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THE HARMONISING OF AUDITING STANDARDS IN EMERGING ECONOMIES FROM THE STAKEHOLDERS' PERSPECTIVES

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Abstract

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The literature has highlighted the increased pressure on the auditing profession to achieve global harmony in auditing practice (i.e. Humphrey et al., 2009; Michas, 2011; Holm & Zaman, 2012), thereby requiring auditing regulators and standards-setters to revise and improve auditing standards in their own local contexts. This study seeks to determine the contemporary conduct and determinants of local auditing practice and offers an analysis of how Libyan audit stakeholders perceive the prospect of adopting harmonised auditing standards or developing such a set of standards for local use. A survey was completed by 196 respondents, representing five stakeholder groups in the Libyan auditing arena. Statistical analysis, via the SPSS, was performed. The outcomes are deemed to be generalizable given the size of the sample. This study has found that the Libyan Accounting and Auditing practice have varied according to variable concerning the personnel involved. And that the result is an overall poor quality of audit work in the country. This needs to be raised, and the harmonisation of audit standards is one way to achieve not only this but a greater degree of credibility in the country's financial reporting. The study contributes to the body of literature in respect of the Libyan accountancy environment by specifically exploring the perception of stakeholders towards the adoption of harmonised audit standards. By implication, it makes a contribution to the wider body of knowledge about auditing in the Arab countries, where similar cultural conventions and attitudes exist.

Keywords: International Standards on Auditing, Emerging Economies, Harmonisation, Libyan Audit Profession

1. INTRODUCTION

When considering the Libyan accounting and auditing environment, one must briefly recall the role of colonisation, and the subsequent harmonious relationships with the West during the period of the monarchy, since these factors have been influential in shaping that environment. In this respect, Ritchie and Khorwatt (2007) and Lahmar and Asbi (2017) observe that the Libyan auditing profession is tied to the UK and USA model as oil exploration in the last 70 years has been conducted mainly by UK and USA companies. Their involvement promoted the use of auditing arrangements with which they were familiar, and which could ensure standardisation of approach throughout all operations. Indeed, even

with the nationalisation of the oil industry during the Ghadafi regime, and the swing away from Western-devised business models to nationalisation, the accounting and auditing practices within the oil industry remained undisturbed (Shareia, 2014).

Nonetheless, despite this legacy in terms of auditing practice, many authors suggest that the Libyan accounting and auditing profession remains in its initial stage of development in terms of responsibilities, since only relatively recently has the preparation of financial reports as well as auditing reports been required by Libyan Commercial Law (El-Firjani et al., 2014; Barghathi et al., 2018). Furthermore, due to the absence of recognised accounting and auditing standards in Libya, the standards adopted by companies, are the result of

their accountants' and auditors' preference, and of their own knowledge concerning these standards (Faraj & Akbar, 2010; Sawan & Alzeban, 2015). Such knowledge and indeed experience results from where the professionals involved have been educated, trained, and worked previously. Those spending time abroad are more likely to be capable of adopting international standards, whereas those with education and training limited to Libya are not. Consequently, there is a lack of rigour within Libyan accounting and auditing practice, which can be attributed to two main factors. The first is that the financial statements required of the accounting and auditing profession are mainly required by the Tax Department and regulated by the Libyan Tax Law, and the Libyan Commercial Law; and the second is that members of the profession themselves are not homogenous in the knowledge and expertise they possess.

Therefore, the fundamental question of 'where were the auditors?' (Humphrey et al., 2009) in the discussion of the global financial crisis of 2008 prompted increased demand amongst auditing standards-setters and regulatory authorities for further scrutiny and improved standards (Humphrey et al., 2009; Richardson, 2009; Ye & Simunic, 2013), at both national and international levels (Arnold, 2009; Humphrey et al., 2009; Sikka, 2009).

Responses to that demand led to massive developments in accounting and auditing practices worldwide, yet Libya still trails behind with its national accounting and auditing standards, and no international standards have been adopted by the Libyan Accounting and Auditing Association. Hence, there is no harmony in the practical application of standards, a situation that leaves financial information users with no confidence in the reports they are given.

Clearly, standards are important to any society as they serve to enhance the level of measurement, comparison, coordination, and protection of financial information. Particularly, they protect third-party interests by providing financial statement users with a common yardstick to compare alternatives and reach reasonable decisions. Moreover, the international auditing standards contribute towards improving the quality of information produced by the accounting system and enhance managerial efficiency and effectiveness as the appropriate information is available. Investors are also facilitated in their comparison of the relative performance of different companies, domestic and foreign, and can feel confident that the methods used to prepare financial statements are consistent. Hence, it is seen that accounting standards protect investors, shareholders, and governments from biased or inconsistent reporting by management, and their use facilitates access to the capital markets (global stock exchanges) that require their adoption by companies wishing to trade.

Additionally, the use of standards providing one overall accounting reference is essential for the development of accounting and auditing personnel, since adherence to just one set of standards strengthens the accounting and auditing profession on the national and international level. The absence of such auditing standards acting as a regulatory mechanism inevitably leads to weakness within the accountancy profession, thereby demoting it when compared to other professions. However, the development of standards requires effort by the

official and professionally competent authorities with responsibility for drafting them, and the subsequent enforcement of their application by auditors.

From the brief discussion of the problem under investigation above yet to the best of the researcher's knowledge, no comprehensive study has been conducted addressing the harmonisation of the auditing standards in Libya. Therefore, this paper aims to provide a greater understanding of the Libyan auditing practice and legislations a first step in on one hand and to fill in the gap in the scarce literature of the Libyan auditing practice in relation to harmonised auditing standards on the other hand.

The paper proceeds as follows. Section 2 reviews the literature on Libyan auditing profession, practice, education, and regulations. Section 3 provides the methodology underpinning the research under investigation, and Section 4 discusses the paper's results. Section 5 presents the summary and conclusion.

2. LITERATURE REVIEW

The Libyan accounting environment being influenced by some factors that might be considered unique, and certainly different from those in the advanced countries, the accounting and auditing practices in Libya have developed by following the trend set by the UK and the USA (Shareia & Irvine, 2014).

According to Khorwatt (2006), and Shareia and Irvine (2014), before the involvement of the British, the auditing function did not exist in Libya, there being no evidence of this during the Italian colonisation. Subsequently, the pressure placed upon the Libyan authorities to establish an accounting and auditing profession became apparent during the 1950s, in line with the discovery of oil. This discovery and the consequent involvement of British and US companies introduced accounting and auditing practices in Libya, which Shareia (2014) finds to have remained constant, despite changes in the country's legislation. This implies that irrespective of national regulations, the oil companies do not apply these regulations, and hence, the practices used are no reflection of the Libyan environment and development, nationally or internationally.

That said, the regulatory framework introduced by the Libyan authorities, via the establishment of the Libyan Accounting and Auditing Association (LAAA), has neither been properly monitored nor supervised, and resulting from the LAAA's failure to fulfil its duties as a self-regulated body, the government passed the role of regulating the accounting and auditing practices to the General People's Committee (GPC) and its agencies (Shareia, 2010).

Many authors' i.e. Ahmed and Mohmes (2012) and Sawan and Alzeban (2015) have concluded that the Libyan audit profession has long faced many obstacles relating to the absence of such things as auditing standards, compulsory professional codes of conduct, and many other fundamental aspects of auditing. This is the environment in which Libyan accountants and auditors currently work, and it is now appropriate to explore the actual practice as it operates. The following sections, therefore, consider the Libyan accounting and auditing profession from the viewpoint of education, and the regulatory framework in which members of the profession work and develop.

2.1. Libyan accounting and auditing profession

2.1.1. Accounting and auditing practice in Libya

According to several scholars (i.e. Mahmud & Russell, 2003; Shareia & Irvine, 2014), the accounting and auditing practices in Libya have been influenced by the UK GAAP/GAAS because of the UK's control of the major part of Libya after the Second World War. Essentially, UK tried-and-tested practices were imported, as the large companies and the Libyan government strongly relied on British advisers. The Director of the State Audit Bureau (SAB) was Mr J. H. Newbegging, and British Accountancy textbooks were used in the University of Libya (Bait Al-Mal et al., 1973). This situation prevailed in Libya until the early 1980s when the Libyan authority decided to move to the American model, a shift occasioned largely by the fact that Libya's accounting and auditing practices were beginning to be affected by the increasing number of qualified accountants graduating from the University of Libya, and the return from accounting education abroad (especially from the United States) of many other individuals (Bait Al-Mal et al., 1973).

Hence, it is evident that Libya's accounting and auditing practices Libya were strongly influenced by the oil firms, originally from the UK and the USA, in the second half of the last century, and this is attributed to the LAAA's weakness, and the absence of Libyan local standards (Ahmed & Gao, 2004; Sawan & Alzeban, 2015). Such shortcomings led directly to Libyan professional accountants following Western accounting and auditing standards and guidelines (Bakar & Russell, 2003).

Several authors (i.e. Bakar, 1997; Bakar & Russell, 2003; Shareia, 2010) have highlighted that the self-regulated LAAA did not establish a code of ethics, it did not systematically arrange local accounting conferences, nor did it issue accounting and auditing standards, thereby leaving professional accountants to choose whether they adopted international standards. Such standards were formulated in Western countries, responding to the needs of developed economies, and consequently, their framework embedded no reference to the peculiarities of the Libyan environment. However, with no national committee responsible for devising and issuing accounting and auditing standards suitable for the Libyan profession, the actual practice was merely a reflection of what was available to accountants and auditors. And in a study by Faraj and Akbar (2010), the majority of survey respondents believed the auditing standards used in Libya to be of very poor quality. Furthermore, the LAAA failure to design a standardised audit report for use throughout the profession, led the recognised Libyan accountants to produce different styles of report, due to the use of different international accounting and auditing standards, even within the same industry (Bengharbia, 1989; Ahmed & Gao, 2004; Shareia, 2016).

2.1.2. Accounting and auditing education in Libya

Many authors (i.e. Mahmud & Russell, 2003; Mashat, 2005; El-Firjani et al., 2014) have highlighted that both university and accounting academics in Libya have played a vital role in forming and enhancing the country's accounting and auditing practices. This

is not surprising since education, as a systematic process for the Libyan people did not exist during the Italian colonisation, thereby resulting in Libyans being unable to properly execute the country's administrative duties after independence (Bait Al-Mal et al., 1973). Accounting and auditing education thus has no long tradition in the country, and it was not until 1957 that accounting became available as a course of study when the Faculty of Economics and Commerce was established at the University of Benghazi. Then, professional bodies and universities in the UK and the US were the main sources of influence, providing accountancy education and training for Libyan students (Buzied, 1998; Mahmud & Russell, 2003).

Such a situation was not uncommon as observed by Buzied (1998), who notes education in several Arab countries as having been affected by the prevailing political systems either at the time or historically. And particularly, many researchers (i.e. Bait El-Mal et al., 1973; Ahmed & Gao, 2004; Ahmed & Mohmes, 2012; Handley-Schachler et al., 2012; Baruni & Sentosa, 2013) identify that the Libyan education system was imported from the UK. In fact, most developing countries' education systems are linked to the legacies from their colonisers, and Libyan accounting education is no exception (Yapa, 2000).

The first university in Libya (University of Benghazi) opened in the late 1950s with an accounting department heavily influenced by the British education system and based on a nine-month academic year (Shareia, 2014). This was the only Libyan university to deliver accounting education and an accredited accounting qualification for almost 25 years, until the early 1980s when Libya established two other universities - Tripoli University, and Gharyan University (Shareia, 2014). This marked a shift from the UK accounting model to the USA model, as these new institutions adopted American textbooks, and employed American lecturers, and Arab lecturers educated in American universities (Shareia & Irvine, 2008). Gradually, however, the orientation began to reflect the specific character of the institution delivering accounting and auditing education programmes, which are generally provided in the private sector nowadays, meaning that American and UK accounting practices are taught without taking the Libyan social, cultural, and economic environment into consideration (Bakar, 1997; Ahmed & Gao, 2004).

Currently, Libyans need only a Bachelor's degree to undertake accounting and auditing activities (Baruni & Sentosa, 2013). No further examinations (academic or professional) are required, but evidence of practical experience is demanded, and that experience differs according to the qualification held by the person concerned. Hence, there is much variety within the profession as many Libyans have studied overseas in the country's attempt to build its stock of human capital.

Hence, the qualities identified by Ahmed and Gao (2004) as required of professional accountants around the world who are expected to combine the laws, regulations, and economic policies of the state with their accounting systems when performing any accounting and auditing professional work, are not guaranteed in Libyan accountants and auditors as they do not necessarily possess the accounting insight, flexibility, and authority. Indeed, Mahmud and Russell (2003), and Ahmed and Gao (2004);

Lahmar and Asbi (2017), identify several problems facing the accounting and auditing education and practice in Libya find the production of personnel with these qualities. For example, the accountancy curriculum is not aligned with the Libyan environment due to the adoption of Western accounting theories which are incompatible with Libya's needs (Shareia, 2010), shortages of academic staff, the absence of accounting textbooks in the Arabic language, and the lack of accounting research. Such shortcomings are all indicative of the low level of public knowledge of the crucial role of accounting in society.

2.1.3. Development of accounting and auditing regulations

Increased numbers of accounting personnel from Libyan and overseas universities generated new accounting firms managed by locally-qualified accountants, but the absence of any regulatory framework governing accounting practice and the inconsistency in the application of standards and has brought pressure for an accounting and auditing profession (El-Firjani et al., 2014; Ahmed & Gao, 2004; Hamuda & Sawan, 2014; Shareia & Irvine, 2014) that would implicitly introduce some form of governance.

Several options are available to the Libyan authorities in this respect, which includes Self-regulation, Direct, and Combined or Independent Regulation. According to Okike (2004), the Direct approach has been adopted by formulating a set of laws such as the LCC, Law 134/2006, Income Tax Laws, Banking Laws, and many others.

2.1.3.1. Libyan Accounting and Auditing Association (LAAA)

The increased demand for properly-audited financial statements emerged over four decades ago, from financial institutions that were being approached by companies seeking funds, and from other organisations that recognised the large number of accounting and auditing irregularities occurring in local companies that were providing financial services (El-Firjani et al., 2014). This demand led to the introduction of Official Law No.116 of 1973 and the regulation of the Certified Public Accountant (CPA) system, after which the profession became more formally organised.

In 1973, the LAAA was established through Law No.116 of 1973, which introduced the following eight areas concerned with regulation of the accounting and auditing practice: (1) The establishment of the LAAA; (2) Registration of accountants; (3) Exercise of profession; (4) Fees; (5) Pension and contribution fund; (6) Obligations of accountants and auditors; (7) Penalties; and (8) General and transitional provisions. Detailed objectives in each of these areas were established.

Furthermore, section 2.4 in Law No.116 of 1973 states that in order to qualify as a Certified Public Accountant (CPA) (Libyan State, 1973), a person must satisfy the following requirements: hold Libyan citizenship; hold at least a Bachelor's degree in Accounting or any equivalent degree recognised by the LAAA such as a PhD in accounting/auditing, ICAEW, AICPA, or ACCA; have five years' experience of accountancy-related jobs in an accounting office after obtaining the Bachelor's degree, or three years

after obtaining recognised international accounting profession membership; be active in political and civil rights. In addition, individuals must be of good conduct, reputation and respectability, commensurate with the profession and take the oath to do the work with complete honesty and sincerity.

Having obtained the required experience and met all the other conditions, an individual is qualified to become a member of the profession and is called a 'Certified Public Accountant' (Shareia, 2010). However, the absence of any requirement for Continuous Professional Development (CPD) results in companies in Libya ignoring the entire issue of staff training (Ahmed & Gao, 2004), and depressing the observed quality of Libyan accountants and auditors. This is a major omission from the stipulated duties of the LAAA although arguably it can be seen through its objectives relating to scientific updating, that CPD does fall within the Board's remit.

Derwish and Elghli (2006) also highlight that the LAAA has not issued any Libyan accounting and auditing standards, and hence, had no standards to enforce. This overall weakness has placed the government as the sole accounting regulatory authority, and despite the LAAA being responsible for the issuance and monitoring of accounting standards and practices in Libya under Law No.116/73, public bodies such as the Public Control Office have capitalised upon the absence of an effective accounting association and instructed companies to follow certain accounting procedures (Shareia, 2010).

So, regardless of its establishment over 40 years ago with definite objectives, the LAAA has neither provided any standards for members to follow, nor recommended any other standards (Bakar & Russell, 2003; Hamuda & Sawan, 2014; Sawan & Alzeban, 2015), and these limitations of the LAAA's operation are seen to negatively influence Libya's economy. In this respect, Akyüz and Cornford (1999) highlight the 'emerging' terminology intended to describe those economies that are developing or moving toward global economy networks. Libya is classified under World Bank guidelines (Libyan State, 2005), as an emerging economy rather than a developing nation, and since the establishment of the Libyan Stock Market in 2007, this categorisation is particularly appropriate.

However, in emerging economies, national planning is especially important, and adherence to those plans and fiscal and monetary policies must be strictly enforced (Mirghani, 1982). This requires the accounting profession to prevail in supplying the country with valuable information concerning the state of the economy, since only with such information can the nation be helped to achieve its economic targets. But researchers (Bloom et al., 1998; Bakar & Russell, 2003; Rossi et al., 2016) have criticised the adoption of Western or foreign accounting systems in respect of the information required by the state and the economic goals to be achieved. These criticisms clearly have relevance for Libya as an emerging economy since its financial environment is similar to that of other emerging countries, rather than to that seen in the developed countries such as the UK, USA, Germany, and France (Kilani, 1988; Bait El-Mal, 1990b; Bakar & Russell, 2003; Rossi et al., 2016).

2.1.3.2. State Accounting Bureau (SAB)/ Institute of Public Control (IPC)/Libyan Audit Bureau (LAB)

The State Accounting Bureau (SAB) in Libya was established almost two decades before the LAAA under Law No.31 of 1955, responsible to the Ministry of the Treasury (Shariha, 2014; Masoud, 2016). In 1966, it was placed under the supervision of the Ministry Council of Libya by the Audit Bureau Law, and further changes to its dependence occurred in 1969, when the supervision responsibility transferred to the Revolutionary Command Council (RCC) under Law No.79 of 1975.

Since then, the SAB has undergone several changes, one being when the RCC systems were replaced by the GPC, which became the Libyan authority with responsibility for supervision of the SAB in 1977 (Zakari, 2013). And in 1988, the GPC enacted Law No.7 of 1988 which merged the SAB and the Central Institute for General Administration to form a new organisation entitled the Institute for Public Follow-Up, which was subsequently renamed as the Institute of Public Control (IPC) in 1996 (Shariha, 2014).

The SAB/IPC has auditing responsibility for all State agencies, departments, and any other institutions receiving governmental support of over 25% of their capital, to ensure that these institutions are in line with the financial law and regulations formulated by the authority (Ahmed & Gao, 2004). Subsequently, the Libyan authority extended the scope of the IPC to cover the foreign companies and joint ventures active in Libya, even though the audit of these institutions is a legal requirement, and where audits are conducted, no specific standards are required. In such cases, the IPC relies on procedures established by itself in line with Libyan Law and Regulations (Zakari, 2013).

Unfortunately, the IPC is weak in discharging its supervisory duties because of the shortage of qualified accountants and auditors required to perform those tasks, and the consequent involvement of private accountants and auditors who stepped into this gap. Eventually, this situation led to a great demand for accounting education in Libya, which in turn precipitated an increased demand for qualified accountants in the country (Ahmed & Gao, 2004).

Further modifications to the IPC occurred after the Arab Spring of early 2011 when it was renamed the Libyan Audit Bureau (LAB), charged with all the same responsibilities. However, Law No.119 of 2011 stipulated the separation of the roles of the LAB and the Libyan Administrative Control Authority (LACA) (LAB, 2014). Accounting and auditing practice in Libya is discharged as required by the laws and regulations issued by the Libyan government, some of which are now discussed.

2.1.3.3. Legal requirements

The Libyan Commercial Code

The Commercial Code was passed in 1953 after Libya's Independence, since when it has undergone numerous revisions to reflect the country's needs, and help in achieving national economic targets (Masoud, 2014). Businesses must follow certain

procedures such as maintaining daily bookkeeping, inventories, and budgets at a minimum level, in addition to keeping special files for correspondence and dialogue relevant to trade affairs (Article 58, 59) (Libyan State, 1970). According to Articles 580, 583 of the LCL, all firms must submit approved financial reports as well as directors' and auditors' reports to the commercial register within 30 days.

Furthermore, the LCC requires all companies to prepare Profit and Loss Statements, and Statements of Financial Position, although it does not require the adoption of any specific Libyan standards, nor does it impose any requirements in respect of the foreign standards being adopted (Bait El-Mal et al., 1973; Kilani, 1988; Buzied, 1998).

It was not until 2005 that the Libyan Stock Market was established by the decree of the GPC No. 134, at which point all listed companies were required to adopt the IFRS/ISA (Libyan State, 2005). Therefore, the LAB must follow the international accounting and auditing standards when auditing Libyan Banks, as stipulated by Law No.1 of 2005. However, the IFRS are not yet implemented in practice (Iasplus, 2013).

Articles 550, 553, and 580 in the LCC regulate most matters regarding auditors such as their appointment, duties, and responsibilities. Additionally, auditors are required to submit a report which shows their opinions regarding the company's accounts and the progress of the company (Libyan State, 1970). The LCC amended by Law No.23 of 2010 concerns the Libyan Trade Activities issued by the General People's Conference. However, the rules and regulation pertaining to the auditing profession partially changed from the old version of the LCC issued in 1953.

The Libyan income tax law

Between 1923 and 1968, the Italian tax laws were implemented in Libya, and the first Income Tax Law was introduced in 1968 (El-Sharif, 1981). Subsequently, in 1973, a new version of the ITL No.64 was enacted and began to influence accounting and auditing practices (Libyan State, 1973). According to Kilani (1988) and Masoud (2016) the influence of these Italian Tax Laws upon accounting and auditing practices, noting that since Libyan companies' financial statements were rarely requested by other parties, firms began to adopt the format best suited for the ITL requirements when preparing their financial information.

However, in 2004 the Libyan Authority introduced changes in the Libyan economic environment, and a third version of the ITL was enacted under Law No.11 (Libyan State, 2004), requiring all firms operating in Libya to submit their audited financial reports signed by a CPA to the Tax Authority in Libya within 30 days from the date of approval of the balance sheet, and not later than seven months from the end of the financial year (Article 80).

The Libyan banking law

The first Libyan bank was established in 1956 under Law No.30 of 1955, and entitled the National Bank of Libya (Ahmed & Ben Daw, 2015). It became

operational in April 1956, having headquarters in Tripoli, and branches in the cities of Benghazi, Sirte, and Sebha opened one year later (Libyan State, 1955). The Libyan authority issued several laws regarding the banking system namely: Law No.4 of 1963 to organise and regulate the banking system, Law No.153 of 1970 in order to nationalise the foreign banks, and Law No.1 of 1993 to allow Libyans to establish privately owned commercial banks.

Furthermore, and most importantly, the Libyan government enacted Law No.1 of 2005 to regulate the banking system in Libya (Libyan State, 2005). This requires Libyan banks to prepare their financial statements based on the IFRS, and for them to be audited based on the ISAs as stated in Article 25. Moreover, Law No. 1 of 2005 requires all banks operating in Libya to assign two auditors who must perform their duties according to the ISAs.

The Libyan stock market

The Libyan stock market was established in 2006 under Decree No.134 by the General People's Committee, and trading started one year later. The stock market is under the control of the government Ministry of Economics located in the city of Benghazi and the main branch is in Tripoli City (Libyan State, 2006).

Bayar et al. (2014) and Eldomiaty et al., (2016) highlighted that the importance of the national stock market in enhancing the economic growth in developing countries, by for example, serving as a source of fresh external capital for companies and government, and simultaneously as a pool of foreign capital through portfolio investments. This view accords with that of Fulghieri and Rovelli (1998), who argue that stock markets are necessary for the development of any country's economy. Indeed, Edweib et al. (2013) have recently demonstrated that the Libyan Stock Market has contributed positively to Libya's economic growth.

However, despite Law No.134 of 2006 Article 55 requiring all listed companies to adopt the international accounting and auditing standards when preparing and auditing their financial statements (Libyan State, 2006; Alferjani et al., 2018), no evidence exists that these practices are actually observed by companies listed on the Exchange (PwC, 2011; El-Firjani et al., 2014). And yet, as Kribat et al. (2013) stressed, all companies listed on the LSM were required under the LSM rule and regulations, to publish their financial reports, auditors' reports and LSM notes on these financial statements within the maximum of a week in the two popular national government newspapers.

The Libyan petroleum law

Prior to the discovery of oil, the Libyan economy was described as a deficit economy as the country was unable to balance its books without financial aid from the USA, the UK, and the UN (Kilani, 1988). However, Libya gained a substantial source of revenue with its oil discovery, which has since funded its many infrastructural and economic

developments (Zakari, 2013). Crude oil exports remain the backbone of the Libyan economy (Zakari, 2013), yielding revenue contributing 95% of the national budget.

The foreign oil firms have enormously influenced Libyan accountants as they have imported their own accounting and auditing practices, especially from the UK and the USA (Kilani, 1988). And given the huge presence of these companies within the Libyan economy, it can be appreciated that their accounting and auditing practices have become embedded in the financial systems of the Libyan oil firms, and as Libyan accounting personnel have changed jobs, moving in and out of the oil industry, those practices have transferred into the non-oil sector (Saleh, 2001).

3. RESEARCH METHODOLOGY

A quantitative approach was used within the study, which focused on five participant groups, these being: external/internal and state auditors, academics, and regulators. A total of 191 individuals comprise the sample. Data was gathered via a questionnaire comprised of statements measured on a five-point Likert-type scale. The validity of the instrument was confirmed by obtaining the Cronbach's alpha, which reached 0.89, indicating high validity. The Kolmogorov-Smirnov test was performed to establish normality, and t-test and Wilcoxon tests were used to test the hypotheses. Additionally, descriptive statistics were determined to map the distribution, abundance, and means. Data analysis was conducted using the SPSS software.

4. FINDINGS AND DISCUSSION

4.1. Audit standards

4.1.1. The standards applied

In respect of the audit standards applied in Libya, external auditors were asked to specify which set they implemented, so that the degree of homogeneity could be established. The Chi-square test for independence was then performed to examine the relationship between the place of study and the set of standards applied in audit practice since these two underlying variables are categorical, and this test compares frequencies observed in a specific category to determine what might be obtained by chance (Field, 2013). Hence, the test established how many external auditors adopted a set of standards that were linked to their place of study.

The statistics from the Pearson Chi-square test [$\chi^2 (12) = 105.181, p < 0.000$] appear in Table 1, revealing that the place of study and the set of standards used in audit work are independent. Conversely, where the p-value is less than (0.000), they are not independent but rather related. Cramer's V value is 0.693, as shown in Table 1, indicating a strong association between the place of study and the applied set of standards by auditors.

Table 1. Applied audit standards in Libya. Chi-square test and symmetric measures

<i>Chi-Square Tests</i>				<i>Symmetric Measures</i>				
	<i>Value</i>	<i>df</i>	<i>Sig. (2-sided)</i>		<i>Value</i>	<i>Approx. Sig.</i>		
Pearson Chi-Square	105.181 ^a	12	0.000	Nominal by Nominal	Phi	1.2	0.000	
Likelihood Ratio	112.423	12	0.000		Cramer's V	0.693	0.000	
Linear-by-Linear Association	34.612	1	0.000		Contingency Coefficient	0.768	0.000	
N of Valid Cases								73

According to Holm and Zaman (2012), audit quality is driven by several factors, one being auditor expertise. This requires auditors to possess the relevant technical skills, practical experience, qualifications, and personal qualities; and to be able to work with auditing standards, which are in effect, in existence to help them to perform their duties correctly. The group of external auditors (being the only participants to actually use the standards in their work) were, therefore, asked to confirm whether they used auditing standards when performing their jobs, and disappointingly, one-third of the respondents admitted that there were no auditing standards in use. This result is consistent with the findings of several other studies conducted in Libya (Shareia, 2010; Faraj & El-Firjani, 2014; Sawan & Alzeban, 2015; Masoud, 2016).

However, the other four participant groups confirmed that the auditing standards implemented

in other countries such as the United States, and the United Kingdom, are employed, because of those countries' influence upon Libya from the colonial era and its consequences. In fact, this comment is echoed in the literature by Nobes (2004), who observes that in many cases, the legal and political systems adopted by developing countries are based on those that were in place in their earlier colonial systems, and this applies also to the professions.

Furthermore, the results show that some of the external auditors follow the International Standards on Auditing (ISAs) in their practice. This might well result from the requirement of the Libyan Stock Market already mentioned, although a report by PwC in 2011 confirms that these standards are not being implemented by firms listed on the Libyan Exchange. Table 2 reveals the relationship between the place of study and the set of standards applied by the 73 external auditors.

Table 2. The relationship between the place of study and the applied audit standards

		<i>Sets of standards</i>				<i>Total</i>	
		<i>ISAs</i>	<i>UK- GAAS</i>	<i>US-GAAS</i>	<i>None of above</i>		
Place of Study	Libya	Count	0	0	6	22	28
		% within Place of Study	0.0%	0.0%	21.4%	78.6%	100%
	Arab country	Count	6	8	2	0	16
		% within Place of Study	37.5%	50.0%	12.5%	0.0%	100%
	USA	Count	0	0	7	0	7
		% within Place of Study	0.0%	0.0%	100.0%	0.0%	100%
	UK	Count	4	7	0	0	11
		% within Place of Study	36.4%	63.6%	0.0%	0.0%	100%
	Others	Count	9	0	1	1	11
		% within Place of Study	81.8%	0.0%	9.1%	9.1%	100%
	Total	Count	19	15	16	23	73
		% within Place of Study	26.0%	20.5%	21.9%	31.5%	100%

4.1.2. Appropriateness of auditing standards

After indicating the reality of the situation, the five groups of stakeholders were asked to determine which standards were more appropriate to the Libyan context by ranking those identified, on a scale ranging from 1 most appropriate to 4 least appropriate. Table 3 reveals the belief among the stakeholder groups that Libya either should set its own standards or adopt ISAs, these being ranked as the first and second most appropriate choices for the country, achieving 74% and 73% of the total

sample respectively. Particularly, Masoud (2014) suggested the formulation of national standards believing that each country should develop these in line with its own economic and social needs, but possibly taking the international accounting and auditing developments into consideration simultaneously. The second preferred option of the International standards possibly resulted from the belief among all participants that international convergence is a foregone conclusion for the future, and thus, the way forward.

Table 3. Appropriateness of auditing standards

	<i>Ranking -----></i>								<i>Total</i>	
	<i>Most appropriate</i>		<i>2nd rank</i>		<i>3rd rank</i>		<i>Least appropriate</i>		<i>F</i>	<i>%</i>
	<i>F</i>	<i>%</i>	<i>F</i>	<i>%</i>	<i>F</i>	<i>%</i>	<i>F</i>	<i>%</i>		
ISA's	61	31%	83	42%	17	9%	35	18%	196	100%
UK-GAAS	26	13%	14	7%	71	36%	85	43%	196	100%
US-GAAS	33	17%	31	16%	85	43%	47	24%	196	100%
Libyan Self-Standards	76	39%	68	35%	23	12%	29	15%	196	100%
Total	196	100%	196	100%	196	100%	196	100%		

Note: F stands for frequency and % stands for percentage

In contrast, the UK-GAAS and the US-GAAS were seen as less appropriate sets of audit standards for the Libyan context by 79% and 67% of respondents respectively. Many authors argue about the benefit of adopting accounting and auditing systems developed by other countries, especially for those countries that do not have an established accounting and auditing system. However, the decision to import systems from elsewhere should only be taken after a thorough consideration of the differences in the accountancy environment of the countries involved. And in the Libyan case, this environment is at extreme variance from that in either the UK or the US. Hence, it can be seen that the respondents' opinions were influenced by this difference and their appreciation of the UK and US standards' inappropriateness for the Libyan accounting and auditing context.

Subsequently, the relationship between the participant groups' place of study and their expressed preference for the type of auditing standards to be used in Libya was investigated by means of the Kruskal-Wallis test. This accommodates both ordinal (the dependent variable - ranking of auditing

standards) and categorical (the independent variable - place of study) variables (Field, 2013), and is rank-based, assessing whether the ranking scores coming from different independent groups are significantly different.

The results reveal a strong correlation in this respect, showing that a preference for UK or US standards was indicated by those who had studied in those countries, whilst those who had studied in countries such as Australia, Italy, Canada, and Malaysia, were in favour of the establishment of unique Libyan auditing standards. This confirms the influence of context in accounting and auditing education, since those educated in the UK and the US were of the opinion that those countries' standards should be transferred into the Libyan environment, whilst those educated in countries that did not adopt this principle and established their own, believed this to be a more acceptable practice, possibly because in formulating their own national standards, these latter countries took the international standards into account. Table 4 presents the statistics relating to this issue.

Table 4. The relationship between the place of study and the believed appropriate standards

	<i>H-statistic</i>	<i>df</i>	<i>p-value</i>	<i>Decision</i>
ISA's	3.191	4	0.526	Retain the null hypothesis
UK-GAAS	3.924	4	0.416	Retain the null hypothesis
US-GAAS	3.723	4	0.445	Retain the null hypothesis
Libyan Standards	10.369	4	0.035	Reject the null hypothesis

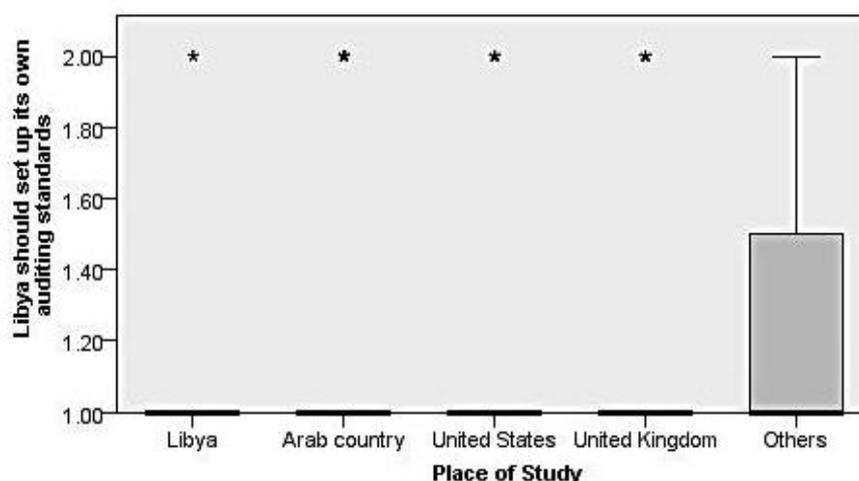
Note: F stands for frequency and % stands for percentage

To specify the source of differences in mean ranks the boxplot was inspected, and as is apparent from Figure 1, those candidates who studied in other countries (Australia, Italy, Canada, and Malaysia) recommended that Libya should develop its own national auditing standards.

The actual audit practices used by qualified Libyan accountants and auditors, correlated with those individuals' place of education was then explored in order to obtain more in-depth information regarding the current auditing practices in the country. The result reveals a definite

relationship between an auditor's practice norms and original place of study; for example, auditors having studied in the UK import UK practices, those having studied in the US import US practices. Furthermore, Nobes' (2004) claim that countries that were once colonised continue to use the accounting and auditing systems they inherited on their independence is also borne out in Libya, as post-independence, the UK standards were retained, only to be changed to the US standards later with political developments.

Figure 1. Kruskal-Wallis test - place of study - suggested auditing standards



4.1.3. Harmonisation of audit standards

In respect of the degree to which the stakeholder groups perceived the unification of audit practices to be helpful, participants were requested to indicate their level of agreement regarding six common advantages of standards harmonisation, on a five-point Likert-type scale, ranging from 1 strongly disagree to 5 strongly agree. Table 5 shows that the mean values are above 4.47 and parallel with high significant levels ($p < 0.0001$), and from this information it can be concluded that among the Libyan audit profession, there is a comprehensive understanding of the advantages of harmonising audit standards, and hence the importance of doing

this in an effort to unite the audit practice in the country.

Moreover, given the commentary in the literature showing that the disappointment and loss of confidence in the auditing profession worldwide due to auditors' failures to report their concerns about corporations' financial statements (Vanstraelen et al., 2012), has resulted in an ongoing discussion since the 1970s about the harmonisation of accounting and auditing standards such that they can be applied globally (Roussey, 1992), it was felt necessary to determine whether differences exist among the stakeholder groups' perspectives. These perspectives were obtained by asking participants to provide their agreement or disagreement with a set of statements.

Table 5. Advantages of harmonising audit standards

	Mean	Std. Dev	Mean Diff	t-value	p-value
Creation of public confidence in the auditing profession and auditors' work	4.54	0.69	2.036	41.324	0.000
Carrying out auditing more efficiently	4.48	0.705	1.985	39.405	0.000
Helping investors in decision-making	4.47	0.675	1.974	40.946	0.000
Expansion of the financial market	4.68	0.594	2.179	51.367	0.000
Facilitating movement of staff across national boundaries	4.6	0.762	2.097	38.538	0.000
Enhancing the credibility of financial statements	4.49	0.683	1.99	40.783	0.000

Notes: Results of One-Sample t-test, Test Value = 2.5, Likert scale: 1 = Strongly disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly agree

The data were subjected to One-way ANOVA. The findings of F statistics show that the differences amongst mean scores for all statements are not substantial [F, (4, 191) = between 0.682 and 0.960 $p > 0.05$]. Also includes the results of Post-hoc comparisons using Tukey HSD test, which supports the results. This reveals that, in general, the various stakeholders of within Libya's audit profession perceive the advantages of harmonising audit standards as important. They believed it was important to harmonise audit standards since this would create public confidence in the work undertaken by the auditing profession, and would enable auditors to discharge their duties more efficiently. These views concurred with that expressed by Elliott and Elliott (2007), who state that the harmonisation of the auditing standards leads to enhanced quality of auditors' work that in turn, increases the credibility of companies' financial statements, and eventually boosts the reputation of the auditing profession. In addition, many authors such as Becker et al. (1998), Troberg (2007), Francis et al. (2009), and Burns and Fogarty (2010), point out that the harmonisation of the auditing standards in any context benefits the reputation of the auditing profession as ultimately, harmonised standards provide information in a way that all investors understand, and this has a good impact upon companies.

The majority of respondents believed that the use of harmonised auditing standards increases the confidence in, and reputation of the auditing profession, which subsequently helps investors to make decisions. This result concurs with findings by several researchers (e.g. King, 1999; Mennicken, 2008; Bradshaw & Miller, 2008) that the use of harmonised auditing standards increases the credibility of financial statements, and presents investors and other decision-makers with high-quality financial information which allows them to take the right decisions at the right time.

Furthermore, participants confirmed their belief that the use of harmonised auditing standards contributes to the expansion of the financial

markets. Their view echoes that expressed by Al-waqleh (2010), who found several benefits to the Jordanian economy that arose directly from the introduction of harmonised auditing standards, such as a rise in foreign investments. In fact, Zeghal and Mhedhbi (2006) have observed that the financial market worldwide has witnessed an increase in international trade consequent upon the widespread use of harmonised standards such as the IFRS/ISAs. And Assesso-Okoko et al. (2011) note the pressure from investors to harmonise auditing standards to enable their effective decision-making in connection with investments in foreign countries, and indeed from countries themselves that are seeking such foreign investment.

Participants also felt that harmonisation of auditing standards facilitated the movement of accounting and auditing staff across national boundaries. This is an important finding given the expansion of accounting and auditing firms nationally and internationally, and the known shortage of professional expertise in certain parts of the world. Indeed, it coincides with arguments in the literature concerning the efficient allocation of resources across countries (Wong, 2004). Likewise, it confirms the findings of researchers (Bakar & Russell, 2003; Irvine & Lucas, 2006; Faraj & El-Firjani, 2014) who also believed the harmonisation of standards would help alleviate the problem of the limited and poor quality expertise in the Libyan accounting context, as it would foster the movement of foreign accountants and auditors into Libya and therefore, promote knowledge transfer.

Finally, the majority of participants confirmed the positive correlation between the use of harmonised auditing standards and the credibility of the financial statements, again an opinion expressed in the literature (see, for example, Dabor & Adeyemi, 2009; Troberg, 2007; Becker et al., 1998; Dunn, 2002). Furthermore, Humphrey and Samsonova (2013) have stressed the urgent need for harmonised auditing standards worldwide in order to achieve economic stability on a global scale.

5. CONCLUSION

This research project has provided an examination of the perception of stakeholders in the auditing profession in relation to the harmonisation of the standards of auditing. The study has shown, through its empirical approach, that the practice of auditing within Libya has differences based upon variables with regard to the people involved, with the study results showing that the quality of auditing work within the country is poor overall. Disappointingly, the results showed that a third of respondents did admit that no standards for auditing were actually being used.

Furthermore, the study findings showed that amongst the stakeholders there was a belief that Libya ought to establish its own standards for auditing or to adopt the International Auditing Standards. Also, the study has revealed that, on the whole, there is a perception amongst various participants that harmonisation of standards for auditing is important; this was due to the belief that harmonisation of standards would lead to the public having greater confidence in work conducted by the profession for auditing and this would help auditors in more efficient discharge of their professional duties.

Also, the participants had the belief that using unified standards of auditing would lead to increased confidence in the auditing profession and its reputation overall and that this would

subsequently help investors in their decision making. Moreover, the participants gave confirmation of a belief that using harmonised standards of auditing contributes to expansion in financial markets and would enable transnational movement of auditing and accounting staff. So, in conclusion, harmonising auditing standards can be considered as a way of achieving positive financial outcomes with greater levels of credibility in the financial reporting of the country.

Nonetheless, despite contributing to knowledge, this research has limitations. The project was undertaken within Libya following 2012; as such, the country had been deeply affected due to the Arab Spring. Distribution of the questionnaires throughout the country proved challenging because of the political instability. Similarly, distribution of the questionnaire through use of tools online also proved difficult. So, bearing in mind the aforementioned challenges, the size of the sample could have been impacted and this, in turn, could have an effect upon the generalisability of the findings.

The findings of this study, then, make a contribution to relevant literature with regard for accounting in Libya and its environment for auditing, with the implication that it also contributes to broader knowledge of auditing within Arab countries and within developing world countries that have similar attitudes and cultural conventions.

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