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2008

## An investigation into the audit expectation gap in Libya

Abdelsalam M. Eldarragi  
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# **An Investigation into the Audit Expectation Gap in Libya**

**A thesis submitted in fulfillment of the requirements for the award of the degree**

**Doctor of Philosophy**

**from**

**UNIVERSITY OF WOLLONGONG**

**by**

**Abdelsalam M. Eldarragi  
B.A. Accounting (GU), M.S. Accounting (GU)**

**School of Accounting and Finance**

**March 2008**

## **Certification**

**I, Abdelsalam Eldarragi, declare that this thesis, submitted in fulfilment of the requirements for the award of Doctor of Philosophy, in the Department of Accounting and Finance, University of Wollongong, is wholly my own work unless otherwise referenced or acknowledged. The document has not been submitted for qualification at any other academic institution.**

**Abdelsalam Eldarragi**

**27<sup>th</sup> March 2008**

**In the Name of Allah, The Compassionate, The Merciful**

*The existence of the “Expectation Gap” in our life is evident in that the human “Creature” will never reach the ultimate stage of perfection, which is the attribute of Allah “Creator”*

**Researcher**

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## **Abstract**

**The audit profession is a social function, which provides services to associated parties based on confidence between auditors and users of financial reports. Despite the importance of the audit profession, currently it faces litigational problems with increased criticism of the performance of its role and function, and its inability to meet the expectations of society. This has resulted in auditors being subjected to excessive liabilities (Zhang 2007). One of the main reasons for this criticism and this critical problem is what is termed the “Audit Expectation Gap” (AEG). This refers to the difference between levels of expected performance as understood by the auditor, and as perceived by users of the financial statements (Sidani and Olayan 2007). This problem has decreased the reputation of and the public’s trust in the auditing profession, and affects the profitability and the ability of the auditing profession to provide the best possible service. As a result of this “expectation gap”, various studies have been conducted, to examine the occurrence of the expectation gap in several countries; however the extent of such a gap has not been investigated in many developing Arab Muslim countries, including Libya. Therefore, this study attempts to expand on the existing literature, by assessing the attitudes and perceptions of auditors and users of financial reports in the Libyan context, thereby uncovering the possible existence and the nature of such a gap in the Libyan environment.**

**Most of the previous studies of the audit expectation gap (AEG) were conducted in developed countries using a quantitative approach; there are however numerous such studies using the quantitative methodology. This study, conversely, employs qualitative**

**data collected through fieldwork based on interviews with the appropriate groups. The study also involves analysing samples of Libyan audit reports and other relevant official documents (regulations and laws related to the accounting profession). In order to understand the relationship between the different factors of this research problem, this study adopted the interpretative ethnographic methodology within the accountability framework. Libya has a unique culture which includes many different regulations in religious, legal, and economic situations. Libya, as Arab Muslim developing country was chosen as an environment for the study, in order to examine the viability of the framework. The aim of this study is to investigate the existence, nature and range of the AEG in Libya and attempt to provide conclusive suggestions that are able to conform and effectively work within the Libyan environment.**

**By examining the perception of the relevant professionals (Libyan auditors, shareholders, academics, internal auditors, private investors, bankers, tax officers, managers and other interested groups), an AEG can be found. By inspecting and checking Libyan audit reports, it can be noted that there are various audit report forms, however most of these forms are dissimilar to the actual forms recommended by professional standards.**

**Although the Libyan profession body had been established in 1973 (Alhsadi 2007), there is a deficiency in Libyan legislation that relates to the organisation of the accounting profession. The audit firms in Libya are currently not in full accordance with the professional standards and regulation present in Libya, due in large to weaknesses, and lack of enforcement of existing regulations and laws.**

**The state of professional ethics of auditors and the auditors' religious values affect an auditor's performance. Religion plays an important role in shaping interests, attitudes, values, goals, behaviour and relationships (Baydoun et al. 1999 and Gaffikin 2007). This study introduces a number of recommendations of procedures and methods, useful in the elimination or minimisation of the AEG in Libya. As in any study, limitations are acknowledged and suggestions for future research have been proposed.**

## Table of Contents

Certification .....	ii
Acknowledgments.....	iv
Abstract.....	vi
Table of Contents.....	ix
<b>Chapter One: Introduction to the Study .....</b>	<b>1</b>
1.1. Introduction.....	1
1.2. Background of the Study .....	2
1.3. Objective of the Study .....	7
1.4. Importance and Contribution of the Study.....	8
1.5. Research Methodology .....	10
1.6. Theoretical Framework.....	12
1.7. Structure of the Thesis .....	12
<b>Chapter Two: Literature Review .....</b>	<b>14</b>
2.1. Introduction.....	14
2.2. Definitions of the Audit Expectation Gap (AEG).....	14
2.3. Components and Structure of the Audit Expectation Gap.....	17
2.4. History of the Audit Expectation Gap .....	21
2.5. Evidence and Dimensions of the Expectation Gap.....	36
2.5.1. The Nature and Meaning of Audit Report Messages.....	37
2.5.1.1. Report on the Going Concern Dimension.....	41
2.5.1.2. Report on the Responsibility of Management .....	44
2.5.1.3. Report on the Internal Control System .....	46
2.5.2. Detecting Fraud and Illegal Acts.....	50
2.5.3. Auditor Independence .....	56
2.6. Summary.....	60
<b>Chapter Three: The Theoretical Framework .....</b>	<b>62</b>
3.1. Introduction.....	62
3.2. The Meaning of Accountability .....	64

3.3. Theoretical Model of the Accountability Relationship.....	68
3.4. The Codes of Accountability .....	70
3.5. Accountability of Auditors .....	73
3.6. Accountability Environment of Libyan Auditors .....	77
3.7. Social Culture and Accountability .....	79
3.8. Summary .....	83

#### **Chapter Four: Methodology and Method of the Study..... 85**

4.1. Introduction.....	85
4.2. The Choice of Paradigm .....	85
4.3. The Nature of Social Science.....	87
4.4. Qualitative and Quantitative Methodologies .....	93
4.5. The Framework of Social Science .....	98
4.6. The Nature of the Current Research and the Choice of Methodology .....	102
4.7. Research Method .....	104
4.8. The Definition of Ethnography .....	108
4.9. Appropriateness of Ethnography .....	111
4.10. Data Collection and Analysis.....	113
4.10.1. Data Collection .....	117
4.12. Summary .....	124

#### **Chapter Five: Libyan Social, Political and Economic Environment ..... 126**

5.1. Introduction.....	126
5.2. Libyan Location and Population.....	127
5.3. Libyan Historical Background.....	129
5.4. Libyan Government and Politics .....	138
5.5. The Libyan Economic System.....	145
5.6. The US and UN Sanctions on Libya.....	148
5.7. Summary .....	151

#### **Chapter Six: The Accounting Profession in Libya ..... 152**

6.1. Introduction.....	152
6.2. Brief History of the Libyan Accounting Profession .....	152

6.3. Libyan Private Sector Audit.....	156
6.3.1. Membership and Qualification Requirements .....	158
6.3.2. Auditor's Independence .....	161
6.3.3 Professional Code of Ethics .....	161
6.3.4. The Audit Report.....	163
6.3.5. Responsibility to Clients and to Third Parties.....	164
6.4. The Libyan Public Sector Audit .....	166
6.5. Accounting Education in Libya .....	171
6.5.1. The Influence of UK Accounting Education .....	173
6.5.2. The Influence of US Accounting Education .....	175
6.6. Summary .....	178
 <b>Chapter Seven: Discussion and Results .....</b>	<b>180</b>
7.1. Introduction.....	180
7.2. The State of the Audit Profession in Libya.....	181
7.3. The Function of the Audit Profession in Libya .....	185
7.4. Audit Report.....	186
7.4.1. Analysis of the General Format of the Report .....	188
7.4.1.1. Title of the Audit Report.....	188
7.4.1.2. Who the Audit Report was Directed To .....	189
7.4.1.3. Identification of Address .....	189
7.4.1.4. Date of the Reports .....	189
7.4.1.5. Auditors' Signature.....	190
7.4.2. Analysis of the Content of Libyan Audit Reports.....	190
7.5. Protecting Societal Interest and Reporting Fraud .....	197
7.6. Provide Early Warnings and Reporting Going Concerns .....	201
7.7. Auditor Proficiency.....	203
7.8. Providing Ancillary (Non-Audit) Services .....	207
7.9. The Influence of Auditor's Client's Relationship.....	210
7.10. The Professional Code of Ethics.....	212
7.11. The Influence of Auditors' Religious Values.....	217
7.12. Summary .....	220

<b>Chapter Eight: Summary and Conclusion .....</b>	<b>223</b>
8.1. Introduction.....	223
8.2. Summary of the Research Project.....	223
8.3. Summary of Findings.....	224
8.4. Limitations of the Study.....	228
8.5. Contribution of the Study.....	229
8.6. Recommendations.....	230
8.7. Suggestions for Future Research .....	232
 <b>References.....</b>	 <b>234</b>
<b>Appendix A Membership of LAAA.....</b>	<b>255</b>
<b>Appendix B The Proposed Libyan Auditing Law.....</b>	<b>256</b>
<b>Appendix C Samples of Libyan Audit Report .....</b>	<b>282</b>
<b>Appendix D Libyan Tax Law .....</b>	<b>294</b>