THE USAGE OF ANALYTICAL PROCEDURES BY YEMENI AUDITORS: A DESCRIPTIVE ANALYSIS

BY

MOHAMMED ABOBAKER MOHAMMED BA-ABBAD

89212

A thesis submitted to the College of Business in partial fulfillment of the requirements for the degree Master of Science in Accounting.

31 March, 2010
PERMISSION TO USE

In presenting this dissertation in partial fulfillment of the requirements for a postgraduate degree from Universiti Utara Malaysia, I hereby agree that the university library may make it freely available for inspection. I further agree permission for copying of this dissertation in any manner, in whole or in part, for scholarly purposes may be granted by my supervisor or, in her absence, by the Dean of College of Business. It is understood that any copying or publications or use of this thesis or parts thereof for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to Universiti Utara Malaysia for any scholarly use which may be made of any material from my dissertation.

Request for permission to copy or to make use of material in this dissertation, in whole or in part, should be addressed to:

Dean of College of Business
Universiti Utara Malaysia
06010 Sintok
Kedah Darul Aman
Malaysia
ABSTRACT

This study sets out to investigate the extent to which Yemeni auditors use analytical review procedures through different audit firms' size. It also examines the stage of auditing procedure in which analytical review procedures are implemented by Yemeni auditors. Moreover, the study determines the relationships between the importance's factors and the use of analytical review procedures. The findings of the study have indicated that the analytical procedures were utilized on high percentage by audits in lager and high experienced audit firms compared to small and low experienced audit firms where the results have shown low percentage. Nevertheless, the role of auditors' perception towards analytical procedures has proved to have a significant effect of usage of analytical procedures.
ACKNOWLEDGEMENTS

All praise goes to Allah the Almighty

First and foremost, I would like to express my sincere thanks to my supervisor Dr. Shamharir bin Abidin. I am too grateful for his valuable suggestions, advices, and useful comments. Without his encouragement, scholarly support and commitment of time, this thesis could not have been accomplished by now.

Secondly, I am deeply indebted to my parents who have molded part of my vision and have taught me the good morals that really matter in life and for their endless love and support throughout my life. My thanks should go to my beloved wife for her emotional support, camaraderie, and the caring she provided. Indeed, she sacrificed so much for my MA study that I can hardly find appropriate words to express my gratitude.

Thirdly, being a member of Hadramout University assistant lecturing staff, I would like to express my deep gratitude to Hadramout University. Without its financial and incorporeal support I would not be able to complete my master degree study.

Last but not least, I must thank the Universiti Utara Malaysia, especially the honorable lecturers and the staff members of College of Business (COB).
Table of Contents

ABSTRACT .................................................................................................................. i
ACKNOWLEDGEMENTS ......................................................................................... ii
TABLE OF CONTENTS ....................................................................................... iii
LIST OF TABLES ..................................................................................................... v
LIST OF FIGURES .................................................................................................. vi
LIST OF ABBREVIATIONS .................................................................................... vii

CHAPTER 1 ............................................................................................................. 1
INTRODUCTION ...................................................................................................... 1
  1.1 BACKGROUND OF STUDY ........................................................................... 1
  1.2 PROBLEM STATEMENT ............................................................................. 7
  1.3 RESEARCH QUESTIONS ............................................................................. 8
  1.4 SIGNIFICANCE OF STUDY ....................................................................... 8
  1.6 SCOPE OF STUDY .................................................................................... 9
  1.7 ORGANIZATION OF STUDY ................................................................... 10

CHAPTER 2 ............................................................................................................. 10
LITERATURE REVIEW ............................................................................................. 11
  2.1. AUDIT PROFESSION IN YEMENI CONTEXT ......................................... 11
    2.1.1 Certified Public Accountants Licensed Committee .......................... 11
    2.1.2 Certified Public Accountants Association in Yemen ..................... 12
    2.1.3 Central Organization for Control and Auditing .............................. 12
    2.1.4 Ministry of Industry and Trade of Yemen ....................................... 13
  2.2. ANALYTICAL PROCEDURES ................................................................. 13
  2.3. PURPOSE AND TIMING OF ANALYTICAL PROCEDURES ............... 19
    2.3.1 Planning Phase .................................................................................. 19
    2.3.2 Testing Phase .................................................................................... 19
    2.3.3 Completion Phase ............................................................................ 20
  2.4. SUMMARY ................................................................................................. 20
List of Tables

TABLE 3.1 Survey Distribution And Responses .......................................................... 25
TABLE 4.1 Auditors’ Use Of Analytical Procedures by Different Size Of Firms ............ 27
TABLE 4.2 Analytical Procedures Usage Depending on Auditor’s Experience ............. 29
TABLE 4.3 Extent, Frequency and Effectiveness of Use of APs in Yemen .................. 30
TABLE 4.4 Types of Assurance .................................................................................. 32
TABLE 4.5 Importance of Factors Driving Increased Use of Aps ............................. 33
TABLE 4.6 Auditor Perception towards Analytical Procedures .............................. 35
List of Figures

FIGURE 4.1 Auditors’ Use of Analytical Procedures by Different Size of Firms .......... 28
FIGURE 4.2 Analytical Procedures Usage Depending on Auditor’s Experience .......... 29
FIGURE 4.3 Percentage of Audits on Which Aps are Used ................................. 31
FIGURE 4.4 Procedures Used: Frequency by Firm Size ....................................... 32
FIGURE 4.5 Types of Assurance ............................................................................. 33
**List of Abbreviations**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>APs</td>
<td>Analytical Procedures</td>
</tr>
<tr>
<td>IFAC</td>
<td>International Federation of Accountants</td>
</tr>
</tbody>
</table>
CHAPTER 1
INTRODUCTION

1.1 Background of study

Auditors utilize many types of audit procedures to collect audit evidence such as inspection, observation, inquiry, confirmation, recalculation, re-performance, and analytical procedures. Analytical procedures refer to analysis of significant ratios and trends including the resulting investigations of fluctuations and relationships that are inconsistent with other relevant information or which deviate from predicted amounts (Chow, 2009).

The international standard in auditing No. 520 "Analytical procedures", define the analytical procedures" the term “analytical procedures” as evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount"(IFAC, 2009).

Substantive analytical procedures are widely used in practice and are an increasingly important source of audit evidence. (Asare and Wright, 2001). For example, Kreutzfeldt and Wallace (1986) report that 40% of the errors encountered during an audit engagement were detected by use analytical procedures.
The contents of the thesis is for internal user only
REFERENCES


Yemeni Chartered Accountant journal (2009) renews licenses of Yemeni auditors, 7, 52-53