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The Extent of Applying the International Internal Audit Standards by the Telecommunication Companies Operating in Jordan

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Author's contribution

The whole work was carried out by the author OSS.

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ABSTRACT

This study aimed to identify the extent of the application of International Internal Audit Standards by the telecommunication companies operating in Jordan. Generally, standards work as a framework for performing and promoting a broad range of value added functions. International Internal Audit standards establish the basis for the evaluation of internal audit performance in any organization. The study has covered three telecommunication companies in Jordan. A questionnaire has been designed and distributed among the internal auditors for this purpose and to the non-executive directors as they are members of the Audit Committee in each company. The number of questionnaires analyzed was 35 questionnaires. Resolution data were analyzed using the statistical program SPSS, in addition to other statistical methods through descriptive statistics, arithmetic means, standard deviations, and percentages. The study found that telecommunications companies are applying the International Internal Audit Standards IIA in general. Attribute Standards were mostly applied, then Application Standards were used in the second place but in a high degree. Performance Standards were not applied in those companies. Also the study discovered that there are some difficulties and obstacles that limit this kind of application, but moderately. The study recommended that these companies should increase the size and extent of Internal Auditing Standards in the telecommunication companies operating in Jordan, especially Performance Standards, which will lead of rising the efficiency and effectiveness of the internal audit and finally

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contribute to the improvement of risk management and create additional value for those companies.

Keywords: International internal audit (IIA); audit standards; audit performance; audit committee.

1. INTRODUCTION

The role of internal audit is to provide independent assurance that an organization's risk management, governance and internal control processes are operating effectively. Telecommunication companies in Jordan are an example of such companies which is applying internal auditing in its management process. Now a day telecom companies have the biggest capital shares between its colleagues of companies. Due to such size of investments in this type of industries and the financial crisis threatening these industries, the need arises to efficient control procedures to protect such huge investments.

Recently giant companies increased its interest in Internal Auditing, which made management to establish independent department to control and functioning the job of internal auditing. Internal audit is a department, independent of line management, whose prime responsibility is to review the quality and effectiveness of the controls within the banks to manage and mitigate risk and protect the assets of the bank. In performing this work Internal Audit provides recommendations and provides advice to management on matters requiring attention [1].

Internal auditing is conducted in diverse legal and cultural environments; within organizations that vary in purpose, size, complexity and structure and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, conformance with The IIA's International Standards for the Professional Practice of Internal Auditing Standards is essential in meeting the responsibilities of internal auditors and the internal audit activity [2].

The current study focused on the necessity importance of such companies to have internal auditing systems in its organizational chart. International Internal Audit Standards (IIA), issued by the Internal Audit Institute is applied in a wide range in the world now, and it's considered the main measures of professional judgment on companies. 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.

Jordan as every country in the world has its own financial legislations and roles, which constitute the main source of control on financial transactions, not only in telecom companies but also on other industry sectors. The current study will try to answer whether the telecom companies in Jordan are applying the IIA standards or not, also we will try to answer the sub following questions:

1. Did the Telecom Companies in Jordan Apply the Attributes Standards?
2. Did the Telecom Companies in Jordan Apply the Performance Standards?
3. Did the Telecom Companies in Jordan Apply the Implementation Standards?
4. Is there any difficulties or constraints limit the application of IIA in the telecom companies in Jordan?

The importance of the study arises out of the necessity of applying IIA Standards in the telecom companies working in Jordan, as these standards represent the main rules which the companies should follow, application will enhance the quality of internal auditing, and that at the end will add value to the service provided. IIA Standards will also protect assets, minimize risk, maintain a high level of performance, and achieve the companies' objectives efficiently. Finally the distinguished advantage of applying these standards will put the competitive telecom company on the lead.

The study aims to acknowledge the extent of the telecom companies working in Jordan in applying the International Internal Auditing Standards. The sub objectives of the study can be summarized as follows:

1. To acknowledge the extent of applying the Attributes Standards.
2. To acknowledge the extent of applying the Performance Standards.
3. To acknowledge the extent of applying the Implementation Standards.
4. To identify the obstacles or difficulties facing the application of the IIA Standards.

2. LITERATURE REVIEW

Internal auditing can be defined as, 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 [3].

The comprehensive definition of internal auditing comprehends the following concepts:

1. It's an independent internal activity within the organization, established by management for its service.
2. It's a controlling tool, which evaluate plans, procedures, and management policies.
3. It's a consulting function, which can advise, and introduce suggestion of a better job performance.

The Standards are principles-focused, mandatory requirements consisting of statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance, which are internationally applicable at organizational and individual levels.

The structure of the standards can be divided into three major groups:

Attribute Standards: These standards address the attributes of organizations and individuals performing internal auditing. Attribute Standards constitute four main sub-standards:

- a. Standard number 1000: The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.
- b. Standard number 1100: The internal audit activity must be independent, and internal auditors must be objective in performing their work.

- c. Standard number 1200: Engagements must be performed with proficiency and due professional care.
- d. Standard number 1300: The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

The Performance Standards describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured. The Attribute and Performance Standards are also provided to apply to all internal audit services. Attribute Standards constitute eight main sub-standards:

- a. Standard number 2000: The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.
- b. Standard number 2100: The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.
- c. Standard number 2130: The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.
- d. Standard number 2200: Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.
- e. Standard number 2300: Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.
- f. Standard number 2400: Internal auditors must communicate the results of engagements.
- g. Standard number 2500: The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.
- h. Standard number 2600: When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

Implementation Standards are also provided to expand upon the Attribute and Performance Standards, by providing the requirements applicable to assurance or consulting activities. Assurance services 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. There are generally three parties involved in assurance services:

- a. The person or group directly involved with the entity, operation, function, process, system or other subject matter - the process owner.
- b. The person or group making the assessment - the internal auditor.
- c. The person or group using the assessment.

Consulting services 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. Consulting services generally involve two parties:

- a. The person or group offering the advice - the internal auditor.
- b. The person or group seeking and receiving the advice, which is the engagement client. When performing consulting services the internal auditor should maintain objectivity and not assume management responsibility.

The Standards apply to individual internal auditors and internal audit activities. All internal auditors are accountable for conforming to the Standards related to individual objectivity, proficiency, and due professional care. In addition, internal auditors are accountable for conforming with the Standards, which are relevant to the performance of their job responsibilities. Chief audit executives are accountable for overall conformance with the Standards.

To support the current study, the following previous studies are presented below:

Ester Gras, in his research paper examined the relationship between a firm's internal audit function (IAF) and the quality of its financial reporting. Since regulations on corporate governance were introduced, numerous national and international bodies have emphasized the fundamental role of the IAF in the financial reporting process, especially since it generally leads to higher quality reporting. The study concluded that, banks with high quality financial reporting have greater collaboration between internal and external auditors in the annual audit, and greater involvement of internal audit in reviewing financial reporting leads to improved quality financial reporting [4].

Another research carried by Travis P. Holt. In his research paper Travis worked on the assessment of internal audit role and reporting relationships that affect investor's perceptions of disclosure credibility. The results indicate that participants perceived disclosure credibility to be significantly higher when the Chief Audit Executive reported functionally to the audit committee and administratively to the CEO (versus both strategically and administratively to the CFO). The results reveal no significant differences in perceived disclosure credibility from the differing audit roles. The findings contribute to the internal audit and corporate governance literatures by providing further evidence of the importance of internal audit in investor judgment and decision making [5].

Al-Raheleh, in his research paper has compared between the Islamic Internal Auditing Standards, and the IIA Standards. The study aimed to figure the similarities and the differences between the two standards, then to figure the possibility of applying the IIA on an Islamic economic community. The study concluded that, the Islamic Internal Auditing Standards are generally common, and not specifically classified in groups capable of covering all the internal auditing aspects. The study also concluded that, there is no core differences between the two studied standards. The study recommended that, the Islamic Internal Auditing Standards should work together along with the IIA Standards [6].

Al-Nono, in his research study aimed to figure the extent of applying the IIA Standards in the Islamic banks in Gaza Strip, and to figure the main obstacles hinder the application of IIA Standards. The study concluded that, the Islamic banks in Gaza strip are applying the IIA in a good manner, but there is disparity in the level of applying the performance Standards in specific. The Study recommended that, it is necessary to enhance the application of the IIA Standard in the Islamic banks more widely than it is used currently [7].

Al-Taweel, in his study aimed to figure the extent of efficiency in applying IIA in the Palestinian universities. The study concluded that, the internal auditors in the Palestinian

universities have a moderate knowledge of the IIA Standards, and they should work in strengthening their knowledge and the application of the IIA Standards [8].

Goodwin & Kent, explored the voluntary use of internal audit by Australian publicly listed companies and to identify factors that lead listed companies to have an internal audit function. The paper predicts that internal audit use is associated with factors related to risk management, strong internal controls and strong corporate governance. To test the predictions, the study combines data from a survey of listed companies with information from corporate annual reports. The paper also provides descriptive information on the use of internal audit. The results indicate that only one-third of the sample companies use internal audit. While size appears to be the dominant driver, there is also a strong association between internal audit and the level of commitment to risk management. However, the study finds only weak support for an association between the use of internal audit and strong corporate governance [9].

3. RESEARCH METHODOLOGY

The research was carried out by primary data, collected by using a structured questionnaire. The questionnaire has been developed and distributed among three telecommunication companies working in Jordan. The questionnaire has been distributed to the internal auditors, and the special auditing committees emerging out of the board of directors, which they form the study community of this research. Total of Fifty (50) questionnaires were distributed, Thirty five (35), were recovered, which means that, Seventy percent (70%) of it was valid for analysis. Table 1 shows these results.

Table 1. Results of research community

Items	No.	Percentages
Questionnaires Distributed	50	100%
Questionnaires recovered	35	70%

3.1 Study Hypothesis

H0: Telecom Companies working in Jordan Do not apply the IIA Standards. The Sub divided hypothesis which can be derived from the first hypothesis can be set as follows:

- a. The telecom companies working in Jordan don't apply the Attributes Standards.
- b. The telecom companies working in Jordan don't apply the Performance Standards.
- c. The telecom companies working in Jordan don't apply the Implementation Standards.

H0: There are No difficulties facing the application of the IIA Standards.

3.2 Statistical Analysis

Likert scale quintet has been used, five options for each question was identified. Many statistical measures was used to analyze the questionnaire, such as, Central tendency, Arithmetic mean, standard deviation, frequencies, t test, and percentages, for the purposes of description and analysis of the study data. The Statistical Methods used can be summarized as follows:

- a. Descriptive Analysis: Arithmetic mean, standard deviation, and percentages, are the main tools of this type of analysis.
- b. Cronbach Alpha: This measure was used to test the reliability, and the credibility of the study. As Sekaran, explained, Internal reliability coefficient between answers that statistically acceptable, if the value for this measure is (60%) or more [10].

The results showed that, the reliability coefficient are very high, which indicates that, the questionnaire is reliable. Table 2 shows that, the total reliability coefficient values (internal consistency) using Cronbach Alpha equals 0.723, which is a high value and suitable for the objectives of the study. Table 3 illustrates data analysis of the Demographic Characteristics of the Respondents.

Table 2. Reliability coefficient values

Field Of Study	No. Of Questions	Alpha Coefficient
Attribute Standards	10	0.755
Performance Standards	12	0.811
Implementation Standards	12	0.713
Application Difficulties	10	0.795
Total	44	0.723

3.3 Data Analysis of the Study Fields

In order to describe the extent of application of IIA standards, the researcher had extracted the arithmetic means and the standard deviation, of all Study fields, (Attributes, Performance, Implementation and the Application Difficulties).

Table 3. Illustrates the demographic characteristics distribution of the study sample

Variable	Group	Frequencies	%
Sex	Male	33	94.3
	Female	2	5.7
Total		35	100%
Age	Less than 25 years	6	17
	From 25 years—35 years	14	40
	More than 35 years—45 years	12	34
	More than 45 years	3	9
Total		35	100%
Professional Certificate	JAC	2	5.7
	CIA	1	2.9
	Accounting Degree	32	91.4
Total		35	100%
Job Title	Manager of Internal Audit Dept.	4	11.4
	Deputy Manager	4	11.4
	Member of the Board of Directors (Audit Committee)	11	34.4
	Internal Auditor	16	45.8
Total		35	100%
Experiences	Less than 5 years	4	11.4
	From 5 years – 10 years	12	34.3
	More than 10 years – 15 years	13	37.1
	More than 15 years	6	17.2
Total		35	100%

Table 4 illustrates the attributes standards results. The mean, standard deviation reflects high average, which means that the attributes standards are mostly applied. Table 5 also reflects that the performance standards are also applied. Table 6 reflects that implementation standards also applied. Finally, Table 7 the study shows that, the telecommunications companies working in Jordan are moderately facing difficulties in applying the IIA Standards.

Table 4. Illustrate the attributes standards results

No.	Attributes Standards	A. Means	S. Deviation	%	Order
1	The responsibility lays on the people how perform the audit function.	3.91	1.01	78.29	1
2	Recorded liability of the powers conferred officially on the list of internal audit which are approved by the highest authority in the company.	3.51	0.78	70.29	8
3	Internal audit activities are independent in its performance of activities.	3.74	0.66	74.86	3
4	Internal audit activities have objectivity in the performance of its activities	3.77	0.60	75.43	2
5	Internal audit activities are independent to express its final opinion.	3.63	0.65	72.57	5
6	Internal audit activities have the autonomy to express its final opinion.	3.69	0.63	73.71	4
7	Internal audit activities have creativity in the performance of its activities	3.51	0.56	70.29	8
8	Internal Auditor attends the necessary professional care in the performance of internal audit activities	3.54	0.56	70.86	7
9	Internal auditors are subject to evaluations and optimization	3.51	0.78	70.29	8
10	Availability of Audit quality in the properties and behavior standards.	3.63	0.69	72.57	5
	Total	3.65	0.25	72.91	

Table 5. Illustrates the performance standards results

No.	Performance Standards	A. Means	S. Deviation	%	Order
1	The responsibility of managing and monitoring the internal audit activity lies on the audit director.	3.34	0.59	66.86	10
2	One of the main features of the administration is the efficiency and the effectiveness, to enable the internal audit creates additional value for communications companies.	3.29	0.67	65.71	12
3	Internal audit activity should contribute in improving risk management, control, and corporate governance.	3.31	0.63	66.29	11

Table 5 Continued.....

4	The internal auditors prepare plans for their tasks	3.49	0.74	69.71	5
5	Internal auditors have keen interest in identifying, analyzing, evaluating and recording sufficient information to achieve the objectives of the task they perform.	3.49	0.56	69.71	5
6	Internal auditors have keen interest in delivering the results of the work audited at the right time and the right way.	3.51	0.51	70.29	4
7	The audit director is responsible to follow up the progress of tasks.	3.57	0.56	71.43	3
8	The audit director has keen interest in establishing a systematized business rules, and to be responsible for maintaining, monitoring it, and Finally to deliver outcomes to management.	3.46	0.56	69.14	8
9	Evaluating and improving risk management has become part of internal audit work activity	3.66	0.73	73.14	2
10	Director of Audit Department is keen to make sure of the level of acceptable risk	3.49	0.70	69.71	5
11	If audit director feels that risk is higher than the level at which the company can bear, he has to discuss the matter with top management, if not solved, and it should be reported to the board of directors.	3.69	0.68	73.71	1
12	There is auditing quality in Performance report.	3.46	0.61	69.14	8
	Total	3.48	0.25	69.57	

Table 6. Illustrates the implementation standards results.

No.	Implementation Standards	A. Means	S. Deviation	%	Order
1	Internal audit activity should contribute to the improvement of corporate governance processes.	3.54	0.61	70.86	7
2	Values and goals status and its ability of achieving them are verified, so that departments are ready and able to disclose its activities in accordance to values and goals planned.	3.77	0.77	75.43	1
3	Evaluating the quality performance level of responsibilities assigned to workers.	3.69	0.58	73.71	2
4	Suitable recommendations are provided in order to improve the working processes.	3.66	0.64	73.14	4
5	Rising of production efficiency can be performed through the proposed necessary training.	3.69	0.58	73.71	2
6	Accountability is verified as the acts and decisions taken are testable by internal auditors.	3.63	0.55	72.57	5

Table 6 Continued.....

7	Company's values are maintained by identifying areas or processes and programs that must be reviewed and evaluated during the audit time.	3.43	0.50	68.57	9
8	The implementation of tasks and objectives is supervised.	3.43	0.50	68.57	9
9	Errors and fraud are detected through implementation of standards	3.40	0.65	68.00	11
10	Enough assurances and advisory activities of the Internal Audit.	3.31	0.68	66.29	12
11	Obvious execution chart of Implementation, and Attributes standards.	3.57	0.65	71.43	6
12	Implementation standards motivate Self-censorship	3.54	0.85	70.86	7
	Total	3.55	0.23	71.10	

Table 7. Illustrates the Application Difficulties results

No.	Application Difficulties	A. Means	S. Deviation	%	Order
1	Limited availability of efficient internal auditors	1.66	0.68	33.14	9
2	Lack of support from the administration to the activities of the Internal Audit	1.66	0.59	33.14	9
3	Lack of independence of the internal audit	1.71	0.62	34.29	8
4	Lack of specified conditions and requirements, which must be met, when an internal auditor will be appointed.	2.17	0.95	43.43	7
5	Lack of understanding and perception of internal auditing standards.	2.51	0.92	50.29	6
6	Non-mandatory legislation to apply internal auditing standards	4.06	0.76	81.14	4
7	Conflicts between Islamic standards & internal audit standards.	3.94	0.73	78.86	5
8	The difficulty of applying internal auditing standards due to the nature of the activity of Telecom companies.	4.26	0.56	85.14	2
9	Rely on some Islamic legislation as synonymous to internal audit standards.	4.29	0.57	85.71	1
10	Low level of risks associated with the practice of communications companies for their activities.	4.20	0.47	84.00	3
	Total	3.05	0.26	60.91	

3.4 Results of Multiple Regression Analysis

Table 8 illustrates sample test results, (One Sample t-test) to examine the main hypothesis, and its Sub Hypothesis, to test the extent of the application of International Internal Audit, IIA standards.

It is noticed from Table 8 that the value of (t) calculated, concerning first sub hypothesis equals (3.40), and the level of significance is (0.002), which is higher than tabulated (t) which equals (2.04), as the value of (t) calculated is higher than tabulated (t), we reject nihilism hypothesis, which means that, telecommunication companies operating in Jordan are applying the Attributes Standards.

Table 8, shows that, the value of (t) calculated, concerning second sub hypothesis equals (0.51), and the level of significance is (0.616), which is less than tabulated (t) which equals (2.04), as the value of (t) calculated is less than tabulated (t), we accept nihilism hypothesis, which means that, telecommunication companies operating in Jordan do not apply the Performance Standards.

Table 8, also shows that, the value of (t) calculated, concerning third sub hypothesis equals (1.39), and the level of significance is (0.175), which is less than tabulated (t) which equals (2.04), as the value of (t) calculated is less than tabulated (t), we accept nihilism hypothesis, which means that, telecommunication companies operating in Jordan do not apply the Implementation Standards.

It is noticed from Table 8 that the value of (t) calculated, concerning second hypothesis (Telecom Companies working in Jordan, Do not apply the IIA Standards) equals (2.73), and the level of significance is (0.010), which is higher than tabulated (t) which equals (2.04), as the value of (t) calculated is higher than tabulated (t), we reject nihilism hypothesis, which means that, telecommunication companies operating in Jordan are applying the IIA Standards.

Table 8. Illustrates sample test results, (One Sample t-test) to examine the First and its Sub hypothesis

Hypothesis	Arithmetic Means	Calculated T	Tabular T	Sig	Result
Sub: The telecom companies working in Jordan <i>don't</i> apply the Attributes Standards.	3.65	3.40	2.04	0.002	Reject
Sub: The telecom companies working in Jordan <i>don't</i> apply the Performance Standards.	3.48	0.51	2.04	0.616	Accept
Sub: The telecom companies working in Jordan <i>don't</i> apply the Implementation Standards.	3.55	1.39	2.04	0.175	Accept
Main: Telecom Companies working in Jordan <i>don't</i> apply the IIA Standards.	3.56	2.73	2.04	0.010	Reject

It is noticed from Table 9 that the value of (t) calculated, concerning difficulties facing the application of the IIA Standards equals (10.36), and the level of significance is (0.010), which is higher than tabulated (t) which equals (2.04). As the value of (t) calculated is higher than tabulated (t), we reject nihilism hypothesis. which means that, telecommunication companies operating in Jordan are facing difficulties while applying the IIA Standards, but these difficulties do not limit significantly and directly from the application of telecommunications companies to IIA Standards, and that according to the value of the arithmetic Means of (3.05), which represents the degree of difficulty medium.

Table 9. Illustrates sample test results, (One Sample t-test) to examine the second hypothesis

Hypothesis	Arithmetic Means	Calculated T	Tabular t	Sig	Result
There are No difficulties facing the application of the IIA Standards.	3.05	10.36	2.04	0.00	Reject

4. CONCLUSIONS & RECOMMENDATIONS

According to Data Analysis, and Hypothesis testing the study had concluded the following:

1. The telecommunications companies working in Jordan are applying the IIA Standards in general. The application can be classified by order as follows:
 - a. Attributes Standards are mostly applied.
 - b. Implementation Standards are in the second place after Attributes Standards.
 - c. Finally, the study concluded that, the telecommunications companies working in Jordan are not applying the Performance Standards.
2. Telecommunications companies working in Jordan are moderately facing difficulties in applying the IIA Standards.

According to the study conclusions the researcher recommends the following:

1. Efforts should be made to increase the level of applying the IIA Standards in the telecommunications companies working in Jordan, especially the Performance Standards, which will increase the level of efficiency and the effectiveness of the internal auditing, minimize the risk associated with auditing process, and finally adding value for the operating companies.
2. Some efforts should be made in order to erase the difficulties facing the application of the IIA Standards, and made it in harmony with current civil and Islamic regulations applied in Jordan.
3. Encouraging the internal auditors of the telecommunications companies working in Jordan to expand their knowledge through getting professional degrees, such as CPA & CIA.
4. Encouraging the management of the telecommunications companies working in Jordan to enhance the knowledge of their auditors through conferences, and training sessions.

COMPETING INTERESTS

The author has declared that no competing interests exist.

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