links to issues of resourcing, competence and qualification, and independence (Alzeban and Gwilliam, 2012; Cohen and Sayag, 2010; Mihret and Yismaw, 2007).

Internal audit activities

Internal audit activities are also explored in the literature, specifically those included in the new IIA definition of the function. In this respect, several studies have considered the task of risk management now formally assigned to internal audit (Vijayakumar and Nagaraja, 2012; Mihret, 2010), obtaining differing outcomes. In the USA, the new requirements of the Sarbanes Oxley Act relating to internal control and review, and disclosure, emphasize the need for internal auditors to step up to the challenge of doing more than the traditional duties of assurance. Yet, Gramling and Myers (2006) report that a half of all their sample of chief internal audit executives in the USA stated that they only spent up to 10% of their time and budget on risk management activities, whereas in their comparison of the situation in Belgian and US firms, Sarens and De Beelde (2006a) reveal a much greater impact on the part of internal auditors in risk management and control awareness. Furthermore, in large Italian companies it is seen that the IAF makes a sound contribution to the risk management process (Allegrini and D'Onza, 2003), as do a large majority of internal auditors in Australian firms (Leung et al., 2003).

Alongside risk management activities are those concerned with control, in which respect, Abbott et al. (2010) found a strongly positive link between oversight of the IAF by the audit committee and the amount of the budget devoted to internal controls-based activities; and in terms of consulting activities, it is seen that these have risen significantly in UK, Irish, and Italian internal audit departments (Selim et al., 2009). Within these consulting activities, the most common in the UK and Ireland are risk management, project management, governance, contingency planning and disaster recovery, whilst in Italy, they are legislative compliance, governance and

risk management. Examining this issue across 15 European countries, Paape et al. (2003) found that 64% of chief internal audit executives were involved in consultancy and management support activities. That said, the IAF appears to have little involvement in mergers, acquisitions, and divestitures (MAD) in USA and European firms (Selim et al., 2003).

Interaction between audited organisations and external auditors

Co-ordination and co-operation are essential between internal and external auditors to facilitate the overall process of audit and to raise the professional profile of the function (Messier et al., 2011). Activities such as joint planning, information exchange, reporting to each other, all prevent duplication of effort and develop mutual trust, ultimately accelerating the audit process. The internal/external auditor relationship is a prime concern within the professional standards. The ISPPA, *Coordination Standard*, for example considers that there should be at least information exchange and co-ordination in respect of the activities undertaken by each party. Building upon such a fundamental relationship, internal and external auditors should develop a professional and mutually trusting relationship, resulting in a more effective and quality-oriented audit. Trusted and comprehensive information provided by the internal auditor helps the external auditor to work quicker as s/he is spared the need to delve deeply and has faith in the material provided. This in turn brings savings to the company concerned. In the absence of such fruitful interaction between the internal and external auditors, effectiveness of both the internal and external audit function is damaged, at least in the public sector (Alzeban and Gwilliam, 2012; Gwilliam and El-Nafabi, 2002; Brierley et al., 2001). In the Saudi Arabian public sector context, it is found (Al-Garni, 2008; Almohaimed, 2000) that the absence of co-operation between audited organisations and the GAB impairs the ability of external auditors to discharge their responsibilities effectively, especially in respect of agreeing and implementing the GAB's recommendations. Furthermore, it is reported (Summary Reports of GAB, 2008, 2010) that the lack of such co-operation is directly responsible for repeated financial errors and irregularities.

Whilst, these five dimensions of the IAF have been well researched, it is clear from the literature that most of the effort has been in the developed country context, and that a need exists for the body of knowledge to be supplemented with information concerning these internal audit aspects in developing countries. This study assists in satisfying that need.

METHODS AND SAMPLING

A qualitative approach was used to gain in-depth understanding of

the nature and characteristics of the IAF in the Saudi public sector, and consequently, interviews were conducted. Questions were built upon the general objectives of the study, and covered the main aspects including competence of the internal audit, independence of internal audit, management support for internal audit, internal audit activities and interaction between audited organisations and external auditors (who work for the GAB). A total of 29 face-to-face semi-structured interviews were undertaken with three groups: 9 internal auditors, 10 general and senior managers in Saudi public sector organisations, and 10 external auditors working in the GAB. Different sets of interview questions relating to the principal variables under investigation were prepared for these groups, but within those sets there were a number of questions that were almost identical for each group.

The duration of the interviews was between 15 and 90 min, although all the interviews were conducted, as far as possible, in the same way. This not only meant that the same questions were asked, but also sought to ensure that each interviewee would understand the questions in the same way. Moreover, interviewees were encouraged to expand on any issues that were of particular interest to them. With the help of tape recording the interview was explained to interviewees, and then interviewees were asked if they would allow this process. Almost all interviews were recorded but few interviewees (only two) were not prepared to agree to this, perhaps worried about having their responses formalized in this way. For those interviews that were not recorded, notes were taken during the interviews, and a full text was immediately written in Arabic after the interviews.

Acknowledging the investment in time made by interviewees to the interview process was an important step in ensuring the success of the interviews. An appointment was made either on the phone or face-to-face with each interviewee before conducting the interview. This step was taken to 1) consider the time commitments of the interviewee; and 2) to ensure that the interviewee was not involved in any other task during the interview time and would thus be ready for the meeting.

The interviews were restricted to two cities, Riyadh and Jeddah, where large public sector organisations, independent and quasi-independent organisations are located. These organisations are subject to audit by the GAB and are responsible for the formulation and implementation of national economic plans, administering and managing all the national service organisations, and constructing the national projects and schemes. Moreover, they are subject to investigation by the GAB auditors, and are considered large in terms of the budget received and the number of employees. Hence, they make a contribution to the country's economy, strategic plans and education.

RESULTS AND DISCUSSION

Competence of internal audit

It was unanimously confirmed that the lack of qualified staff stands represents one of the most important problems facing internal audit in the Saudi public sector. Several reasons were offered for this situation, including staff recruitment, educational qualifications, professional qualifications, work experience and continuous development.

Staff recruitment

Twenty six interviewees indicated poor recruitment

procedures and criteria in respect of internal audit staff. The selection process for such staff is performed randomly based on the choice of either the general manager of financial management or the head of internal audit. As examples, one interviewee stated: “*there are no adequate rules for recruitment*” (M9), and another (M4) said that the head of the department responsible for recruitment uses his own procedures of favouritism through which “*he chooses his friends*”. Moreover, analysis of the interviews showed that the selection process in respect of internal audit staff was based on reputation and relationship with top management, for example:

The criterion used in the selection process of internal auditors does not relate to education or work experience, but [...] to friendship and having a good relationship with the top management team including the head of the internal audit department in order to be an internal auditor (M3).

This absence of recruitment procedures and criteria is addressed in the IAR (2007), Articles 4 and 5 which highlight the important criteria to be met when appointing a head of internal audit, and internal audit staff. Article 4 does specify the number of years of work experience required of the head of internal audit, but Article 5 relating to internal audit staff, refers only to the need for relevant work experience (without specification of the required length), and it permits organisations to appoint diploma holders without any reference to a minimum length of work experience. Moreover, this Article pays no attention to the knowledge, skills, and other competencies required by internal auditors to effectively perform their responsibilities. Nor does it consider the outcome of the appointment of individuals who are not qualified to discharge the duties assigned to them. This deficiency in the IAR may be one reason for the different views among organizations in their selection of internal audit staff, and the fact that some organizations choose these personnel haphazardly, merely to comply with the resolution. Another reason for inappropriate selection of internal audit staff is the simple fact that there may be insufficient qualified people available, so even if suitable selection criteria were in operation, the problem of the lack of expertise and appointments made on the wrong basis remains.

Educational qualifications

The educational qualifications possessed by internal audit staff are generally of a low calibre. A total of 21 interviewees confirmed this, and identified several reasons. One interviewee (M10) indicated that the practice of transferring staff from other departments to the internal audit department provided the opportunity to “*get rid of*

the worst staff” as “*heads of other departments would not release good staff*”; and. M18, who majored in a field not related to auditing work, noted that he was transferred to the internal audit department “*under a request from general financial manager*” and that he “*cannot reject the manager’s request*”. He added that the acceptance of the transfer was “*part of the co-operation with management*”. Another interviewee raised a separate issue relating to the fact that a transfer might be the only way to obtain promotion even though the individual concerned had no relevant auditing qualification. Seven interviewees linked this to the lack of support from the MoF as it “*is not supporting organisations by providing new posts*”.

Professional qualifications

Professional certification (example CIA, CPA) is considered an important indicator of technical proficiency (Tarr, 2002; Lewington, 1996; Myers and Gramling, 1997; Felts, 1994), but sadly, interviewees revealed that internal auditors did not possess any such qualification. Indeed, they indicated that such professional qualifications are not fully recognised in the public sector, for example M2 stated “*the MCS does not co-operate in recognising the professional qualifications, and it does not give the professional qualifications the appropriate classification*”. Furthermore, interview responses from members of both the MoF and the MCS suggested a lack of understanding of the importance of having qualified staff to perform the internal audit function as “*it is all simple daily transactions*” and there is no need for holders of “*professional qualifications*”.

Another issue may be that the level of educational qualification creates ineligibility to sit for such examinations (to qualify as a Saudi CPA it is necessary to hold an accounting degree – but this is not the case for the CIA qualification). However it is possibly that to date, the importance of professional qualification has not yet been fully appreciated in the Saudi work environment.

A more specific consideration is that there is no separate national internal audit qualification. The Saudi Organisation for Certified Public Accountants (SOCPA) has developed the CPA, but it has not established an internal audit qualification for either the private or public sector. One reason might be that the SOCPA and Saudi Accounting Association (SAA) emphasize accounting and public accountants rather than the internal audit function (Al-Twajry, 2000).

Work experience

Twenty four interviewees commented on the absence of sufficient experience irrespective of qualifications held; for example, “*Currently, there are no members of staff qualified to carry out internal audit duties and staff*

experience is not related to internal audit work” (M22). Four interviewees believed that work experience would naturally be gained while performing the internal audit work, one in particular saying: “a university degree is the most important thing as experience is of minor importance because the staff will obtain the experience when undertaking the work” (M17).

Another explanatory factor might be that internal audit in the Saudi public sector is a relatively new phenomenon, and therefore, it is not surprising that many individuals performing internal audit work are relatively inexperienced. In many countries with a longer history and experience of internal audit, internal audit is not necessarily seen as a lifelong career by those working in the field (in the same way that external audit is only a lifelong career for a relative small percentage of those working as external auditors). However, it may be that the practice of rotating employees around departments contributes to a relatively high level of staff turnover – and also the absence of specific criteria in the IAR regarding the extent of experience necessary to fulfil internal audit roles below that of departmental head.

Continuous development

Continuing development and training of internal audit staff is addressed in Article 9 of the IAR, which states that the head of the internal audit department should prepare a training plan for staff and that this plan should be approved by the first official of the organisation. The plan should contain details of the location and timing of the training and the content should be designed according to the training need. At the international level, the IIA recommends that internal auditors should complete 80 h of acceptable continuous professional education (CPE) every two years (IIA, 2000), that is, an average of 40 h each year. However, analysis of the interview data revealed that there is a shortage of development and training programmes and too few opportunities to attend such training that did exist. To take an example, one interviewee said:

The quality of the staff is very low. Since most of them just have high school qualification, they need training to become sufficiently competent to carry out their duties efficiently. Internal auditors don't have the chance to attend either training programmes or conferences abroad to develop their skills (M5).

Interviewees identified several reasons for the lack of training, including financial issues (example, the amount allocated for training staff), shortage of internal audit-related programmes available to internal auditors, and a small number of internal audit staff such that the head of department might not allow staff to attend such training because of the department's inability to continue

operating during their absence. Another explanatory factor might be that to date, there is no specific training centre for either internal auditors or accountants in public sector organisations as a whole.

Given the relative paucity of professional qualifications (and that internal auditors possessed either only high school educational qualifications or a non-relevant degree), and the low levels of work experience, there does appear to be scope for a greater focus on the need to upgrade the skills of internal audit personnel via continuing professional training and development. Organisations should pay more attention to developing the skills of those without adequate educational or work experience in the field of internal auditing.

This lack of qualified staff was seen as one of the reasons for the absence of an audit plan. Eight interviewees indicated that the low level of educational qualifications and lack of training influenced the preparation of such plan, one saying: *“Internal auditors need more training to improve their skills in order to be able to prepare plans (M21)”*. Another interviewee stated that *“internal auditors have high school qualifications and cannot design any such plan because they do not know how to do this” (M23).*

Independence and objectivity of internal audit

Interviewees explained that it is difficult for internal auditors in the Saudi public sector to achieve independence as they are employees of the organisation they audit, and essentially the IAF has no real organisational status. There are issues around the reporting level, freedom of enquiry, the provision of non-audit activity, and the relationships with auditees. It was confirmed by all interviewees that whilst internal auditors have their own separate departments in the organisational structure, these departments, nonetheless, operate under the administrative leadership of lower level managers. Additionally, the interviewees identified a diversity of practice concerning the location of the department within the organisation. In one instance, internal audit was located under the General Manager of Financial Management, as reported by M3, who said: *“Internal audit is working under the General Manager of Financial Management. If internal audit marginalises the general manager, the internal auditors would be in trouble”*.

It was revealed that internal audit report to the same level in which they are placed in the organisational structure. This is a situation required by the Saudi culture which operates norms concerning organisational status and reporting levels, these being that staff are not allowed to marginalise their managers. Indeed, if an employee bypasses his/her immediate manager, problems can occur because high power distance forbids any staff, whether internal auditors or otherwise, from reporting

directly to top level management when there is a chain of command below that level. M4 explained this situation, saying: *“Internal audit cannot jump over the deputy since it works under him in the organisational structure. If one of my staff ignores me and goes to a higher manager, I will transfer him to another department. Each staff member must respect his direct manager”*.

Almost all interviewees indicated a significant gap between the theoretical and the actual reporting structures, with M5 pointing out that *“theoretically, the internal audit department is placed under the President of the organisation, but in reality, it works under the Vice-President”*.

According to the IAR, the internal audit should be placed at the highest point of the organisational hierarchy reporting to the first official of the organisation, but the interview data showed a lack of adherence to the IAR. Reasons for the differences in the organisational structure and reporting level as indicated by the interviewees included the possibility of the marginalisation of the manager responsible for financial matters if the internal auditor reports to someone other than to him. Also, there is the question of delegation and assignment of authority from the highest level of management which may be too busy to deal with the auditors. Clearly, though, there is a misunderstanding of the role of internal audit and its main duties, since the requirements for the effective performance of internal audit are not met by the prevailing structural obstacles in Saudi Arabia.

In addition to the above reasons, twenty one interviewees indicated two other main causes of the restricted access faced by internal auditors in respect of their ability to meet with personnel and to obtain the relevant information needed to fulfil their duties. These reasons are: 1) auditees who are involved in confidential work are unwilling to share this with the internal audit team, as shown by the comment *“there are some confidential documents. We cannot easily allow anybody to see these”* (M10), and 2) employees at certain levels of authority had immunity and were thus not subject to any type of audit, as noted by M7 who said, *“internal auditors cannot investigate and raise queries with some staff in special positions ... who have immunity”*. Moreover, it was observed that even when the internal audit was located at a relatively senior managerial level, it might still be subject to pressure from more highly placed management. For instance, internal auditors could be prevented from exploring a particular issue simply by higher management directing them to examine a different one. Simultaneously, top level managers control organisational resources which they may withhold to prevent an in-depth investigation by internal auditors of a matter which they do not want to be probed. In any situation where the internal audit is prevented from examining an item of business that falls within its jurisdiction, there is likely to be an element of interference from some parties, whether this be the actual auditees or a higher level of

management that does not wish certain particulars to be uncovered. Consequently, where it is not possible to hide misdemeanours, enhanced effectiveness can be achieved, but this is dependent upon top management support in ensuring that access to all information and personnel is made available for the internal audit team.

Some other reasons for the challenge to the independence of internal audit emerged as being the relationship between auditees and auditors. For example, personal biases and expectations brought the potential to destroy independence, in particular in respect to the audit of the personnel department, where an inherent tension existed because of the power of personnel staff to approve the promotion of internal auditors. Moreover, the strong social networking characteristic of Saudi Arabian society promotes relationships within the workplace which destroy objectivity on the part of internal auditors who are unable, through mistaken loyalty, to give a truthful opinion.

Management support for internal audit

Interviewees reported that internal audit suffers from a lack of support from top management. Resistance to the establishment of internal audit has created a negative attitude towards internal audit and consequently, low levels of support. Several reasons were offered for the perceived absence of management support. These included: ignorance on the part of top level management regarding the importance of the internal audit role and lack of attention paid thereto; the organisational status of internal audit which consequently affected its independence; and general organisational resistance to the idea of establishing an internal audit function. Moreover, external auditors also agreed that internal audit did not receive sufficient support from the highest officials of the organisations. M20 pointed out that *“there is not sufficient support for internal audit”*, and he considered this as one of the reasons for the lack of independence. In addition, M21 and M27 indicated that internal audit might not be effective since the highest official did not adopt the concept of internal audit, not being *“enthusiastic to support internal audit”* (M27). Further, M25 believed that lack of support affected the competence of the department, saying *“internal audit will not have qualified staff as long as it does not receive sufficient support from top management”*.

Other findings emerging from the interview responses (and these were not only confined to the perceptions of internal auditor interviewees) were that internal audit was affected by problems with regard to budget constraints, limited number of internal audit staff and lack of necessary equipment (that is computers, photocopying machines and faxes). The interview results suggested that these problems could be attributed to insufficient support from management, and a more general belief on

behalf of managers that the level of resources possessed by the internal audit was satisfactory.

Certainly, the absence of support from top management affected the budget allocated to the internal audit and the number of staff available to conduct internal audit work. However, the interviewees considered that the limited budget and the insufficient staff members were general problems affecting all departments and not only internal audit. Such problems were attributed to the lack of co-operation from the MoF as the body controlling government financial matters and posts.

Since lack of posts and staff are general problems facing organisations, transferring staff from one department to the internal audit department creates a shortage in that department and consequently staff may be returned to their original departments whenever they are needed. Finally, the IAR does not specify the importance of allocating sufficient resources to ensure the effective discharge of internal audit duties.

The interview responses suggested that internal audit reporting to a lower level than appropriate and a general lack of management support for internal audit were the main reasons for internal audit recommendations not being implemented. M18 described much of the work of internal audit as a waste of time as it does not receive sufficient support from the first official and consequently many internal audit recommendations are not implemented. He said: *“the main problem that our department (internal audit) faces is complete ignorance from the highest official. It is a waste of time since we receive no attention and our recommendations are in vain”*.

Internal audit activities

The interviewees were unanimous that the internal audit activities had not expanded beyond the traditional audit of financial regularity and compliance; and that the primary work of internal audit continues to focus on the traditional roles of internal audit in terms of concentrating on the reliability of financial records and compliance with procedures and regulations. M3, for example, said *“[i]t (internal audit) is focusing on the extent of compliance with regulations and policies as well as reviewing the accuracy and reliability of the financial accounts”*.

In fact, staff shortages were blamed for restrictions on the type of activities that internal audit might perform, as noted by M17, who said *“I am the only one who works in the department and I cannot carry out all the required works. It is frustrating to be the only one in the department and perform the entire work”*. In fact, 12 interviewees complained that the absence of qualified staff prevented expansion of internal audit activities. That said, 16 interviewees pointed to a misunderstanding of the role of internal audit as one reason for narrowing the focus of its activities merely to checking the reliability of financial records and compliance with procedures and

regulations. Examples of comments in this respect were offered as follows:

To date, some organisations are not aware of the internal audit function. There is still a misunderstanding between the duties of internal audit and those of the Follow-up department. They cannot differentiate between the two departments (M23).

There is a misunderstanding of the role of internal audit and the regulation issued by the GAB; some organisations still see internal audit as a pure financial audit (M20).

In those instances where non-audit activities were performed, and this was indicated by 9 interviewees, such activities took different forms, including conducting financial tasks, participating in budget work, working in other departments where there are staff shortages, and being involved with committees that perform work at a distance to internal audit. M11, for example, stated that internal auditors *“carry out financial activities when there is shortage of staff in the other financial departments”*.

Non-audit work may also be requested by top management or occur because internal audit work is placed directly under the supervision of financial management, and in such situations, internal auditors might be assigned to any financial work whether related to auditing or not. A refusal by an internal auditor to perform such work might result in transfer to another department and a low grade in the annual performance evaluation. Hence, internal auditors seek to please top management by complying with their wishes.

The interaction between external auditors and audited organisations

A weak relationship was seen to exist between external auditors and audited organisations, and in particular such a relationship does not exist with internal auditors. Interviewees indicated several influences in this respect, the first and perhaps the most important being the ingrained mutually negative attitude towards each other. One interviewee described external auditors as policemen since *“they look only for mistakes; they act as police investigators”*. Another interviewee described their work as looking for *“thieves”*. Strong negative attitudes of this kind seem to have resulted in inflexible behaviour, consequently depressing any willingness to respond appropriately to audit recommendations. Moreover, the presence of such attitudes can easily become infectious within organisations such that others who are not actually involved with internal audit adopt the same position, or that senior managers themselves prevent others within the organisation from co-operating with the GAB.

A second factor with potential to weaken the relation-

ship is the limited implementation of recommendations made by the external auditor. Interviewees revealed their opinions that GAB recommendations are not implemented, for several reasons, these being: 1) mutual negative attitude; 2) out-dated recommendations *"They send a report about something that happened two or three years ago ... how come I remember something that happened three years ago?"* (M10); 3) absence of discussion of the findings and recommendations of the external auditors, for example, one interviewee said *"the GAB sends its report and requests implementation of everything in the report without listening to our opinions"* (M6). Here it might be suggested that allowing the audited organisations, particularly internal audit staff, to add comments and opinions on the content of the audit findings and recommendations might minimise the amount of resistance and consequently improve the extent of implementations of audit recommendations; 4) absence of periodic meetings – and here again more frequent meetings might also open the channels to discuss the mutual interests and audit findings. This was pointed out by six interviewees, for example: *"we do not have official meetings with the external auditor. It is only a relationship on paper; we send him the papers and records that he requests, that is it"* (M4); 5) complex procedures, outdated regulations and instruction - which might affect organisations' performance and consequently result in them repeating the same errors and irregularities every year, thus ignoring audit findings as they are the same as previous years, for example *"we receive the same findings and the same recommendations every year; there is nothing to discuss. It all happened because of the complexity of the system. Regulations and in instructions have never been updated. Nothing new; every year we do the same thing, and they (external auditors) report the same findings"*(M9); 6) absence of support from top management in the audited organisations and absence of accountability *"the most important reason is the absence of accountability"* (M23) - which would create a climate in which it might be seen as possible to ignore external audit recommendations with impunity; and 7) having immunity such that no repercussions befall auditees who do not implement the recommendations, for example *"Employees are guaranteed that nothing will happen to them if they do not implement the recommendations"* (M24).

Thirdly, the lack of qualified staff working within audited organisations might be a relevant factor. Five interviewees attributed the weak relationship to the lack of qualified staff, for example, M24 raised this issue, saying *"staff are not sufficiently competent to co-operate"*.

A final factor might be related to the standards and regulations issued by the GAB. Worldwide professional auditing standards highlight the importance of this relationship, but the latest version of the *Government Auditing Standards* (GAS) issued by the GAB in 2008 makes no reference thereto. Although this version was

released after the issuance of the IAR (2007), it pays no attention to a number of related aspects including: 1) the new regulation of internal audit; 2) the relationship between internal and external auditors, in terms of co-ordination, reliance on internal audit work by external auditor, sharing working papers, and the need for frequent meetings; and 3) evaluating the objectivity of the internal audit function, the expertise of the internal auditors, quality and effectiveness of internal audit work, and the scope of work. The absence of consideration of these issues is likely to weaken the relationship between the two audit parties given that external auditors are required to comply with the GAS when performing audit work. The GAB (2008) indicated that several considerations were borne in mind when updating the latest version of its standards, one of these being the IAR. However, internal audit is mentioned only in one place in these standards (page 38) where there is a reference to internal audit as one of the five components of internal control.

The GAB (2008) indicated adherence in their content with the INTOSAI standards, but these (1998) highlight the importance of the relationship between internal and external auditors, whereas the GAS do not. With regard to the auditor's working papers, the GAS emphasized the importance of keeping these confidential, stipulating that the "GAB is the official owner of all working papers with all its contents" (GAB, 2008). Article 14 states that the "GAB must take all the required procedures to keep all organisations' information confidential". In the current study, the interviewees indicated that the reason for not sharing the external audit working papers was confidentiality.

Summary and review of findings

This study provides evidence on the current practice of internal audit in public sector organisations in Saudi Arabia that is subject to audit by the GAB. From this evidence it is seen that institutional factors are likely to play a part in the failure of internal audit to develop in the Saudi public sector. The existence of the state-required 'Follow-up department', 'auditing department', and 'Financial Representative (Controller)' have been seen, rightly or wrongly, as functioning to undertake the ascribed role of internal audit in the public sector and thereby to make internal audit as a separate function, redundant. Additionally, the perception exists that powerful government bodies, in particular the Ministry of Finance (MoF) and the Ministry of Civil Service (MCS) fail to appreciate the value of internal audit as a mechanism to improve efficiency and probity within the public sector, and therefore have not sought to enforce the requirements universally. The failure of internal audit to develop and flourish in the Saudi public sector, to a level of activity and importance which theoretically, holds in other

countries, may be seen as a reflection of the historical background against which accountability, monitoring and control of public finances has developed in Saudi Arabia. Beyond this, and in common with other societies emerging from a long history of close families or 'clan' relationships (and also perhaps an overarching religious structure), the basic perception within employment is the maintenance of harmony with friends and colleagues, and this might be seen as militating against the effective discharge of an internal audit function (and also has implications for the role of external audit and audit committees) which is intended to impose control and expose those responsible for financial misdemeanours. The fear of repercussions within a clearly structured and hierarchical environment, which, it might be argued, is also a mark of Saudi society, may impair internal auditor independence beyond the more straightforward conventional concerns as to employment by the 'auditee' body and enhance the wider behavioural, psychological and behavioural issues common to almost all forms of audit, as discussed by Marnet (2008). All these cultural predispositions combine to produce a situation where internal audit is neither effective nor given sufficient credence and importance - issues identified by other researchers (Alzeban and Gwilliam, 2012; Haniffa and Hudaib, 2007; Al-Twaijry, 2000).

Against this background, a number of recommendations are made as to the manner in which internal audit and the regulatory framework underpinning internal audit might develop if the function is to more adequately fulfil its ascribed role within the Saudi public sector. Wider transparency, in terms of making public external audit findings of the GAB, is also advocated together with the provision of more resources to support education and training of both management and internal audit staff at all stages including higher education and professional qualifications. The relative lack of progress of internal audit in the Saudi public sector to date may be attributed to a 'catching up' process with a much shorter tradition of public sector control and audit than many others. Here facilitation of education, training etc. may act to reduce miscommunication between the various stakeholders, misperceptions as to the nature of the internal audit role and perhaps influence management to provide more support and encouragement for the active pursuit of that role. It is also suggested that if the Saudi public sector moves toward a model with a greater influence of markets and more direct input from stakeholders, as has been the case in the great majority of developed industrial nations over the last thirty years, then this too is likely to create forces which will act to move audit more toward the current model in such developed countries.

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