An investigation into the audit expectation gap in Libya

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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

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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

27th 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

Acknowledgments

I am exceedingly grateful to Almighty Allah, the creator, who gave me the opportunity and ability to complete this thesis. My sincere acknowledgement goes to Prof. Michael Gaffikin my supervisor, who guided and supervised me during this study. His kindness, understanding, encouragement and critically constructive discussions have supported me greatly and contributed to constructing and completing this thesis. His clear insight and knowledge has opened my mind to comprehend the complex ideology of auditing, accounting and research methodologies. I'm also thankful to Dr. Janet Moore, my previous co-supervisor, for her advice and comments, particularly in the early stages of this thesis, before her retirement. I also wish to thank Ass. Prof. Mary Kaidonis for her support, as well as all the members of both academic and general staff at the School of Accounting and Finance, University of Wollongong for their help, kindness, fruitful discussions and valuable advices.

I am also grateful to my university in Libya, University of Garyounis, which nominated me for this scholarship and provided me with the required financial support to undertake the doctoral degree. I'm also thankful to my colleagues, the academic staff at the Department of Accounting at Garyounis University, for their support and help in the collection of data. I also express my sincere gratitude to the members of the Libyan Association of Accounting and Auditors for providing me with, and helping me to collect the required data. My thanks also goes to all the interviewees who provided me with their valuable time and resources.

I'm indebted and thankful to my brothers and sisters for their kind support and prayers. Sincere thanks are also due to Dr. Taher Shah, Mr. Mahmud Aldalahmah, Mr. Mohamed Shanikat, Mr. Mohamed Habara, Dr. Ahmad Nasseri, Dr. Mahdi ArabSalehi, Mr. Issa Fadhly, Dr. Mosayeb Pahlavani, Dr. Ali Saleh and all my colleagues of the research wing of the faculty of commerce for their friendship, productive discussions and advices. My sincere thanks and appreciation goes to Mr. Muslim John for his sincere support and to Dr. Tarek El-kiki and all his family members for their kind continuing support and prayers. I'd also like to thank all the people not mentioned who wished for me good and success, for their love, prayer, advices and kind support, may Allah reward them all.

Last but not least, I wish to express my deep gratitude to my family and my children, Mohamed, Malak, and Malek, who suffered from lack of proper attention and comfortable normal life during the period of my study; special thanks goes to them for their patience, sacrifice and kind support, may Allah bless and reward them all.

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.

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Chapter One:

Introduction to the Study

1.1. Introduction

This chapter provides an introduction to this study and is arranged as follows: Section 1.2 provides background information about the study. Section 1.3 provides objectives for the study. Section 1.4 relates the importance and contributions of the study. Section 1.5 provides the research methodology. Section 1.6 gives the theoretical framework. Section 1.7 provides the structure of the thesis.

The audit profession is a social function which provides services to associated parties and is based on confidence between the professional auditor and those parties. The importance and responsibilities of the auditing profession have increased in recent years due in part to the increased reliance of other parties on the data included in the financial statements and audit reports produced by the auditors. Despite the importance of the audit profession, it has been subjected to increased criticism in the performance of its role and function. As a result the accounting profession has faced for a long time the issue of the audit expectation gap (AEG); being the gap between the quality of the profession's performance, its objectives and results, and the expectation of society as to what the auditor is required to accomplish (Fadzly and Ahmed 2004). The AEG has become a serious issue because of the damage it could potentially bring to the essence of the auditing profession. The AEG has been increasing in significance to the accounting profession since it was identified in the mid 1970s (Brown et al. 2007 and Sidani and Olayan 2007).

1.2. Background of the Study

The AEG has become a phenomenon that is international in scope (Alleyne and Howard 2005). The existing auditing literature, discusses the AEG between the perception of auditors and that of the users. According to the auditing literature review, Liggio (1974) was the first author who used the term "expectation gap" in auditing. He defined it as “The difference between the levels of the expected performance as envisioned by the independent accountant and by the user of financial statements". Furthermore the American Institute of Certified Public Accountants (AICPA) defined the AEG, as "the difference between what the public and financial statement users believe auditors are responsible for and what auditors themselves believe their responsibilities are" (AICPA 1993, p. iii). Therefore, the expectation gap can be seen from two different parties which are the auditors and the users of the financial reports. Humphrey (1992, p. 5) stated that “a gap exists between what the public expects or needs and what auditors can and should reasonably be expected to accomplish.”

As a response to the problem, in 1974 the AICPA in the United States set up the Cohen Commission to study whether a gap exists between what the public expects or needs and what auditors can and should reasonably be expected to accomplish. In 1978 the Commission completed the research, which did indeed confirm the existence of an expectation gap (Lee et al. 2007).

The USA National Commission on Fraudulent Financial Reporting (Treadway Commission) issued a report in October 1987 that it is still crucial for the auditor to detect and deter fraudulent financial reporting although the auditor's role in relation to fraud and other irregularities is secondary to that of management and the board of directors.

The Canadian Institute of Chartered Accountants (CICA) in 1988 sponsored an additional study on the public's expectations of auditing "the MacDonald Report". The Commission developed a detailed model of the AEG that analysed the individual components of the expectation gap as follows:

- Unreasonable expectations
- Deficient standards
- Deficient performance

It suggested that communication and education of users (Monroe and Woodliff 1993), the extension of auditor's duties as well as the auditor's education and discipline, were the effective correctional measures needed to minimise the gap (Porter et al. 2005).

In 1992 in the UK, (the Cadbury Committee) released another affirmative investigative report on auditor's responsibilities in the detection of fraud and other irregular acts. This report proposed legislation for the extension of statutory protection to all auditors who report reasonable suspicion of fraud to investigative authorities.

In an attempt to narrow the expectation gap, various approaches have been examined and suggested by accounting, auditing research, and associated professional bodies' authorities. The main approaches that have been proposed by the previous studies can be summarised as follows:

- Expanding the audit report.
- Enhancing the education, training and development of auditors and users.
- Illuminating the responsibility of directors and auditors for the detection of fraud and explaining the limitations of the role of auditors and their extension.
- Establishing an independent regulatory agency to overlook the appointment, determination and practices of auditors of listed companies.
- Issuing more comprehensive regulations and standards that control the profession.

The literature review of the AEG shows that the expectation gap between auditors and users of financial statement is an indisputable fact throughout the world. The topic of the AEG, has become very significant in the accounting profession since inception in the mid 1970s and continues to be debated today. Many studies have been conducted on this issue, and their findings are varied (see for example, Liggio 1974; Cohen Commission 1978; Arrington et al. 1983; ICAEW 1986; Steen 1990; CICA 1988; Guy and Sullivan 1988; Psaros, 1988; Porter 1988; Hatherly 1991; Dunn 1991; Humphrey 1991; Humphrey 1992;

Wilson 1992; Porter 1993; Lee 1993; Monroe and Woodliff 1994; Gramling et al. 1996; Chung 1997; Humphrey 1997; Gray and Manson 2000; Almer and Brody 2002; Dewing and Russell 2002; Nagy 2002; Papadakis 2003; Fadzly and Ahmed 2004; Chowdhury et al. 2005; Wahdan et al. 2006; and Sidani and Olayan 2007). More details of previous studies are discussed in Chapter 2, the literature review. The growing auditing literature, which relates to the AEG, can be seen as an indicator that has become a significant problem which influences the accounting profession and needs further research.

Having examined previous studies on the AEG, there are some limitations that exist. These are listed as follows:

- The majority of studies carried out on the AEG, have been conducted using the quantitative approach.
- Most of the studies had been conducted in developed countries.
- Most of the studies did not take into account the social, religious and ethical values.

The AEG is not a unilateral phenomenon as it means different things to different people. Responsibility for the gap cannot be pinned on auditors alone, other external factors related to the auditing environment are also to blame. The influence of the economic, political, legal and social environments, which shape the profession, may differ from one country to another and contribute to the existence of the gap. Therefore, the results, recommendations and treatment recommended for one society, may not be accepted or practical in another. Zaid (1993, 1997) recommended that auditing standards and regulations should be based on the society's values and expectations, otherwise the profession will fail to meet its objectives. Thus, in order to solve the profession's problems, it is essential to consider how auditors and users perceive the meaning of 'audit' and the role of auditors in the context of the environment under study.

As mentioned earlier, most of the studies on the AEG have been conducted in developed Western countries. However, there is a literature gap relating to the expectation gap in developing countries. Thus, there is an urgent need for the undertaking of more studies in this area to help reduce the literature gap and the AEG which may exist in developing countries. One of these countries is Libya, which has recently adopted an 'open door' policy after a long period of sanctions (see chapter 5 of Libyan background). The adoption of such a policy has attracted foreign and domestic investors thereby increasing the speed of economic development and demand for professional accounting services. Although this situation has created more job opportunities for the auditors, it has however increased the pressure on auditors to perform their duties in carrying out their responsibility in a professional manner.

This thesis sets out to examine the AEG in the context of Libya, through an ethnographic approach. This study attempts to reduce the literature gap that exists on the AEG in underdeveloped countries. It attempts to identify the extent to which the AEG may exist between auditors and users of the financial statements in the Libyan context, and to highlight possible causes and provide suggestions and recommendations.

1.3. Objective of the Study

This research, by using a qualitative analysis method, seeks to achieve the following objectives and purposes:

- Extend, enrich, and contribute to the previous research about the AEG.
- Investigate the nature of the AEG between the auditors and the users of financial statements in Libyan context.
- Identify the extent of the AEG in Libyan context.
- Understand the perceptions of auditors and users regarding the auditing role and function in Libya.
- Discover the factors that may influence the auditor's performance.
- Find out how the audit performance can be improved in Libya.
- Develop some recommendations to enhance the audit profession in Libya.

In order to achieve these objectives, an ethnographic approach has been used to answer the questions of this research. The general research questions of this study are:

- What is the role and nature of the auditing profession in Libya?
- What is the level of success that Libyan auditors are able to achieve in performing their duties?
- Do auditors and users of audit reports have different understandings regarding the auditor's function?
- What does Libyan society expect auditors to achieve?
- What are the laws and regulations governing the audit profession in Libya?

- Are these laws and regulations sufficient?
- Are these laws and regulations being followed and obeyed?
- Has the recent international corporate crises influenced Libyan auditing?
- Is the format and content of the audit report satisfactory and understandable?
- What is the influence of providing non-audit services on the auditor's independence?
- What do auditors and users understand regarding reporting fraud and error?
- What do auditors and users understand regarding the provision of early warning?
- What is the level of competence of Libyan auditors?
- What influence does the code of ethics have on Libyan auditors?
- What is the influence of socio-cultural and Islamic values on auditor performance?

These research questions were used by the researcher as a guide through the research interviews. Moreover, some other questions that arose during the interviews and which were thought relevant were asked during the undertaking of the interviews.

1.4. Importance and Contribution of the Study

This study is important in that it contributes to the existing literature about the AEG in the following areas:

- There is an existent gap in literature regarding the AEG in developing countries in general, and in Arab countries in particular, thus this study contributes to the field by researching the AEG in the Libyan environment around Libyan accounting practices, providing more comprehensive analysis of the perceptions of auditors and users in Libya.
- Recently, Libya has witnessed new economic developments, which are increasing the demand for auditing services and the responsibility of auditors. This leaves the AEG in Libya, as an important untouched subject in need of analysis and research.
- Theoretically and empirically, the literature relating to this topic is relatively thin. More research is required as to why and how social values influence the auditors and users especially in Arab Muslim countries, such as Libya. This study highlights important, but often neglected factors, such as social values and religion, which may have influenced the AEG.
- The majority of the previous studies were quantitative; however this study is one of the few qualitative studies that contributes to auditing literature by enhancing the understanding of the nature of the AEG in Libyan context. This qualitative research was strengthened by conducting in depth field research and is the first using this method that will look into the AEG in the Libyan context.
- Libyan economists have recently started promoting the private sector and it coincides with the reorganisation of the auditing profession in Libya. The accounting profession in Libya, still needs much more study and research, therefore this research will be useful in future studies, and in

contributing to reorganising and developing the accounting profession in Libya.

- This is the first research that links Islam and its values, with the AEG. This is because Islam is the dominant factor which affects behaviour and ethical values in Libya, which is predominately a Muslim country.

1.5. Research Methodology

The methodological approaches available in conducting auditing research are extensive, however none of these methodologies can be considered as being more comprehensive or superior (Irvine and Gaffikin 2006). The choice of methodology should be based on the best theory and method that will help achieve the objectives of the study, and answer the concerns of the research. Ethnography is one of the qualitative approaches that can be applied in this research (Irvine and Gaffikin 2006). According to Hussey and Hussey (1997) the assumptions of the researcher regarding the world in which they exist are important, as it will be reflected in the way they design their research, how they collect their data and in the way they analyse and evaluate their empirical data. These assumptions are relevant to the nature of reality, the basis of knowledge, the nature of the research method and the nature of society.

This study is related to human behaviour (auditors and users) and professional social problems. Therefore, based on the researcher's conviction and according to some authors (Marshall 1999; Zikmund 2000; Rusmanto 2001; Wahyudi 2004 and Irvine and Gaffikin 2006), the ethnographical qualitative approach is well suited to achieve the aims of this study. This research project is an exploratory study into whether an AEG actually exists between auditors and users in Libya and to what extent. In this research, the instruments of data collection are interviews, which were developed based on the auditing literature and current Libyan environmental factors, and the analysis of documents, regulations and laws relating to the auditing profession, as well as samples of auditing reports issued by auditors in Libya.

In order to obtain correct and relevant data, data was collected from the following groups:

- Auditors who compile the audit reports.
- Users of the financial statements.
- Academics of accounting departments at Libyan Universities who are knowledgeable intellects with intimate background knowledge about the research problem. Moreover, most of them are involved in auditing as a part time profession.

Libya was chosen as a region to explore and explain the influence of environmental social factors in the audit function and accountability relationships between auditors and users. This choice was justified in terms of access, feasibility in conducting the study there, and most importantly, the researcher's intimate knowledge of all aspects of Libyan culture. Further discussion about research methodology is presented in detail in chapter 4.

1.6. Theoretical Framework

This study has adopted a theoretical framework. This framework will link factors that contribute to this phenomenon, the AEG in Libya. The framework is important, as it helps to understand the logical relationships between the elements of the research problem. Black (1993) defined the theoretical framework as “explanations of how things function or why events occur” (p. 25).

The vague distinction between auditor’s accountability and manager’s accountability has contributed to public confusion about where one type of responsibility starts and the other ends. Since the relationship between auditors and users are dominated by accountability, the present study utilises the accountability framework. It is believed that the accountability framework serves the purpose of this study, and interprets the relationships that link the factors of the phenomenon, 'the AEG'. Chapter 3 provides more detail about the theoretical framework of this study.

1.7. Structure of the Thesis

This research investigates the AEG in Libyan context. The structure of the thesis is as follows:

- Chapter one presents an introduction to the thesis, which provides a brief background to the research problem, objectives of the study, the importance of the research, theoretical framework, and research methodology. Chapter one also gives an overview of the remaining chapters and provides the structure of the thesis.

- Chapter two presents the literature review on the AEG and provides an in-depth discussion about it. This builds an understanding about the AEG and helps to provide a framework for the study.
- Chapter three presents the theoretical framework of the study.
- Chapter four discusses the reasons behind the choice of methodology.
- Chapter five presents Libyan history, economic, political and social environments as the context of this research.
- Chapter six discusses the state of the Libyan accounting and auditing profession, Libyan accounting history, education and regulations and professional bodies.
- Chapter seven analyses the interviews, document samples and the thesis' findings.
- Chapter eight provides an overview of the findings and draws some overall conclusions, presents a summary of all chapters, describes the limitations of this research, provides some recommendations and gives suggestions for future research.

Having outlined the rationale and the objectives of the research and the structure of the thesis, the next chapter provides the literature review of the AEG.

Chapter Two:

Literature Review

2.1. Introduction

The aim of this chapter is to review the previous research on the phenomenon known as the AEG. The AEG has been examined mostly in developed countries with established accounting practices and knowledge. However the extent, or even existence of such a gap, still vague and has not been investigated in many Arab countries (Sidani and Olayan 2007). This study attempts to assess the possible existence of an expectation gap in Libya and the possibilities of narrowing or eliminating the gap. This Chapter is arranged as follows: Section 2.2 defines the AEG. Section 2.3 provides the components and structure of the AEG. Section 2.4 discusses the history of the AEG. Section 2.5 discussed the factors related to the AEG. Section 2.6 provides a summary of the chapter.

2.2. Definitions of the Audit Expectation Gap (AEG)

Researches relating to the AEG have been widely conducted by many researchers, each of whom has given a different definition for the AEG. Liggio (1974), as believed by many academics, offered the first definition for the AEG expression. The AEG arises when there are variations between what the public expects and the actual auditing service offered by the auditors. The gap refers to the diversity in perception between auditors and other groups over:

- The scope of auditors' responsibilities
- The quality of audit work carried out by auditors
- The format and content of the audit report

It was in the United States in 1970's when the AEG became known as an expression as the American Institute of Certified Public Accountants (AICPA) formed the Cohen Commission to determine if there is a gap between the outcomes that the public requires and expects and what auditors are actually supposed and capable of providing. The Cohen Commission which in 1978, confirmed the existence of an expectation gap, attempted to define the expectation gap as "the difference between what the public expects or needs and what auditors can and should reasonably be expected to accomplish" (AICPA 1978, p. xi). Following that, other studies have been carried out in many different countries which, as well, confirmed the existence of an AEG.

Porter (1991) defined the AEG as "The difference between what the users of financial statements expect the auditors could and should accomplish and what auditors think they could and should accomplish." Another description for the AEG is provided by McEnroe and Martens (2001) refer to the AEG as signifying the difference between what financial statement users recognise as being part of the auditors' responsibilities and what auditors consider their responsibilities involve. As such, the public expects auditors to uncover errors and evaluate management performance, while auditors consider their role lies in evaluating the fairness of financial reporting (Eden et al. 2003).

There have been other attempts to define the AEG in a broader form. Guy and Sullivan (1988, p. 36) stated that “there is a difference between what the public and financial statement users believe accountants and auditors are responsible for and what the accountants and auditors themselves believe they are responsible for. This difference is commonly called the expectation gap.”

Additionally, Porter (1993) points out the restrictions earlier notions of the expectations gap suffer as they don’t cover unsatisfactory performance. Accordingly, Porter suggested that the gap, better titled “audit expectation-performance gap,” could be defined as the gap between society’s expectations of auditors and auditors’ performance as perceived by society.

The expectation gap according to The Australian CPA and The Institute of Chartered Accountants in Australia (1994) is described as “the difference between the expectations of users of the financial reports and the perceived quality of financial reporting and auditing services delivered by the Accounting Profession”. Another definition by Sikka et al. (1998) who defined the expectation gap as representing the discrepancy between what the public expects an audit should entail and what the auditing profession decides an audit should entail.

More recently, Ojo (2006) defined the AEG as “the difference between what users of financial statements and the general public perceive an audit to be and what the audit profession claim is expected of them in conducting an audit” (p. 1).

Despite all those minor differences in researchers’ definition for the expectation gap, they all agreed that it exists and believed that the AEG stands for the variance of perception concerning what the public and auditors believe the auditors’ responsibilities are (Woodliff 1995; Gramling et al. 1996; Sikka et al. 1998; Koh and Woo 1998; McEnroe and Martens 2001 and Dixon et al. 2006).

2.3. Components and Structure of the Audit Expectation Gap

The extensive literature review of the AEG, indicates that the gap has been identified as having different elements (Sidani and Olayan 2007 and Ahmed et al. 2006). Porter (1993) proposed that the study of the AEG should be structured in a more extensive way which allows the different components of the AEG be identified. Porter claimed that it is more appropriate to name the expectation gap “the audit expectation-performance gap” as it represents the gap between society’s expectations and perceptions of auditors’ performance.

Porter’s (1993) structure of the audit expectation-performance gap has two major components. The first component is titled “the reasonableness gap,” which is the gap between what society expects auditors to accomplish and what they could be reasonably expected to accomplish, such as reporting to relevant authorities every single irregularity detected (Porter 1993, p. 50). The second component is titled "the performance gap" which is the gap between what society can reasonably expect auditors to achieve and what they are perceived to achieve. The performance gap in turn, is divided into two components. The first being attributed to deficient standards (the gap between duties reasonably expected of auditors and auditors' existing duties as defined by the law and professional promulgations), while the second refers to deficient performance by the auditors (the gap between the expected standard of performance of auditors' existing duties and auditors' perceived performance). Fig 2.1 shows the structure of the audit expectation–performance gap.

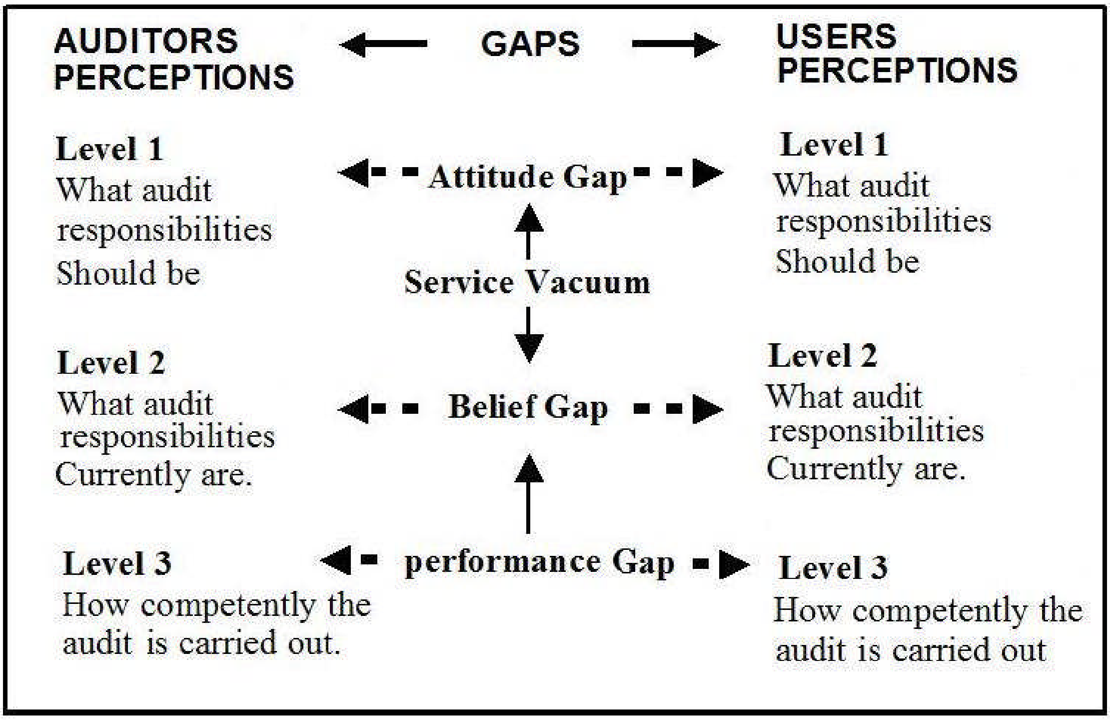
Figure 2.1 Structure of the Audit Expectation Gap

Please see print copy for image

Some studies agree with Porter (1993) in relation to the notion that part of the expectation gap relates to performance (Shaikh and Talha 2003). The earlier exploratory studies on the expectation gap, have concentrated more on the notion that the expectation gap is more related to the public's unreasonable expectations from the audit profession; however, the later studies have increasingly included performance as a potential cause of the expectation gap (Sidani and Olayan 2007).

Hatherly et al. (1992) suggested another structure for the AEG. They indicated that the gap is composed of three levels as depicted below in Figure 2.2.

Figure 2.2 framework of the Audit Expectation Gap



- Level 1 represents what the role and responsibilities of the auditor ideally should be.
- Level 2 represents what the duties and responsibilities currently are as determined by present laws of associated bodies and legal legislation.
- Level 3 represents how these responsibilities are currently carried out.

The difference between Level 1 and Level 2 is termed, a 'service vacuum'. This represents a shortfall in current auditing standards against expectations of auditors and financial report users. Both "unreasonable expectations" and "deficient standards" contribute to this service vacuum. The third level arises when auditors fail to exercise due professional care, and this corresponds to the "deficient performance" component of the gap.

Mills and Bettner (1992) suggested that the divisions of the AEG may vary depending on the perceptions, expectations, and concerns of the individuals and interested groups. Thus, the audit report can be interpreted in different ways from different parties as follows:

- The company is in a good condition. (Perceptions of investors and creditors).
- The company has committed statutory requirements. (Perceptions of management and the financial market).
- The company had a profitable financial year (Perceptions of partners and shareholders).
- The audit team worked effectively (Perceptions of the auditors).
- Provided services were characterised by objectivity, professional competence and independence. (Profession’s perception).
- The audit firm had informed society about the influential activities (Perceptions of society).

Monroe and Woodliff (1994) pointed out that one of the components of the expectation gap, is the difference between the expectations of users and the reasonable standard of auditing which the auditing profession can be expected to deliver (unreasonable expectation gap).

Auditors' failure to fulfill the expectations of public has produced increasing disapproval and legal actions against them as failure diminishes trust in the audit work as stated by Porter. Limperg (1932 quoted in Porter et al. 2005, p. 119) pointed out that the "audit function is rooted in the confidence that society places in the effectiveness of the audit, and in the opinion of the accountant…if the confidence is betrayed, the function too, is destroyed, since it becomes useless". Hence, to narrow the AEG, it is necessary to ascertain:

- The public perception of auditors' responsibilities.
- The actual reasonable duties that auditors are expected to carry out.
- The satisfaction or dissatisfaction level of public practical expectations by auditors (Porter et al. 2005).

2.4. History of the Audit Expectation Gap

Recently, as a result of the increased complexity of business structures, globalisation activities, and remoteness of fund providers from management, greater assurance about the financial information provided by companies is expected from auditors (Haniffa and Hudaib 2007). The role of auditors has changed over time to meet both local and global demands for their services. Turner (2000) stated that "The changes in the profession since the 1970's are significant, and have fundamentally changed the way accounting firms operate their businesses internationally, the way they perform audits, the structure and governance of the firms, as well as their cultures and perhaps even the “tone at the top.”. Consequently, there has been an increase in the conflict between the expectation of users and the duty of auditors, known as the AEG. Yet the gap has long existed before the term was coined.

The term first appeared in the auditing literature in 1974 used by Liggio, who is considered to be the first to use the term in auditing. However, Academics believe that the gap has existed since the audit profession itself was found. The audit profession worldwide is negatively affected by this complicated phenomenon of expectation gap. The AEG is considered a complex phenomenon, the effects of which threaten the audit profession all over the world. This in turn may have motivated the development of the auditing profession as many researchers and academics became more interested in performing deeper studies to examine the AEG.

There are evidences that prove there has been dissatisfaction regarding the duty of auditors and their role in society, and that the expectation gap is not a new phenomenon. According to Healy (1991), a letter written in 1883 confirms the dissatisfaction felt towards auditors and their duties during that era.

Factors relating to the expectation gap include the responsibilities of detecting fraudulent and illegal activities and auditor’s independence and audit reports, all of which have long been related to the establishment of the audit profession. In the last few decades, the United Kingdom has witnessed the early appearance of the expectation gap. Humphrey et al. (1992) confirmed the existence of arguments concerning the auditor’s function, tasks and responsibility despite the law approved back in 1862 which obligates auditors to report to investors. Cases of auditing discrepancies and bankruptcy, which arose during that period, were all considered the result of audit failure. For example, in the famous case of “Incorporated City of Glasgow Bank,” the executives continued to hide the actual financial state of their banks and the financial difficulties they were facing; however, bank liabilities were decreased and asset assessments turned out to be excellent (Humphrey 1992). Additionally, more articles were written in the UK to call attention to the responsibilities of auditors. Those responsibilities required auditors to obtain the confidence of both clients and investors and rebuild the trust in the auditor’s role and the broad influence of audit.

Chandler et al. (1993) provided the opinion of the writer Pixley (1881), who confirmed that the primary aim of the audit profession is to detect duplicity and violations and to inspect financial statements to ensure they are free of any discrepancies. A study by Dicksee (1892), confirms those statements as detecting defalcation was pointed out as the core responsibility of auditors, and that the auditor who has the ability to achieve this goal would be preferred.

On the other hand, some writers are of a different opinion, warning users and the public, many of whom are ignorant of the audit process, against the excess of expectations. Sherer and Turley (1997) mention that Griffiths (1885), illustrated that the users of financial reports have misconceptions about the audit function, placing unrealistic expectations on the ability of auditors to detect financial errors and fraud. They consider the payment made to auditors as an insurance to protect them (Chandler et al. 1993). Chatfield (1987) explores the issues raised by Harvey's (1897) article, which implicitly states that it is wrong to imagine that the auditing system can prevent errors and fraud.

Therefore, the dissatisfaction with the auditors’ role in the UK at the end of nineteenth century had created the first origins of what was later called the AEG. That is, the users and the public based their expectations on an exaggeration of the auditor’s ability, resulting in the magnification of audit goals. The user's understanding of the audit process was therefore based on misconceptions, consequently causing dissatisfaction with the auditor's actions. Therefore, although the term “expectation gap” was not clearly identified in that time period, its implicit presence in what was written and debated does not differ from recent discussions on the auditing field.

By the beginning of the twentieth century, auditing roles and goals changed, however the perception that it was the auditor's duty to detect duplicity and prevent defalcation remained. Humphrey (1992) notes that at the same period, the AEG emerged in the US, as bankruptcy and fraud began increasingly taking place. Many occurrences can demonstrate these cases, such as the case of “Ultramares Corporation vs. Touche, Niven and Company” in 1931, and “Mckesson and Robbins” in 1939, illustrates this. Throughout the investigations carried out by Stock Exchange Commission on the “McKesson & Robbins” case, audit standards were revealed to be absent. This indicates that the provided audit service failed to fulfil the objectives of the audit profession and the needs of users.

Over the years, auditors' role increasingly gained more importance; nevertheless in 1970s witnessed a broad dissatisfaction of the audit profession. This caused auditors to begin losing the trust of clients and society. This period witnessed an increase in company bankruptcy, most of which occurred without the early warning of, or notification from, auditors. This allowed a dramatic shift in users' perceptions, whereby new expectations were formed in the provision of information on the future financial situation of the companies. Hence the gap between the auditor's function and the user's needs which started to increase, became a clear phenomenon in auditing literature around the world. This began to be known as the AEG phenomenon.

It was in the United States back in the 1970's when the AEG became known as an expression as the American Institute of Certified Public Accountants (AICPA) formed the Cohen Commission to determine whether there was a gap between the outcomes that the public required and expected and what auditors were actually supposed to provide. The Cohen Commission, which was originally established to address auditors' responsibilities, confirmed the existence of the AEG in 1978. In order to narrow the gap, the commission made a number of suggestions and recommendations, which were related to:

- Enhancing the role of the independency of auditors in their society.
- Forming opinions on financial statements and reporting significant uncertainties in financial presentations.
- Clarifying the responsibility for the detection of fraud.
- The boundaries of the auditor's role and its extension.
- The auditor's communication with the users.

- Maintaining the independence of auditors and the quality of auditing practices.

Similarly, in the UK and at that same period, many concerns and cases emerged and reported. Accordingly, researchers dedicated extensive attention to the phenomenon of the AEG. For example, Lee carried out a study in 1970 that confirmed the existence of difference of opinion between auditors and users of the financial statements regarding the auditor's role. In 1975, the US Government established the Metcalfe Committee which highlighted that the main problem was auditor’s independence. Accordingly, a quality review programme was necessary to be established to ensure the compliance of audit firms. The committee also came up with some suggestions that they expected would improve the accountability of public companies and their auditors (Metcalfe Committee, 1978). Moreover, the committee made some recommendations to strengthening the environment in which the auditors operated to increase auditor independency. Some important recommendations were to strengthen quality control over the application of accounting principles and auditing standards and to improving the effectiveness of the disciplinary process against those who fail in their professional responsibilities.

In Canada, a committee referred to as (Adams Committee) was established in 1978 by the Canadian Institute of Chartered Accountants (CICA). The Adams Committee validated the issues that were previously reported by the Cohen Commission, and reported the importance of many issues related to auditing such as:

- The auditor's role.
- The boundaries of the auditing role and its extension.
- The entity subject to audit.
- Fraud detection.
- Illegal acts.
- Auditor independence.
- The regulation of the profession.
- Education of users.

Similarly, a report by the Institute of Chartered Accountants in England and Wales pointed out a substantial difference between what the users believe to be the role of the audit, and what auditor's believe their duties include concerning fraud detection, companies' breakdowns and informing the regulatory authorities (ICAEW 1986). The ICAEW explored a number of ways to reduce the expectation gap. This included educating the public about the purposes and limitations of the audit. The ICAEW suggested that the audit report was too brief, to the extent that it failed to comment on all the auditor's responsibilities, and that the profession should be more positive in addressing the expectation gap.

The Treadway Commission, established in 1985 in the US, had issued a report in October 1987 stating that auditors should importantly detect and prevent any deceptive financial reporting even though management and the board of directors might consider it secondary (AICPA 1987). In 1988, the Canadian Institute of Chartered Accountants (CICA) sponsored another study on the public expectations of audit (MacDonald Report). The commission developed a detailed AEG model that analysed the individual components of the expectation gap:

- Unreasonable expectations.
- Deficient standards.
- Deficient performance.

It suggested that communication and education of users, extension of auditors' duties, auditor education and discipline, was the effective action required to minimise the gap (CICA 1988).

In April 1988, the American Institute of Certified Public Accountants (AICPA) and Audit Standards Board (ASB) issued nine standards entitled, “The Audit Expectation Gap Standards”. According to Guy and Sullivan (1988), those nine standards were applied and became commonly effective for audits of financial statements; nevertheless, they still may fall short to diminish the user's concern regarding the audit process.

Brougham and Parker (1991) studied whether SAS 58 (Statement on Auditing Standards 58) changed the public perception of an independent auditor's legal responsibilities. The conclusion was that “SAS 58 does not appear to have measurably reduced the expectation gap between auditors’ and users’ perceptions of the audit product” (p. 80). Also, in the study by Martens and McEnroe (1991), the results show that the expectation gap standards, have not succeeded in closing the gap.

Also, in 1991, concern regarding the auditor's role and performance had noticeably increased, this motivated the establishment of two committees. The first one was the research committee of the Institute of Chartered Accountants of Scotland (ICAS), and the second was established by the Institute of Chartered Accountants in Ireland (ICAI). The main purposes of these committees were to investigate the existence of the AEG, and how the gap might be reduced. Both committees reported that there was evidence of an AEG, hence the committees made some suggestions and proposals to solve the problem (ICAI 1992 and ICAS 1993). In Australia, the AEG became the subject of professional concerns and investigations. Therefore in 1993, CPA Australia and The Institute of Chartered Accountants in Australia undertook an extensive analysis and review of "expectation gap" issues, by observing both local and international developments in relation to the expectation gap (Schelluch and Gay 1998, 2006). The joint effort of the two professional accounting bodies, culminated in a joint working party report titled "A Research Study on Financial Reporting and Auditing—Bridging the Expectation Gap" in 1994. Later another report was carried out entitled "Report of the Financial Reporting and Auditing Expectation Gap Taskforce to the Joint Standing Committee" in 1996. In 2001, the Australian Federal Government commissioned an inquiry into audit independence that resulted in the publishing of the Ramsay Report in 2001. The findings and recommendations of the Ramsay Report have been under consideration by both the government and the accounting profession (Schelluch and Gay 2006). Moreover, in 2002, the Australian Educational Research (AER) indicated some of the public beliefs as follows:

- The auditor is responsible for the accuracy of financial statements.

- The auditor detects fraud.
- The auditor discovers and discloses illegal acts.
- The auditor gives early warnings about the possibility of the failure of a company.

In addition to the efforts made by the professional bodies in many countries, other significant studies were undertaken by a number of individual and groups of researchers throughout the world since the emergence of the AEG in the 1970s. This reflects the importance of the AEG in accounting worldwide. In the study of Gaffney et al. (1989), an investigation was undertaken as to whether public sector auditors and analysts understood municipal audit reports in the same way. The findings of this study were that “analysts and auditors differ in the extent to which they believe that users look for, read, and understand the audit report”.

The literature of empirical studies on the expectation gap is extensive. Most of the studies that are mentioned in this chapter, use survey questionnaires to identify:

- The nature of the gap.
- Where the gap is situated.
- What is the impact of the gap.
- How to reduce the gap.

Different respondents were used in the investigations to elicitate their opinions. These studies were done to look for the nature of the gap. They found that a critical component of the expectation gap, is the auditor’s role in relation to fraud detection.

Humphrey (1991) detailed instances where auditors provided unqualified auditing opinions on the financial statements of companies, which then suffered financial problems and collapsed shortly after the unqualified opinion was given. Humphrey et al. (1993) then went on to more comprehensively analyse the difference between the views of various categories of users of financial statements and the views of the auditors. This study served as a model for similar inquiries in other countries. Sikka et al. (1992) pointed out that the profession could play a crucial role in reducing the AEG problem, and put substantial emphasis on the setting of auditing standards. In their findings, Sikka et al. (1998, p. 299) stated, “The gap between competing meanings of auditing cannot be eliminated”.

In Australia, Monroe and Woodliff (1993) examined the effect of education on students' perceptions, specifically final-year auditing and marketing students, on the messages communicated through audit reports. The results suggested that education might be an effective approach to narrowing the expectation gap. However, the study added that further research was needed to reveal the quantity and content of public education required to educate financial information users about the nature of auditing. Also, Epstein and Geiger (1994) surveyed a pool of US investors and found that they held auditors to a higher level of assurance. Almost half expected absolute assurance that material misstatements were not present. They suggested that such a gap could be partially narrowed through educating the public about the role and inherent limitations of an audit. More recently, Shaikh and Talha (2003) argued that the auditing crises of the last few years, has highlighted the need to minimise the gap, and enhance the image of the profession from the perspective of the general public. They emphasised the role of education and the role that should be played by professional accounting bodies, together with regulators, in narrowing the gap and thus avoiding the likes of Enron and WorldCom.

In the UK, Innes et al. (1997) investigated the AEG between auditors' perceptions of their roles and what the users perceived auditors roles entailed on the basis of the UK short form auditing report. The result revealed that a significant expectation gap existed between auditors and users in relation to the UK short form auditing report, and that the expansion of the auditing report would bring the two groups' views closer together on a number of auditing issues. Moreover, Gramling et al. (2000) extended the literature on the expectation gap by providing a more comprehensive analysis of the perceptions of auditors, preparers and the users of financial statements. They found that there were a number of areas in which an expectation gap existed between these three groups.

The results of the study of Fadzly and Ahmad (2004) indicated a wide expectation gap and misconceptions about the audit process in Malaysia in an experiment conducted among investors to reveal the effectiveness of using reading material to educate users and correct misconceptions.

Koh and Woo (1998) suggested that prior research supported the existence of a substantial expectation gap in auditing. Their conclusion was interesting given the fact that they acknowledged that such a gap should be tackled through lowering public expectations and raising auditing performance.

The AEG is an international phenomenon that has arisen in many countries. More recent study conducted in Lebanon by Sidani and Olayan (2007), showed that there was a gap between the auditors' understanding of their profession as compared to the perceptions of others. Also, in another study conducted by Wahdan et al. (2006), the study evaluated the status of the auditing profession in Egypt. The results indicated:

- A shortage of experience and expertise.
- A lack of professional ethics.
- The auditor's role in relation to the expected role.

Although there were many different users of the auditor's report, the majority of expectation gap studies, concentrate on the perceptions of the main users (shareholders, bankers, financial analysts, and investors). Other minority users have been excluded as subjects in these studies. However, the findings on the different perceptions among these user groups were consistent, and all showed the existence of the expectation gap.

The literature relevant to the AEG is extensive. Examples can be found in:

- New Zealand by Porter (1989).
- South Africa by Gloeck et al. (1994).
- Australia by Monroe and Woodliff (1994), and Gay et al. (1997).
- Bangladesh by Chowdhury et al. (2005).
- The UK by Chowdhury and Innes (1998 and 2000).
- Denmark by Hǿjskov (1998).
- The United States by Frank et al. (2001).

- Singapore by Best et al. (2001).
- Japan by Yoshimi (2003).
- Saudi Arabia by El-Saqa (1997), Hudaib and Haniffa (2007).
- Egypt by Saleh (2002) and Wahdan et al. (2006).
- Lebanon by Sidani and Olayan (2007).

As mentioned earlier, various studies concluded that there is the existence of the AEG, however the range, size and factors might be different.

The debate pertaining to the expectation gap often revolves around whether such a gap can be eliminated. Some researchers (Ojo 2006) argue that within a social context, the expectation gap will be difficult to eliminate due to social conflicts and the fact that the meanings of social practice is always subjected to changes.

According to Hudaib and Haniffa (2003), the literature review of the AEG can be generally classified into four main expectation issues:

- The roles and functions that auditing is intended to fulfil.
- The level of quality in the performance of audits.
- Structural and regulatory issues related to auditor independence.
- The 'audit reporting' or the variation in the interpretation of the meaning of different audit reports.

Regardless of the extensive range of expectation gap literature, most studies failed to evaluate the historical, social, economic and political context within which expectations are shaped, frustrated and transformed (Sikka et al. 1998; Wilmott 1991 and Fadzly and Ahmed 2004). Also, the majority of the studies were conducted in developed capitalist countries where most of the results and recommendations of these studies were conducted using their standards, guidelines and Western ideology (Humphrey et al. 1993). However, such recommendations may be unsuitable for developing countries with different ideological, social, economic and legal structures. Moreover, by addressing the issue from a positive or normative point of view, most studies fail to capture the essence of the factors in the environment that may have shaped perceptions of the role and nature of auditing. Hence, selection of an appropriate research method is crucial in understanding the phenomenon (Hudaib and Haniffa 2003).

Some studies were conducted in an attempt to provide a comparative empirical analysis of the nature of the AEG between two or three countries. For example, Low (1984) conducted two surveys amongst auditors and analysts in Singapore and Australia. In both countries, significant differences in perception were found in areas pertaining to the extent of assurance over fraud detection and the reliability of information presented in audited financial statements. Also, Moizer et al. (1996) studied the perceptions of three groups of respondents (auditors, corporate directors and users of audited financial statements) in the United Kingdom, United States, Japan and Spain. The results of these studies showed that, in general, that the gap does differs from country to country.

Therefore, it is important to recognise that the meaning of audit and the role of auditors may be negotiated and transformed via various factors existent in a country such as Libya. The audit profession is not unitary as it means different things to different people, this results in the arising of the AEG phenomenon.

Moreover, the influence of the economic, political, legal and social environment, which shapes the profession, may differ from country to country. The explanations and responses to the AEG that persists in developed capitalist countries may not be suitable for countries undergoing economic transitions from socialism to capitalism or where societies have different cultural values and ideologies. Therefore research in a country such as Libya, where the social and Islamic religious values are dominant, will narrow the literature gap and contribute to knowledge of the subject in this area.

2.5. Evidence and Dimensions of the Expectation Gap

The accounting profession is well aware of the existence of the expectation gap as revealed through an evaluation of accounting and auditing literature. This gap is demonstrated by the existing divergence between users' expectations and the actual performance of the auditors. Some professional accountants and researchers have tried to inspect and resolve the AEG in developed countries; (AICPA 1978; ICAEW 1986; Guy and Sullivan 1988; ICAS 1993; Porter 1993; and Gramling et al. 2000). Many recurrent issues were noted and documented through the debate concerning the AEG. Yet, three major issues were generally noted:

- The nature of audit reports, the information contained therein, and their value.
- Auditors' functions and duties.
- Auditors' independence.

These problems will be underpinned in the next section.

2.5.1. The Nature and Meaning of Audit Report Messages

Primarily, auditors use audit reports as a medium to pass on information to their clients. These reports are delivered to involved clients as the final product to illustrate and explain the findings of the auditing process. According to Cook and Winkle (1988), the report is the only aspect of an auditor's work that the public sees. A public accountant's competence is likely to be judged by this report, and legal responsibilities may be determined by it. The auditor carefully and thoroughly examines accounting data and procedures, in order to develop a judgement of the quality and reliability of the information. Judgements made by auditors can be inclined to bias based on the personal views of the staff (both management and employees) of a corporation. This creates an obligation of professionalism through the preparation and completion of the auditing report (Lee and Kenley 1985). Consequently, research must be conducted to investigate the existing methods of audit report preparation, since it directly affects the research problem, the AEG.

An audit report is a means of communicating accounting information between the auditor and the users. Now as with all forms of communication, there should exist a common understanding of the wording and phases as used in the text of the audit. A gap can be seen to exist in the understanding of what the auditor intended to write in the audit report, and what the users of the audit report understood from that same text. As a solution to this gap, extended audit report wording was suggested in many countries to decrease this gap which has led to many academics conducting more research related to resolving this gap. According to the ICAI (1992), extra instructive and explanatory information in the report, would help solve this misunderstanding of audits and auditors. Two studies conducted in Australia by Gay and Schelluch (1993) and Monroe and Woodliff (1994) revealed the strong effect wording in the documents of extended audit reports, has on user group's views and beliefs regarding the statements and information communicated to them. In particular, information relating to:

- The auditor’s role and function.
- The general purpose of the financial reports nature and restrictions.
- The audit process nature.
- The basic duties of auditors and administration.

The expectation gap can be significantly reduced by the auditor’s report being clear in its wording, with any vague information being elaborated on. In this regard, this research takes into account analyses of Libyan audit reports, to ascertain whether there indeed does exist an AEG in the reports issued by Libyan auditors.

Researchers recommend offering more information in the audit report in order to increase its worth and to fulfil users’ expectations as stated by the study of Manson and Zaman (2000). Moreover, it will positively influence the reliability of auditor’s opinions, as users depend on it to determine the financial statements’ correctness and fairness in terms of the structure used for financial reporting and the conformity of financial statements to constitutional requisites whenever possible (IFAC 1997). This influenced belief in the reliability of the auditor, greatly attributes to decreasing the expectation gap.

The auditor is responsible for providing readers of the audit report with an unambiguous description of the overall quality of disclosure and information instead of vague terminologies such as “material misstatements”, “true and fair view” and “present fairly” as stated by Lee (1994). Lee further explains that the absence of a unified standard explanation makes lawyers capable of monitoring and judging the use of these terms in any legal action, while accountants or auditors continue to use them. The meaning of these terms is still unclear despite the definitions offered by the GAAP. For example, the terms “true and fair view” and “present fairly” are explained in the ISA 700, paragraph 18, as “amongst other things, that the auditor considers only those matters that are material to the financial statements”. Clearly, this definition does not provide enough information to clear the ambiguity; additionally, it creates more ambiguity due to varying backgrounds and interests that can influence the interpretation of these terms. Therefore, it can be concluded that this attempt did not achieve its goal of reducing the AEG.

Many research studies were done on the ability of expanded audit reports to reduce the AEG as many countries embraced expanded audit report wording so as to eliminate misunderstanding. A number of those studies suggested that modification and enhancement of wording in the annual reports will guarantee the intent and meaning intended by the auditor (Koh and Woo 1998 and Best et al. 2001). These modifications improved users' views of the audit reports' comprehend ability and helpfulness as related to:

- The audit’s objective and process nature.
- The auditor's role.

- The financial report's nature.
- The financial report's restrictions.
- The duties of auditors and management.

Significant variations were noted in the views of accountants and experienced users regarding the audit report's content and meaning as stated by Holt and Moizer (1990). In a study by Innes et al. (1997), the extended audit report was investigated through the construction of SAS 600, which is the first standards set that achieved a considerable transformation of users' perceptions. The adoption of these standards, positively affected the users' idea of the audit practice and the ability of the audit report to convey its information. Moreover, even without executing any extra audit activities, users' realisation of the helpfulness of auditing had increased (Innes et al. 1997). It can be concluded that using a longer version of audit reports, can positively help influence users' perceptions and beliefs regarding the messages conveyed through the audit report. However, Hronsky (1998) presented a new communication method theory to be used in auditing reports that doesn't require a change of wording. Hronsky explains that report wording results in an unavoidable deviation of meanings within the report due in part to the dynamic nature of language, which makes this solution highly unfavourable as a solution to the communication gap. Moreover, Hronsky, (1998) argued that users must be informed with materiality levels and facts in the auditor's report in order to make better financial decisions. These facts speak for themselves and are not easily misinterpreted.

The difference of beliefs between the auditors and their clients is reflected in three different dimensions which are:

1. The existing concern report.
2. The responsibility of management report.
3. The internal control system report.

The next sections provide a deeper discussion of these matters.

2.5.1.1. Report on the Going Concern Dimension

According to clients, external auditors are obligated to present a warning of company bankruptcy ahead of time. One of the major causes of the expectation gap is the bankruptcy of companies that were just financially audited, yet no warning had been given of any approaching failure by the results of the recently performed audit (Blay et al. 2007). When corporations set up their financial statements, they don't presume even the notion of bankruptcy, just that the business will continue to operate indefinitely as it is. For this reason, the financial statements, attitudes and behaviour of these corporations, contain no indications of an imminent bankruptcy. This can lead to the auditor himself missing the early warning signs (Horngren et al. 1999). Humphry et al. (1993) indicates that: "another important factor of the expectation gap is in regards to whether the auditors' role with respect to the audited company, should be to ensure that the company is being run efficiently" (p. 401). Now this is quite an idealist claim to think that an auditor could make judgements as to the efficiency of a company. This would require obtaining confidential managerial information on all aspects of their business and also having a full understand the specific nature of that business which most auditors would not be permitted to have.

A study performed in Australia by Monro and Woodliff (1994) pointed out that clients from different companies believe that auditors' responsibilities include reporting the company's financial stability in the upcoming year after the audit; moreover, shareholders and creditors are both of the same opinion that auditors must provide information on:

- The feasibility and profitability of the company as an investment.
- The company's long term financial stability.
- The standing of the company as a reliable debtor.

Obviously, clients of auditors expect that they will be informed of potential corporate bankruptcies ahead of time. Therefore, auditors should acknowledge and include these matters in their reports in order to reduce the expectation gap between what the users expect and what auditors can actually provide in the audit report.

On the contrary, auditors are contended by the dilemma, that if they declare any vague or minuscule worry concerning the company's future, it can have a self-fulfilling effect, destabilising the belief of the owners, investors, and creditors. However, these worries are required to be revealed, if conclusive evidence triggers any doubts regarding the capability of the company (Pound et a1. 1997).

In the UK, auditors and managers both refused a reporting role that involved revealing information to investors regarding the competence of the managers. According to Apostolon (1989), management is demanded to make any notable dangers and doubts known in order to review them. Mednick (1986) also noted that there seems to be a growing public expectation that the auditor will give an early warning that a client is making poor business or financial decisions or may be approaching the brink of financial collapse. Any future plans made by the management, like liquidating resources, adding to or reducing investment, cutting back on expenses or redistributing arrears, must be discussed and reviewed by the auditor. All this information provided by the management, is helpful to the auditor who would investigate whether the results of these plans would enhance the financial state of the corporation or not. The auditor reviews the corporation's financial statements in order to determine the entity's capability to successfully function in the future. Therefore, the auditor should examine the company's plans, and any factors influenced by or relating to those plans, in order to determine the suitability of these plans. Results should be included in the auditing report according to the International Auditing Standard No. 570 (IFAC 2001) which confirms the auditor's responsibility to reveal such a case.

Furthermore, auditors are required to reveal the level of internal control appraisal while considering the expectations of clients (Laursen 2000). According to SAB No: 99 (1999), an auditor is obliged to "report to a registrant's audit committee, any reportable conditions or material weaknesses in a registrant's system of internal accounting control that the auditor discovers in the course of the examination of the registrant's financial statements".

2.5.1.2. Report on the Responsibility of Management

The responsibility of management for disclosure in financial reporting must be clearly communicated, as auditors should remind management of their key responsibility for financial reporting by drawing on the engagement letter and the letter of representation. Clients or users who have no access to the engagement letter and the letter of representation possibly will suppose that the auditor will be responsible of guaranteeing that the financial report reasonably reflects a description of the company's financial situation (Fakhfakh and Martinez 2007).

Research by Gill and Cosserat (1996) points out that “A statement in the annual report by management about its responsibilities, should not only help close the gap caused by poor communication, but may also cause management to reflect more conscientiously on its responsibility of financial reporting”.

The MacDonald Commission (1988) suggested some practices to reduce the level of misunderstanding as follows:

- Ensuring high levels of access and disclosure of the accounting policy statements.
- Distinctly stating management's fundamental liabilities for presenting financial records.
- Providing a clear description of the standard accepted audit report, so as to thoroughly cover all duties of the auditor and guarantee the required auditing level.

Humphrey et a1. (1993) conducted a questionnaire in UK to evaluate the views of the public regarding auditors’ capability to understand business problems and their role with respect to improving, reporting on and managing them effectively. The questionnaire asked respondents (who consisted of chartered accountants, financial directors, investment analysts, bankers involved in corporate lending and financial journalists) to specify their agreement or disagreement concerning auditors' abilities to comprehend business problems as well as their responsibility to enhance, and deal with management effectively. At the same time, they were viewed as being required to learn and introduce new techniques to better manage corporations. User groups were not very positive about auditors' ability to comprehend business problems and viewed that they were inadequately informed with the related information; however, they strongly viewed auditors as having to report on the efficiency of management to shareholders while only 46% of the auditors themselves thought it necessary. These results show a clear gap between the expectations of auditors and user groups in the UK.

According to Gill and Cosserat (1996), a declaration of management responsibilities must be integrated into the yearly report of corporations to shareholders. Such a declaration should address the following matters:

- Recognising the management's accountability for the financial report.
- Stating decisions and estimates taken by the management.
- Introducing a section on the competence of inner management.
- Pointing out the audit committee's function and purpose.

The auditor's opinion may possibly differ from management’s in topics like:

- The suitability of the employed accounting policies.
- The processing methods of these policies.

- The financial statements disclosures' acceptability.

In this case, the auditor should state an eligible or adverse judgement properly (IFAC 1997) together with management's responsibility in the audit report as it is the auditor's responsibility to include it.

2.5.1.3. Report on the Internal Control System

Ever since accounting as a profession was established, clients have been widely disappointed by the presence of deception in financial statements. This deception or fraud is a consequence of ineffective internal control systems, and auditors' noncompliance to standards. Those standards can be used to measure the level of the internal accounting control system's examination and assessment made by an auditor (Sheahan 2007).

In order to develop and report a true judgement on the effectiveness of any internal control system, auditors must thoroughly examine and assess this system. Any weak point that may cause loss to clients or those who read the audit reports, must be reported and revealed to them at a 'high level', to guarantee a practical reaction. According to the IFAC (1999), the acceptable audit report is expected to fair, but not absolute, and confirms that the financial statements are free of deception or mistakes that produce serious misstatements.

In a study by Patterson and Smith (2007), the Sarbanes-Oxley Act of 2002 was researched in order to examine the effect it had had on the strength of auditing in regards to the corporate internal control systems. This study concluded that

Sarbanes-Oxley Act had not produced higher levels of controlled testing, despite its significant emphasis on creating stronger internal control systems and decreasing deception. The Sarbanes-Oxley Act may also increase the audit risk as indicated by the study model.

An auditor must take into account all internal control measures, as it will increase financial data's consistency and eliminate possibilities of data abnormalities. In order to achieve this comprehensiveness, an in depth audit must be performed (Mautz and Sharaf 1986). Discovering any deceitful information is the duty of the auditor. Therefore, the auditor must design the audit in a way that ensures the detection of any fraudulent misstatements. Administrating an adequate level of understanding to the company's internal control system as well as evaluating the state of this control, decreases the chances of a fraud passing undetected (Gay et a1. 1997).

For the public to be confident in the placement of adequate controls, a management report is presented. The shareholders have the right to be informed about the internal control system reported by management and auditors (IFAC 1999). This report can help management form a more fiducial image through accurate financial reporting.

An auditor is responsible for assessing the internal control system, even though the assessing of the internal control system is originally the responsibility of management. Therefore, internal control falsification made by the management must be considered by the auditor as management report material misstatement.

Integrating a written statement concerning management's responsibility for the internal control system, as identified by internal and external auditors, would decrease the expectation gap. Reporting on the internal control system through the audit report is more valuable to the users due to the fact that the management report is less self-sufficient than an audit report in reality.

Evaluations of internal control has to be revealed by the auditor with regards to the key user expectations, specifically those evaluations that take place frequently as stated by Laursen (2000). In the US, auditors are expected “To report any reportable situation or material flaws in a registrant's system of internal control to a registrant's audit committee when flaws are discovered in the course of checking of the registrant's financial statements” (SAB No: 99 1999, p. 8).

The expectation gap existent amongst auditors, auditing standards, and the public, can be resolved by openly reporting on the internal control system. A special report or section inside the audit report including the inspection outcome of the internal control system in the audit report is an excellent way according to legal, social, and professional perspectives. An example of massive cash loss due to a weakness of the internal control system, is the 232 year old British bank, Baring Bros. Up until their collapse on the 23rd February 1995, they were able to incur losses of more than 1 billion $US from the actions of one man, Nick Leeson. He grossly manipulated financial statements, reporting losses as gains with even upper management labelling him as a 'star'. He was able to continue undetected due to a serious weakness of the internal control system (Fay 1997).

Auditors are contended by the dilemma that they are expected to declare any small or vague worry concerning the company's future despite the risk that such statements can be self-fulfilling, destabilising the belief of the owners, investors, and creditors in the financial stability of the company. A questionnaire integrated within a study by Steen (1990) stated that "the auditor should have the right and obligation to report serious matters to regulators if management does not do so" (p. 19). Such a state puts auditors in a very serious dilemma. If an auditor reports any concerns and these concerns prove fruitless with the company continuing to be profitable or increasing their profit, the company may perceive that this audit report has caused damage to their company's reputation and profitability which may lead to the company initiating legal proceedings against the auditor. The auditor is then seen as unreliable which can possibly diminish any opportunity for upcoming employment. So for this reason, auditors tend not to mention perceived insignificant matters which the audit report users expect from them.

Contrarily, if they fail to report any matter, whether deemed insignificant at the time or for any other reason, and this matter compounds into something big, causing severe financial loss or even bankruptcy. The users of the audit report, in particular the shareholders, who made important decisions based on the audit report, are likely to hold the auditor responsible for the consequences of failing to report that matter. Although, the likelihood of this happening is very slim, it does happen. These cases are usually highly publicised which affects the public's perception of the audit function, which in turn leads to a widening of the AEG.

2.5.2. Detecting Fraud and Illegal Acts

The AEG can be directly caused by a misunderstanding of auditors' responsibilities and functions by shareholders and other users of the financial statements as indicated by many studies. According to the findings of a study carried out by the Institute of Chartered Accountant of Scotland (Gill and Cosserat 1996), users of audit reports expect a report that gives them a sufficient guarantee. The following patterns illustrate the type of guarantees desired by users:

- The presented financial statements are accurate.
- The audited company is not going bankrupt.
- There has been no deception.
- There have been no law infringements by the company.
- The company has been administrated expertly.
- The company has been acting conscientiously towards environmental and societal affairs.

Moreover, the users' perception of an independent auditor is that the auditor should be:

- Independent from the executives of the audited corporation.
- Responsible for informing shareholders of any deception or illegal acts detected.
- Financially accountable for any failure of their intended tasks.

However, as a study by Steen (1990) concludes that "the public's interpretation of the auditor's role does not coincide with the auditor's own definition" (p. 17). This result signifies that clients expect the auditor to be more responsible in exposing deception, illegitimate actions, and material misstatements (Rittenberg, et al. 2008). Additionally, clients require auditors to better express the audit's nature and findings, especially those related to any probable failures of the company ahead of time (Guy and Sullivan 1988; Porter, 1993 and Gramling et al. 2000)

Clearly, users and auditors have two different points of views regarding this highly debatable matter (Gay et al. 1997), as users expect auditors to expose, stop and report any possible deception and to be also capable of identify other illegitimate acts or faults (Haniffa and Hudaib 2007). The AEG materialises as a direct result of these varying viewpoints regarding the role of the auditor. McEnroe and Martens (2001) recommended improving education to reduce the existing expectation gap between US auditors and investors regarding topics such as responsibility for the exposing of deception and reporting.

Fraud has traditionally been defined into two broad categories, defalcation and financial reporting fraud (Rittenberg et al. 2008). Any act done on purpose by a managerial individual, other employees or third parties to produce a falsification of financial statements is termed 'fraud'. A definition is offered in a study by Siegel and Shim (1995) who described fraud as an action by an individual or entity to cheat others in which damage is caused. Typically fraud in auditing context is misrepresentation to deceive, or purposeful withholding of material data needed for a proper decision. According to the (IFAC 1997), fraud entails:

- Modification, distortion or fabrication of reports or documents.
- Resources misuse.

- Restraining or excluding transactions' results from reports or documents.
- Documenting transactions that lack details.
- Abusing accounting guidelines.

As expressed by the public, auditors are believed to be highly capable of detecting and preventing all fraud; however, fraud detection is not considered a fundamental audit goal according to the auditing profession (Pound et al. 1997). According to Humphrey et al. (1993), an expectation gap is established inside the UK in several matters including the auditor's responsibility for fraud exposure and the degree of auditors' liability to third parties.

The auditors viewpoint was different as findings of a study by Monro and Woodliff (1994) demonstrated that auditors believe that they are not responsible for reporting the reliability of a corporation as a debtor, the standing of it as a good loan prospect, and whether the company is a profitable investment or not. User groups and financial managers both agree that auditors are not accountable to potential shareholders and creditors; however, auditors disagree with users that their role should be to guarantee that all noteworthy fraud is exposed (Humphrey et al. 1997). Clearly, an expectation gap has resulted from these varying beliefs of auditors and the public as the auditing profession has limited the duties of auditors to audit preparation that can help reveal significant fraud. Carmichael (1988) testifies that: "...the auditor believes that it is impossible to design an audit to detect all illegal acts, but that auditors should be sensitive in their audit decisions and action to the possibility of material fraud and error existing" (p. 41).

Australia, just like many other countries, suffers from the existence of an expectation gap due in part to the considerable variation of auditors' and users' perceptions to issues like fraud exposure as stated by Low (1980). In 1988, Guy and Sullivan (1988) conducted a study which suggests that "public expectations of corporate auditors with respect to fraud and error are typically stated in terms of a perception that they have a duty to verify that the audited financial statements are free of such matters." (p. 37). Similarly, two studies by Best et al. (2001) and Koh and Woo (2001) performed in Singapore confirmed a significant expectation gap concerning auditor responsibility for fraud prevention and detection.

O'Malley (1993) suggests that auditors should be responsible for extra duties including the detection of fraud in particular. The auditing profession may examine those extra four duties proposed by O'Mally on:

- Internal control system evaluation performed by the management and auditors.
- Observance reporting.
- Auditors' answerability to supervisory organisations.
- The involvement of auditors in short-term financial data.

In a new study conducted by Siddiqui and Nasreen (2004) to examine the accounting profession in Bangladesh, the existence of a wide expectation gap was confirmed as a result of deception and auditor perceived responsibility in detecting it. Egypt also suffers the same problem as indicated by Dixon et al. (2006), particularly concerning auditors' responsibilities for fraud identification and stopping. Certainly, the public must be guarded against any malevolent, careless or illegitimate practices. Therefore, they employ trustworthy certified accountants, associated with professional memberships so that they accomplish their expectations.

The recent failures of numerous famous corporations emphasised the existence of the AEG. Enron is a clear manifestation of this phenomenon, since it was given an inexpert opinion by Andersen which led to its bankruptcy (Rittenberg et al. 2008). Eden et al. (2003) stated that the audit function is being censured for 30 years or even more until today, and has never been as disfavoured as it is now. Many other prestigious companies suffered accounting frauds which augmented financial report users' concerns and initiated substantial public discussion (Shaikh and Talha 2003). Those discussions were mainly concentrated on certain matters which address:

- Company control.
- Administrative approach.
- Management mistreatment or delinquency.
- Audit boards.
- The independence of auditors.
- The terms of non-audit services.
- The auditors' regular changes.
- Re-evaluating the efficiency of audit procedures.
- The financial reporting outline.
- Chief executive's responsibilities and function.
- The company's whistle blowing expectations.
- Observing the usefulness of laws, guidelines and regulatory organisations.

- Reassessing existing accounting principles.
- Providing sufficient approval for non-compliant companies to maintain continuous reporting needs.

The recent business catastrophes obviously widened the expectation gap as users' expectations and accountability requirements developed. The expectation gap is threatening the very existence of the auditing profession. As stated by Limperg (1933 cited in Porter and Gowthorpe 2001) "If auditors fail to identify society's expectations of them, or to recognize the extent to which they meet (or, more pertinently, fail to meet) those expectations, then not only will they be subject to criticism and litigation but also, if the failure persists, society's confidence in the audit function will be undermined and the audit function, and the auditing profession, will be perceived to have no value" (p. 5).

The new requirements demanded by clients in the marketplace are now well materialised (Jeppesen 1998), as clients are now demanding for an audit that provides information that is beyond inspecting records, such as the company's performance relative to industry best practices or any potential risks facing their business.

These developments created more focus on studying audit scandals, especially on the main disagreement existing between auditors and users of financial reports. Such situations can cause serious damage to the profession. Auditors are clearly far-off their clients' expectations as the recent failures of prestigious companies testify. A good example is the (Enron and Andersen) case, in which Andersen did not report or give any notification of the existing difficulties or doubts in Enron (Moussalli 2005). WorldCom is another recent example on what is believed to be the largest bankruptcy in US history (Rittenberg et al. 2008). Therefore, immediate decisions were required to be taken and put in to practice so as to restore the trust and honour of the profession in the minds of the public. In the US, the first formal reaction to the bankruptcy of Enron was the presentation of a new plan, entitled "the Sarbanes – Oxley Act (SOA)". This act came as a response to this crisis and was considered as the biggest reform ever, to affect the accounting profession, as it enforces prison sentences for corporate fraud, and 20 years or more for damaging or modifying documents required in federal investigations (Castellano 2002). These harsher punishments were a means of restoring public trust and capital marketplaces. Therefore, under the Sarbanes-Oxley Act 2002, the accounting profession and its associated firms, became regulated bodies.

2.5.3. Auditor Independence

The auditing profession is based on the independence of the auditors (Rusmanto 2001). The AEG research, revealed the auditor independence perception variation as a key cause of the gap. As stated in a study by Dewing and Russell (2001), the most influential factor in the production of the expectation gap, was auditor independence. The appearance and reality of auditors' independence must be preserved by refraining from all implications to support the interests of the corporations that auditors are offering services for.

Auditors should maintain fairness and equality to all involved parties whether they are the corporation's directors, shareholders, investors or employees. The definition offered by Siegel and Shim (1995) clearly illustrates independence as the "condition of the accountant having no bias and being neutral regarding the client or another party in performing the audit function" (p. 206).

A confident relationship between the auditor and the client is essential. In any society, the external auditor's role, as implied by society's acceptance, is considered to be an independent social control instrument inside the corporate responsibility process. Society's perception of what could weaken actual independence affects noticeable independence. It can be seen that the value of an audit report, heavily depends upon the public's acceptance of the auditor's independence.

Society's acceptance refers to the perceived function of external auditors as an objective social monitoring method inside companies' accountability procedures. Therefore, audit firms become obliged to ensure the uncompromising excellence of an audit, as well as the persistent quality of auditor's performance that can fulfil the public expectations of independence. Auditors, who want to preserve independence in spite of the various difficulties, must be constantly aware of any effects that can harm the independence of his planning, exploratory, or reporting. Otherwise, it is highly probable that their independence will be undermined and their value and usefulness as auditors, be seen as less important (Mautz and Sharaf 1986).

Gray and Manson (2000) reasoned that the independence of a practitioner, stands for his or her ability of preserving an appropriate mental standpoint while performing his or her auditing work. Public's perception of the auditor as a professional is profoundly affected by the appearance of his or her professional independence. The association between auditors and clients must be independent and detached to reflect confidence to the public. The independence of the auditor plays a significant role in supporting this confidence and decreasing the expectation gap. The public's and shareholders' perception of auditor's independence from the auditees' management, can be positively influenced by offering a complete and just revelation of information which will consequently reduce the gap. Additionally, the auditor should be responsible for expressing financial interests or personal relations that may exist with the auditees as this is seen as a breach of auditor independence.

An audit should not become a loss-leader that auditing companies use to gain high payments for their services, instead, it should be the core of the public accounting career. Auditors must concentrate on the suitability of accounting standards and the clearness of disclosures to maintain public confidence and to ensure that accounting principles are within the limits of satisfactory professional procedures. Auditors need to openly express their opinions in case malfunctions occur or discrepancies appear. According to Levitt (1997) who stated that: "…auditors should pose difficult questions about the quality of client financial material to seek full and fair disclosure" (p. 9).

The public is unable of discovering the mental attitude of auditors which makes the intentions of any action prone to misunderstanding (Louwers 1999). For example, receiving expensive presents is very likely to be understood by the public as an act that violates independence.

Auditors and auditing firms are able to provide several non-auditing services, besides the authentification of clients' financial statements, to their current clients (such as bookkeeping, tax services and management advisory services (MAS)) (Haniffa and Hudaib 2007). Thus, independence develops in to a more complex matter when internal and external auditing as well as managemental consulting services and both audit and non-audit services are all executed by the same accounting company for the same customer at the same time. This makes the client a higher interest, particularly when they are providing managerial services. Such a situation elevates the possibility of a conflict of interest and therefore, negatively impacts the independency of the auditor. As a solution, it has been suggested that audit firms must refrain from providing managerial consultations to their clients. Usually, auditors and accountants continually and firmly disagree with this suggestion while financial managers, investment analysts and bankers disagree to a certain level (Humphry et al. 1993). Logically, audit firms offering consulting services and guidance to the same management paying for the auditing service are obviously not absolutely independent (Mautz and Sharaf 1986).

In defence of auditors providing supplementary services, those supporting it reason that independence is not an absolute as much as it is a relative matter measured in levels, which implies that auditors are capable of accomplishing an acceptable level of independence while providing consultancy. Yet, the diverse public groups have not agreed on the aspects they believe to influence independence of auditors.

2.6. Summary

This chapter offers a presentation of literature addressing the AEG that exists between the responsibilities the public expects from auditors and the ones acknowledged by the auditing profession. Elements of the expectation gap as well as its causes were discussed to accomplish this goal. Results indicate that these elements mainly concentrated on a number of lasting matters, which are:

- Audit reports' description and meaning.
- Auditor's function and duties.
- Auditor independence.

This chapter presents the literature review related to the AEG, report descriptions and factors relating to phenomenon of the expectation gap. This chapter analyses the AEG and confirms its existence years ago; moreover, it highlights the fact that almost all expectation gap studies were performed in developed countries. The review of literature provided information on the independency of auditors. Most of the results and recommendations of these studies were centred on publishing additional accounting and auditing standards and guidelines. However, such recommendations may be unsuitable for developing countries with different ideological, social, economic and legal backgrounds. Moreover, regardless of the extensive range of expectation gap literature, most studies fail to evaluate the historical, social, economic and political context. The discussions about the expectation gap have usually been concentrated on the question: Whether this gap can be removed or not? Resolving the expectation gap in the social framework is very difficult as argued by Sikka et al. (2003) because of the existing social conflict and meaning of social practices. Nevertheless, all research that has been examined through this chapter will be utilised in order to develop the research instrument which will be later used to investigate the degree and sources of the Libyan AEG.

Since developed countries have their own social, economic and political environments that alter the meaning of audit and the role of auditors, all explanations and solutions provided by studies were not appropriate or successful in all contexts. Such a situation has created the necessity for deeper research in those developing countries such as Libya in which little or no research has been carried out. This study aims at fulfilling this need by recognising the level to which the AEG exists between auditors and clients of the financial statements in Libyan context and revealing possible causes for it.

Chapter Three:

The Theoretical Framework

3.1. Introduction

The aim of this study is to investigate the AEG in the Libyan context. In order to achieve this objective, it is important to identify the theoretical framework as it serves an essential function in the research process. The theoretical framework ‘theory’ is an essential element by which an individual arrives at an understanding of, and judgements about, the facts in a discipline (Neuman 2000). A number of definitions are outlined in literature for the term 'theory'; most of these revolve around the fact that theory is a conception of a relationship between things. Sekaran (2003) defined a theoretical framework as “a conceptual model of how one theorises or makes logical sense of the relationships among the several factors that have been identified as important to the problem” (p. 87). Also, Black (1993) defined theory as “explanations of how things function or why events occur” (p. 25). According to Neuman (2000) “thinking explicitly about a theory’s scope will make it stronger and allow the researcher to communicate it more clearly to others” (p. 47). The theoretical framework may help answer questions such as why some of the participants had particular perceptions and what is the relation between the factors.

Accountability is a social, economical, political and professional process that involves people, and the assessment of the performance of people, in their entrusted roles. As business relationships have become more complex, so have the expectations of society with regards to the auditor's accountability. Hence understanding of accountability is important for further analysis of the research phenomenon. This chapter will define and describe the accountability process and discuss the concept of accountability to determine the suitable model of accountability that will become the theoretical framework of this study. Thus, the main objective of this chapter is to discuss and develop an accountability model that can be used as the theoretical framework underpinning this study. According to Sekaran (2003), development of a theoretical framework involves identifying the network of relationships among the variables considered as important to a particular research study; building a well-defined theoretical framework is therefore crucial to investigating the problem under investigation.

Chapter two reviewed the previous studies and literature about the AEG. According to Sekaran (2003), the relationship between the literature review and the theoretical framework is that the literature review provides a solid foundation for developing the framework of the given study and identifies the variables that may be important, as determined by previous research findings. Sekaran (2003) believes that a clear relationship between the literature review and the theoretical framework will:

- Help ensure that a robust and relevant theoretical platform is developed.
- Aid with identification of the variables that may be important.
- Facilitate explanations of the relationships among these variables.

Based on a review of the previous literature, the researcher believes that the accountability framework is the most suitable framework as it clarifies the relationship between the factors of the AEG. Following this introduction there will be the following main sections: Section 3.2 Meaning of Accountability. Section 3.3 Theoretical Model of the Accountability Relationship. Section 3.4 Codes of Accountability. Section 3.5 Accountability of Auditors. Section 3.6 Accountability Environment of Libyan Auditors. Section 3.7 Social Culture and Accountability. Section 3.8 Summary.

3.2. The Meaning of Accountability

Accountability is a dynamic construct and consists of many interrelated forms that change in relation to cooperative behaviour. Different definitions of accountability have been provided, however, in general the accountability concept shows the relationship between two parties in which one party is directly or indirectly accountable to another. According to Degeling et al. (1996), the concept of accountability may have different meanings for different people within different contexts. Different forms of accountability have been identified in literature, some of which will be explained later in this chapter.

Accountability can have different meanings for different people depending on the context of concern. Sinclair (1995) argued that: “how we define accountability is dependent on the ideologies, motifs and language of our times” (p. 221). The focus of accountability is mainly on the measurement of ones economic performance. Accordingly, the role of accounting is significant and even obligatory. In this respect, accountability has been variously defined as simply a literal accounting and reporting function implying explanation or justification of actions (Patton 1990). The complexity of the accountability concept leads to difficulty in defining accountability. Munro and Mouritsen (1996) suggested that accountability is being pressed into all aspects of our life. Therefore, different forms of accountability are permeating into our relationships.

Gibbins and Newton (1994) defined accountability as "a relationship, driven by social, contractual, hierarchical, or other factors, between the source (i.e. the principal) and the accountable person (i.e. the agent) in which the latter has incentives to behave as the former wishes" (p. 166). In this definition, Gibbins and Newton presupposed the existence of a relationship between two or more parties for accountability to be constructed. Roberts and Scapens (1985) defined accountability as "the giving and demanding of reasons for conduct" (p. 447). This definition involves the more powerful party demanding reasons and explanations of conduct from the less powerful party.

A number of authors have also described accountability in legalistic terms. Others however, regard it as a rather vague concept, lacking a clear definition (Sinclair 1995). Roberts (1991), for example, describes accountability as a social relation that has both a moral and a strategic dimension and could be understood as something a person feels. Accountability has also been viewed as the product of authoritarian relationships in which the lines of conduct are carefully drawn. Its definition has been claimed to depend on the ideologies, motifs and languages of our times and to have specified specific meanings. Therefore "the more definitive we attempt to render the concept, the more murky it becomes" (Sinclair 1995, p. 221). Accountability is the willingness and ability to explain and justify one's acts to self and others, is both deeply rooted in social practice and interpenetrated by business practice. The importance of examining the concept of accountability therefore becomes all the more urgent when new practices are afoot (Munro and Hatherley 1993).

A broader version of accountability in literature has been proposed by psychologists and sociologists who consider accountability as the capacity to give an account, explanation, or reason. In other words, accountability simply refers to the giving and demanding of reasons for conduct in which people are required to explain and take responsibility for their actions (Roberts and Scapens 1985 and Sinclair 1995). This view of accountability seems to encompass an endless process of giving explanations and reasons for our conduct.

Parker and Gould (1999) claimed that in general, there are two key elements involved in the accountability concept. These elements are:

- The account and the holding to account.
- Two parties.
    - The accountor or agent who accounts and is held to account.
    - The accountee or principal who holds to account.

The above definitions of accountability have centred around providing explanations and justifications for the execution of responsibility entrusted to agents by principals. These definitions reveal that:

- There is a responsibility to undertake certain actions and a responsibility to provide an account of those actions (Stewart 1984 and Gray et al. 1996).
- There is a link between the accountability and the responsibility where the former is established to ensure the latter.
- There is an emphasis on information as a link between the relevant parties.
- The content of information depends upon the accountability relationship.

Nevertheless, the precise meaning and implications of the accountability concept still remain vague. In some cases accountability is interpreted as being limited to a literal accounting or reporting activity. In other cases it also includes an explanation or justification of the actions. To some authors, the concept is related with sanctions and rewards. Others however, do not consider sanctions and rewards as necessary. The concept is sometimes related to the presence of a contractual relationship between two parties for particular actions, at other times the accountability relationship is not so clear.

A distinction has been made between accountability and responsibility where accountability has been seen to encompass responsibility. Accountability is wider in its operation and scope than responsibility (Mulgan 2000). In addition to accounting for how resources were being used as an element in the responsibility process, accountability has the additional requirement of evaluating and demanding accounts for the level of performance (Parker and Gould 1999). In this context, accountability rather than responsibility will be used to mean holding others to provide an account.

3.3. Theoretical Model of the Accountability Relationship

The last section has introduced some definitions of accountability and outlined some aspects in accountability relationships. The discussion of the previous section will be used as a base for developing the theoretical model of accountability. According to the definitions that were mentioned in the previous section, the accountability relationship may include two parties, the principal (accountee) and agent (accountor), who are bound together by a contract which imposes responsibilities upon the agent. A simple theoretical model of accountability has been proposed by some authors (e.g. Gray et al. 1996 and Laughlin 1990, 1996). This model as shown in figure 3.1 is called “a generalised accountability model” (Gray et al. 1996, p. 39). Although this model is a simple model, Gray et al. (1996) believe that this simplified model can be used to explore most complex situations. The model can also be generally applied to all relationships and rights to information. According to Laughlin (1996) and Broadbent et al. (1996), this traditional relationship is perhaps the most commonly recognised theory in formal business organisations.

Figure 3.1. A Generalised Accountability Model

Please see print copy for image

The above accountability model assumes a simple two-way relationship between the two parties, the principal and the agent. The principal (for example, shareholders of a company), provide economic resources and therefore pass control of resources over to the agent (for example the company's manager). The principal is the owner of the resources over which the agent has control and manages on behalf of the principal (Mayston 1993). These resources are usually conferred to the agent on the basis of an explicit or implicit contractual relationship, which requires information to be provided. In order to control the agent's actions, the principal constructs contracts that involve rewards and penalties (Broadbent et al. 1996). The 'contract' is regarded as the term that governs the relationship between the principal and the agent. This contract is based on the relevant legislation present in a country. It will in turn, become the reflection of the social context of the relationship. The contract determines the rights and responsibilities of the parties in relation to the information flows. The contract determines the accountability relationship. Therefore, how the contract is made becomes a central issue in the accountability model. As shown in Figure 3.1, the principal demands certain actions from the agent and requires information that explains and justifies those actions. The agent is responsible for the execution of the activities and the providing of an account. Therefore, there is a supply and demand relationship between the agent and the principal. Accounting information becomes an important element through which explanations are given to the principal. Figure 3.1 shows the demand and supply of resources and information between the principal and the agent. However the demand and supply of information could be reversed. The agent may require some information from the principal. Therefore, a reciprocal relationship may exist between the principal and the agent.

3.4. The Codes of Accountability

As discussed in the previous section, the accountability relationship involves two parties known as the principal and the agent. In order to make the relationship of the two parties meaningful and constructive, a third element is necessary. This third element is the codes of accountability. The relationship between the accountor (who provides an account) and the accountee (who demands an account and to whom accounts are given) is governed and maintained through establishing a set of codes. According to Gray and Jenkins (1993), “the codes are the basis of which the relationship is struck and by which it is maintained and adjudicated" (p.138). Also, the codes of accountability have been defined as "a system of signals, meanings and customs which binds the principal and steward in the establishment, execution and adjudication of their relationship" (Gray and Jenkins 1993, p. 55). The codes of accountability are important as they define three important elements of accountability relationships:

- The nature of the relationship between agent and principal.
- The content and manner of the execution of the specified responsibilities.
- The terms in which the account of the execution is presented and evaluated.

Given this, it is understood that different codes of accountability may be revealed. Different codes affect different patterns of accountability. Different codes may have different effects on the accountability process. The scope of accountability depends on the nature of the codes underpinning the accountability relationships. The codes underpin the relationship and define the nature of the accountability and the presentation of the account. Within these codes there are expectations of the principal from the agent about the resources and responsibilities transferred to the agent. The terms of an accountability relationship are determined by such expectations. Laughlin (1990) considers these expectations as complex, and can be either "unwritten and implicit, or written and explicit" (p. 96). The written and explicit expectations are determined by the contracts.

Gray and Jenkins (1985) identified three codes of accountability: financial, professional and administrative. The problem of accountability is in identifying who is accountable for what and to whom. Also, the codes of accountability have at least three separate but related meanings. First, a code can be understood as a system of symbols to advance messages. Secondly, this system can be used to restrict the understanding of the messages to a limited number of receivers. Thirdly, a code can be a convention or an established rule that regulates behaviour (Gray 1982).

The accountability literature has explained different reasons for accountability (e.g. Benston 1982; Gray 1992; Laughlin 1990, 1996 and Stanton 1997). Benston (1982) argued that accountability is economically and publicly reasoned. He argued that corporations receive their permission to operate from a society in which they operate and therefore they are accountable to the society for their activities. The society at large has a right to information about the extent to which corporations have complied with regulations (Gray 1992 and Stanton 1997). The economic reasons for accountability, according to Benston (1982) are based on the equity or fairness concept. The audit profession is seen as a mechanism that enhances equity and fairness concepts through providing information to the public. The economic reason for accountability is also based on the notion of transfer of resources (Laughlin 1996). Other reasons for accountability include cultural, social, political, legal and professional reasons (Berry et al. 2000).

Within cultural and social aspects of accountability, reasons may be provided as a result of the accountable person's values and beliefs. These values and beliefs may differ within and between cultures, and therefore accounting may accordingly differ. Political and legal reasons for accountability are to some extent the result of power relations and self-interests. Accountability may depend on the notion of organisational identity, constructed on political and ideological grounds

(Panozzo 1996). Professional reasons for accountability may be related to ethics and standards to which profession members are expected to adhere. These ethics and standards are either developed from within the profession or imported from other professions, institutions or even countries.

3.5. Accountability of Auditors

Accountability is a social process that involves auditors and the assessment of the performance of auditors in their entrusted roles. Flint (1988) suggested that the role of auditors in society is ultimately resolved by social consensus. The audit function is clearly socially, culturally and politically dependent. According to auditing definitions, the general purpose of the audit profession is to create confidence in the accounting information audited by the external auditor. Also, some audit definitions present a strong relationship between an audit profession and accountability (Gay and Simnett 2000). Flint (1988) in his auditing definition, clarified the relationship between the audit profession and accountability as the audit being a mechanism of monitoring and securing accountability. He also stated that auditing is a social control mechanism for securing accountability. The responsibility is on auditors and audit policy-makers to constantly seek out what is the societal need and expectation for an independent audit and to endeavour to fulfil that need. The accountability framework provides a basis for assessing the previous, current and expected auditor’s performance. Established structures of power relations may delineate the source, audience and bonds of accountability and reduce the likelihood of accountability diffusion. Gray et al. (1987) stated that “the auditing function is considered a necessary condition towards the development of accountability" (p. 201). Also, Flint (1988) argues that if there is no audit, there can be no accountability. Therefore, the auditing profession can be considered as the corner stone of accountability, which shapes the relationship between all associated parties.

As described by many authors in the auditing literature, auditing is an important function of social control. The users of financial reports rely on auditors to ensure that the information which they receive is accurate and independent. According to Chandler et al. (1993), the need for external auditors may be seen as a response to the agency problem. The audit functions as a mechanism to attest to the accountability and stewardship of company management, and to reduce the possibility of innocent mistakes or deliberate misstatements, such as fraud and management manipulation. The expected role of auditors is to act as keepers of the integrity of financial reports. They have a significant function in society because auditors carry a significant public trust and responsibility (James and Gettler 2002). The role of auditors has become increasingly important, especially in a capitalist economy as the process of wealth creation and political stability depends heavily upon confidence in processes of accountability and how well the expected roles are being fulfilled (Sikka et al. 1998). The auditing profession can be considered as a cornerstone of accountability. As business activities and relationships have become more complex so have the expectations of society with regard to auditors' accountability. The users of financial reports have certain expectations which they want auditors to fulfil. There is no doubt that the users need to be protected from fraud, error and unlawful actions. They choose accountants on the basis of qualifications, experience and also memberships in professional accounting bodies. Therefore, auditors are accountable to the users of the audit report for their performance. Thus it is expected that the profession will do its best to keep the public trust and provide a high quality service in accordance to professional standards. Auditors should exercise their crucial role in society with the utmost integrity, as many groups rely on their opinion to make financial decisions.

Most of other professions such as medical doctors, lawyers, etc, have a direct accountability to their clients with the main responsibility being the assistance of their clients. How this assistance affects the rest of society is not a main consideration. The audit profession however, has an extra responsibility for the third part, which is the users of their reports. Although the client compensates auditors for their duties, the auditors still confront more complicated professional issues, as their primary focus is to represent the public (Garratt 2000). It is also important that auditors maintain the perception that they are ethically sound and honest. According to Flory et al. (1992), there is an essential difference between the ethics and accountability of the accounting profession and other professions. The moral obligation and responsibility in other professions, is for the clients only. While the obligation in the accounting profession, includes third parties. The ethical obligation of accountants can be divided into three categories:

- Obligation to clients.
- Obligation to colleagues.
- Obligation to the public.

Rittenberg et al. (2008) believes that the expectations of society should form a primary ethical motivation for auditors in recognition of the exclusive societal privilege granted to the profession. This privilege creates a "social accountability for observing ethical standards of performance and conduct" (Harris and Reynolds 1993, p. 108). Professional ethics and accountability have a crucial role in developing the auditing profession, meeting social needs and expectations, and restoring the public trust. On the other hand, neglecting professional ethics and accountability will result in poor performance and cause a negative effect on the auditing profession. This will reduce the public trust, result in a loss of credibility and social function, and accordingly reduce the demand for audit services, which may eventually lead to the death of the profession.

The unclear distinction between the accountability of auditors and management accountability has contributed to public confusion about where one type of responsibility starts and the other ends. The audit quality and auditor’s performance are dependent upon how well the needs of society are met. Society's expectations of auditing are that the audit process enhances the credibility of financial reporting. Auditor’s accountability is thus dependent on how well the function of auditing is fulfilled. Accountability is concerned with the obligation to answer to any responsibilities entrusted with. The significance of accountability lies in knowing that auditors and managers are liable to be held accountable for their actions. From an agency theory perspective, it could be argued that society is the principal who is safeguarding the finite resources of the community from the activities of private agents (Power 1991).

3.6. Accountability Environment of Libyan Auditors

In Libya, the auditing firms are enmeshed in a web of accountability relations with other bodies. Besides the accountability to their clients, auditors are accountable to the Libyan Accountants and Auditors Association (LAAA), Public Control Office, Tax Office, the Secretary of Treasury and the public. They also have indirect accountability to the General People's Committee and the General People's Congress, which is the highest authority in Libya. The Libyan Commercial Code (LCC), the income tax law, the accounting and auditing profession law and other regulations, are the elements of accountability framework of Libyan auditors. Although these regulations do exist, the enforcement of these laws is not such as to aid the development of accounting profession in Libya.

The Libyan Commercial Code requires companies to keep at least the following books:

- A journal which should include:
    - The company's day-to-day business transactions.
    - Monthly total of its expenditures.
- The inventory and balance sheet book, which is a combination of a number of books including:
    - Account statements for the different accounts.
    - The inventory statement.
    - Balance sheets.
    - Profit and loss accounts.

The company's annual reports should be made available to its shareholders at least fifteen days before the General Assembly meets, within which these reports are to be attested (Article 580 of LCC and Article 50 of the 1970 Commercial Act). According to the Libyan Income Tax Law, “Companies are required to provide the tax authority with their balance sheet, trading account, profit and loss account, depreciation statement, and detailed statement(s) of the company's expenses that are included in the profit and loss account.” (Article 104 of the Tax Law).

Concerning the importance of the auditor’s role in increasing the confidence in the financial statements, the LCC obligated on the 28th November 1953 the need to review the financial statements of each company by a certified auditor. This law is still valid. In respect to professional care, the Article No. 575 of LCC requires auditors to make adequate professional care while they carry out their duties as they are the agent of their clients. They are responsible about their report testification. The LCC require auditors to maintain the confidentiality of their clients work and documents. Naturally these documents contain sensitive private information pertaining to their business which should not be exposed to third parties as this could have a negative impact on the function of their business if done.

If it is proven that damage would not have happened if the auditor performed their duties as required, they will be held responsible according to Article No. 575. In regards to the auditor’s responsibility about harm that may be caused by their inefficient performance, Article No. 143 of the LCC stated that "that anyone who commits an error which caused harm to others, shall be liable to pay compensation for damages". Also, Article No. 559 of the LCC gave rights to sue auditors in the event of a default in their duties, or in the case of falsification of the information contained in the audit report.

Even though the above responsibilities of auditors are included in Libyan law and professional regulations, close examination indicates that the main sources of these laws are western and European countries such UK, USA and Italy (see chapter 6). Also, the enforcement of these laws has not developed enough to serve the accounting profession in Libya. Although the main domestic professional body, LAAA was established in 1973, it is considered to be powerless, and has not had much impact in the development of accounting profession, (see chapter 6). Thus, the researcher expects an expectation gap between auditors and users of audit reports is present in Libya.

3.7. Social Culture and Accountability

The central role of culture in a society is to channel human effort to achieve desired behavioural goals (Trice and Beyer 1993). Hofstede (1997) defined culture as "the collective programming of the mind which distinguishes the members of one group or category of people from another."(p. 5). In general, the cultural environment is recognised to be a national system, which includes language, religion, attitudes, morals, values, law, education, politics, social organisation, technology, and material culture. The interaction between the cultural elements and the accounting profession is expected to be very complex.

The relationship between the influences of cultural factors on accounting environments has been examined in the literature review, from many different perspectives. Gambling, Jones and Abdel-Karim (1993) considered culture as a collective version of the individual's personal world view. Perera (1989) declared that members of a given culture tend to share a common framework of meanings, social understanding, values, beliefs and symbols. Also, Belkaoui and Picur's (1991) view is that culture is "...a system of cognition or knowledge of belief" (p.119). Hence, different types of cultures prevent united accounting practices worldwide.

According to the accountability literature review, the Western understanding of accountability did not fully correlate within the Eastern context, especially in the Muslim countries, such as Libya. This is due to the differences in economic, social and cultural aspects of the different settings. In a country such as Libya, the strong social relations influence how accountability is constructed and construed. The combination of Islamic values and Arab culture, as elements of the social network, resulted in the establishment of personal values and beliefs that affected the accountability process. According to Abdul-Rahman and Goddard (1998) and Lewis (2001), in the Islamic societies, the secular is included within the sacred. The daily practice of Islam (such as praying five times a day), strengthens the influence of Islam on people's relationships with Allah, themselves and others. These relationships involve providing and demanding accounts.

Due to the influence of religion and other belief systems in the shaping of cultural values, in the context of this thesis, investigation of the influence of religion on auditing performance is a critical issue. This study gives consideration to the influence of religion, particularly Islam, which is considered to be the most important cultural factor that impacts all components of the accounting profession (Lewis 2006 and Belkaoui 1990). Gambling, Jones and Abdel-Karim (1993) reviewed accounting in an Islamic religious framework in their book Accounting, religion and society. They explained how Islam would (or might) affect the functioning and practices of accounting, business and finance, were they to comply with the precepts of Islam. They concluded that a relationship exists between accounting, faith and religious values that can shape a specific accounting system for the adherents of a particular religion. The consideration of Islam as a religion is significant because it is a particular case illustrative of the potential influence of religion on auditing practice and the values that drive it and shape the accountability relations (Lewis 2006).

Muslims consider humans to be vicegerents of Allah (God) on earth (Sadeghzadeh 1995). Accountability, in Islam, is a basic ingrained concept and forms one of the core concepts of belief (i.e. the belief in accountability on the day of Judgement) (Khir 1992). Man is thus created as a trustee and accountable for all his actions. Lewis (2001) argued that accounting in the broader sense, is central to Islam, since accountability to Allah and the community for all activities, is paramount to a Muslim's faith. According to Sadeghzadeh (1995), there are at least three factors that influence Muslims to fulfil their obligations, these are:

1. "Self control mechanisms or conscience: a Muslim feels himself in the presence of Allah at all times. This is operationalised through continuous Islamic teachings and education.

2. Public control through the institution of *Amr Bil Ma'roof* (commanding others to common good) and *Nahy Anil Monkar* (preventing others from doing bad deeds). According to this institution commanding others to do good actions and preventing them from doing bad actions is an important duty of any Muslim.
3. State control. Control is an important duty of the Islamic State. The Islamic State exerts its control through an official body called the Hisba Agency" (p. 155).

Consequently, Muslims are required to act according to Allah's commands, at all times and in all aspects of his life (Nasrabadi 2006). The auditors in an Islamic society are not only accountable for their actions at a human level (clients, shareholders, society and colleagues), but also at a spiritual level (Angels recording every deed to then be given to Allah on the day of judgement). Based on that, the auditors in Islam should be motivated to perform excellent professional auditing services, as they hold the trusteeship of Allah in their profession. This is epitomised in the saying of Prophet Muhammad (peace be upon him): "Each one of you is a guardian and each guardian is accountable for everything under his care" (Al-Sharawi 2005).

Thus in Islam, work is considered as worship. This deep ingrained belief in Islam throughout the whole society of Libya even by lax Muslims, can be seen by examining the interviews (see section 7) and dialogue with Libyan Muslims. This deep effect of religion over the whole society is almost non-existent in western secular societies where state and religion have been successfully separated. Thus the majority of research conducted on the expectation gap had not included anything pertaining to religion as this was viewed as being irrelevant to the research.

The importance of research into the audit performance gap and its relationship to accountability is presently being undermined. Especially after the waves of corporate failures, audit scandals and outright dishonesty of accountants that has increased of late. The extensive lack of confidence in the quality of accounting and auditing, as a result of the recent accounting disasters, has given rise to strong demands for further study into the AEG within an accountability framework that considers the social environment of the country where the research is being conducted. Such studies strive to raise professional performance, improve regulations, and implement a sustainable code of ethics which fits the social needs of the country being studied, in this case Libya.

3.8. Summary

Various aspects of the accountability relationship have been discussed throughout this chapter. These discussions included definitions and a number of meanings attached to the term accountability; some important aspects of accountability such as a theoretical model and the codes of accountability. This chapter linked the audit performance gap and the accountability of auditors and presented this relationship as the theoretical framework of the study. Also, the chapter provided some articles of Libyan laws that form the accountability framework of Libyan auditors. Moreover, the chapter details some background about Islamic accountability that may exist in Libya.

Chapter Four:

Methodology and Method of the Study

4.1. Introduction

In order to achieve the objective of this thesis, it is important to identify the theoretical perspective adopted and select an appropriate research method. This chapter seeks to address the issues of the research methodological and theoretical framework of the study. Following this introduction there will be the following main sections: Section 4.2 discuses the choice of paradigm. Section 4.3 discuses social science paradigm. Section 4.4 discuses qualitative and quantitative methodologies. Section 4.5 presents the framework of social science. Section 4.6 explores the nature of the current research and the choice of methodology. Section 4.7 highlights the research method. Section 4.8 provides definition of ethnography. Section 4.9 explains the appropriateness of ethnography to this study. Section 4.10 provides an explanation of the techniques of collecting data. Section 4.11 describes the process of data analysis. Section 4.12 is a summary.

4.2. The Choice of Paradigm

The term paradigm (models, prototypes) is utilised extensively in academic research and can have diverse implications in alternative contexts. The term paradigm was projected for the first time by Thomas Kuhn who stated that paradigms are ‘universally recognised scientific achievements that for a time provide model problems and solutions to a community of practitioners' (Kuhn 1970, p. viii). The concept of paradigms in social science has been much discussed in literature (e.g. Burrell and Morgan 1979; Morgan and Smircich 1980; Morgan 1983; Tomkins and Groves 1983; Morgan 1988; Guba and Lincoln 1994 and Lincoln and Guba 2002). Paradigms offer a theoretical model comprising of an acknowledged set of theories, methods and ways of defining data (Hussey and Hussey 1997).

According to Chua (1986) and Gummesson (1991), the term paradigm could be defined as "the mental window through which the researcher views the world" (Bailey 1978, p. 18) or as "a basic set of beliefs or assumptions that guide researcher inquiries" Creswell (1994 p. 74). In order to dispel the ambiguity and clarify it, Morgan (1979) suggested that the term paradigm can be utilised at three different levels: First, at the philosophical level, it can be used to reflect elementary beliefs about the world. Second, at the social level, it can be used to stipulate guidelines about how the researcher should manage his or her research. Third, at the technical level, it can be used to define the methods and techniques which, ideally, should be adopted when conducting research.

Paradigms can be considered as vital for research methodology (Neuman 2000). However, there are a number of associated factors that influence the selection of an appropriate research paradigm. Burrell and Morgan (1979), identified four factors regarding the theoretical foundations of research. These factors are:

- Ontology.
- Epistemology.

- Human nature.
- Methodology.

Clearly identifying these factors, helps to develop consistency amongst them; it also assists with identifying the nature of evidence needed to achieve a research project's aims and the most suited research methods for the acquisition of that evidence. These factors have direct implications on the research methodology adopted, the procedure in which investigations are carried out and the way in which knowledge about the social world is gained.

4.3. The Nature of Social Science

The understanding of the 'how' and 'why' of actions that happen in the real world, include accepting, consciously or unconsciously, approved assumptions about the nature of social science and the nature of society. According to Burrell and Morgan (1979) and Chua (1986), social science researchers, including accounting researchers, approach their subject using explicit or implicit assumptions about the nature of the social world and the way in which it can be investigated. These assumptions are related to ontology, epistemology, human nature and methodology. Burrell and Morgan (1979) developed the plan to analyse assumptions about the nature of social science that includes:

- The ontology of the social world (Nominalism vs. Realism).
- Epistemology (Anti-positivism vs. Positivism).
- Human nature (Voluntarism vs. Determinism).
- Methodology (Ideographic vs. Nomothetic).

These assumptions represent contrasting aspects of the subjective-objective dimension. These are shown below in Figure 4.1 as classified by Burrell and Morgan.

Figure 4.1: Assumptions about the nature of social science

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Burrell and Morgan (1979) projected different assumptions regarding research ontology, epistemology and human nature. These assumptions have direct ramifications for the selected research methodology, the way in which study is conducted and the way of acquiring knowledge of the social world. The next sections provide clear descriptions of these assumptions.

Ontology has been defined as "the study of being" (Crotty 1998, p. 10). The ontology assumption provides an explanation of the nature of the reality to be investigated. The ontological debate is related to the make up of reality, and calls into question whether reality actually exists in hard, tangible and relatively changeless structures (realism), or whether it is the creation of individual consciousness (nominalism) (Crotty 1998 and Burrell and Morgan 1979).

According to Morgan and Smircich (1980), ontological assumptions can be separated into six basic sets, or varied ways of viewing the real world:

- Reality as a concrete, factual structure.
- Reality as a concrete process.
- Reality as a contextual field of information.
- Reality as symbolic discourse.
- Reality as social construction.
- Reality as a projection of human imagination.

Hence, the ontological assumption concerns the examination of the relation between the researcher, and the thing being researched. The horizontal dimension (subjective-objective) is a reference of the two extreme positions on the ontology assumption. These are nominalism and realism. In the nominalist position, Burrell and Morgan argue that there exists no real structure to the world (consisting of names and labels) and that the social world is just a product of each individual consciousness. The position of realism is that the social world is extraneous to individual cognition, and is ordered and consists of hard, tangible and relatively immutable matter. In other words, the world exists severally of the researcher's perceptions. Realists see reality as concrete matter, whereas nominalists comprehend reality as an actuation of human imagination (Morgan and Smircich

1980). The act of attaching meanings to reality, whether it is from realist or nominalist point of view, brings the issue of epistemology to light.

Epistemology is an assumed knowledge that the researcher and the object being researched are actively linked so that knowledge is created and obtained from interactions between the researcher, as investigator, and the subject being researched, as a respondent (Guba and Lincoln 1998). Epistemology is concerned with the nature and concept of knowledge and how one might begin to comprehend the world and convey this knowledge, and how it can be determined as ‘true’ or ‘false’ (Otley and Berry 1994 and Crotty 1998). Crotty (1998) deems knowledge as being created "from interactions between human beings and their world, and developed and transmitted within an essentially social context” (p. 42). The epistemology assumption refers to "the theory of knowledge embedded in the theoretical perspective and thereby in the methodology" (Crotty 1998, p. 3). Within such epistemology, individual values inevitably influence any investigation so that the relationship between the two is intrinsically subjective (Toma 2000) in which the researchers' own values and biases cannot be detached from the inquiry (Schwandt 1994). The selection of research methodology and methods depends to some extent on the epistemological position adopted.

Different epistemological positions have been identified in social science literature which include positivism and anti-positivism (Burrell and Morgan 1979), positivism, functionalism and insight (Otley and Berry 1994), and objectivism, subjectivism and constructionism (Crotty 1998). Objectivist epistemology is based on the concept that knowledge exists independently of any cognitive state. Subjectivism, in contrast, is based on the concept that knowledge is compelled on the object by the subject (Crotty 1998). Constructionist epistemology rejects the perspective that knowledge objectively exists or is subjectively imposed, and reasons that knowledge is constructed (Crotty 1998). Integrated in these and other epistemological positions are different approaches for carrying out research and acquiring knowledge.

As observed in Figure 4.1, the two extreme positions on the epistemology assumption are anti-positivism and positivism (Burrell and Morgan 1979). For anti-positivism, Burrell and Morgan reasoned that the social world is relativistic and can only be understood by persons who are implicitly involved in the activities that are to be researched. The positivist position seeks to explicate on and predict what occurs in the social world by looking for regulations and causal relationships between its constituent factors.

The human nature assumption pertains to the relationship between human beings and their environment (Burrell and Morgan 1979). The two extreme positions of human nature assumptions are determinism and voluntarism. Determinism proposes that human beings and their experiences are determined by the environment. Conversely, the voluntarism view proposes that humans are autonomous and free-willed beings, that control their environment, regulate their own actions and, as a consequence, create their own environment.

The three assumptions outlined above (ontology, epistemology and human nature) have direct implications for any methodology selected in any particular study.

Burrell and Morgan (1979) state that: “different ontologies, epistemologies and models of human nature are likely to incline social researchers towards different methodologies” (p. 2).

Methodology refers to "the overall approach to the research process, from the theoretical underpinning to the collection and analysis of the data" whereas method refers to "the various means by which data can be collected and/or analysed" (Hussey and Hussey 1997, p. 54). Methodology, therefore, is a research design that leads researchers in selecting the techniques or procedures required to gather and analyse data pertaining to their research (Crotty 1998). Berry (1983) has stated that "methodology is not just about data collection and the rules for evidence; in its larger conception it is about the nature of explanation and the means by which explanations are produced" (p. 47).

The subjective-objective assumptions about methodology are the ideographic and nomothetic approaches. The ideographic approach to social science is based on the position that one can only understand the social world by acquiring first-hand knowledge of the subject being researched, as contrasted to “the nomothetic approach to social science emphasising the importance of basing research upon systematic protocol and technique” (Berry 1983, p. 6). “It is epitomised in the approach and method employed in the natural sciences, which focus upon the process of testing hypotheses with scientific rigour” (p. 6). Upon adopting the methodology, data can be collected by using protocols and procedures that are derived from natural science (nomothetic approach) or through emphasising the penetration of meaning systems (ideographic approach) (Burrell and Morgan 1979 and Hopper and Powell 1985).

There are various methods by which data can be obtained and/or analysed: observations, questionnaires, interviews, textual analysis and case studies are the main data collection methods. Adopting any one of these techniques depends upon, among other things, the research ontological, epistemological and methodological assumptions. These assumptions have led to the appearance of different schools of social science in the past few decades (e.g. positivism, functionalism, phenomenology, interpretivism, etc.) (Roberts 2002).

4.4. Qualitative and Quantitative Methodologies

The accounting literature review has showed the use of qualitative and quantitative research methods. The use of any one of these research methods depends highly upon the nature of the research and the choice of epistemological and ontological assumptions. Qualitative research has been defined as "An approach to the study of the social world which seeks to describe and analyse the culture and behaviour of humans and their groups from the point of view of those being studied" (Bryman 1993, p. 46). Holloway (1997) defines qualitative research as: “A form of social inquiry that focuses on the way people interpret and make sense of their experiences and the world in which they live” (p. 2).

Qualitative research has been titled by other names, such as: ‘Naturalistic inquiry’, ‘Field research’, ‘Case study approach’, ‘Interpretive (or Interpretative) research' and the general name 'Ethnography'. Qualitative researchers are sometimes regarded as 'story tellers' because their conclusions are often presented in the form of a story line. (Holloway 1997).

Furthermore, Denzin and Lincoln (1994) specify qualitative research as follows: "Qualitative research is multi-method in focus, involving an interpretive, naturalistic approach to its subject matter. This means that qualitative researchers study things in their natural settings, attempting to make sense of or interpret phenomena in terms of the meanings people bring to them. Qualitative research involves the studied use and collection of a variety of empirical materials - case study, personal experience, introspective, life story, interview, observational, historical, interactional, and visual texts - that describe routine and problematic moments and meanings in individuals' lives. Accordingly, qualitative researchers deploy a wide range of interconnected methods, hoping always to get a better fix on the subject matter at hand" (p. 2).

This definition concludes that the qualitative research method is appropriate for study in a naturalistic setting; it identifies the concept of interpretation of human actions, and that data collection may be from various sources. Based on this conclusion, the qualitative method has been selected for the methodology of this research. This will be explained in more depth in the relevant section of this chapter.

Quantitative researchers are inclined to view qualitative research as an exploratory means of conducting social investigations. They see it as a purposeful tool to use at the preparatory stage of a research project (Bryman 1993). Stake (1995) separated the differences of qualitative and quantitative methodologies into three distinct areas.

1. The distinction between explanation and understanding as the purpose of the research. Qualitative research deals mainly with understanding the complicated interrelationships between different variables, while quantitative researchers are concerned about explanation and control.
2. The second issue of divergence is related to the differentiation between knowledge discovered and knowledge constructed. Qualitative researchers believe that knowledge is constructed rather than discovered (Stake 1995). Advocates of qualitative research view this methodology as an effective tool to disclose actors' meanings and interpretations.
3. The difference between the personal and impersonal role is the third major distinction between qualitative and quantitative methodologies. The role of the researcher varies in both quantitative and qualitative research. The influence of researchers on the research setting is constricted in quantitative research, while it is more personalised in qualitative research.

Stake stated that, "All research depends on interpretation, but with standard quantitative designs there is an effort to limit the role of personal interpretation for that period between the time the research design is set and the time the data are collected and analysed statistically - sometimes thought of as a 'value free' period. Standard qualitative designs call for the persons most responsible for interpretations to be in the field, making observations, exercising subjective judgement, analysing and synthesising, all the while realising their own consciousness" (Stake 1995, p. 41).

Creswell (1998) stated that "quantitative researchers work with a few variables and many cases, whereas qualitative researchers rely on a few cases and many variables" (p. 15). Furthermore, Bryman (1993) provided a summary of the fundamental dimensions on which qualitative and quantitative research differ. Table 1 summarises these differences.

Table 4.1: Some differences between quantitative and qualitative research

Dimension	Quantitative	Qualitative
Relationship between researcher and subject	Distant	Close
Researcher's stance in relation to subject	Outsider	Insider
Relationship between theory/concepts and research	Confirmation	Emergent
Research strategy	Structured	Unstructured
Scope of findings	Nomothetic	Ideographic
Image of social reality	Static and external to actor	Processual and socially constructed by actor

This Table shows the relationship between the qualitative researcher and the research is close, and that the researcher is seen as an insider. Bryman (1993) recommended that qualitative researchers can better view the research topic by engaging with their subjects more closely, thus becoming an insider within the research setting. By contrast, the relationship between the quantitative researcher and the subject is usually brief or non-existent, where the researcher is seen as an outsider (Bryman 1993).

The function of theory and concepts within the two approaches is disparate. Theories are the initial objectives for investigations within the quantitative approach, whereas formulating a theory is the interest of qualitative research (Bryman 1993). Research methods used in quantitative research tend to be more structured than those used in qualitative research. Quantitative research is structured in that sampling determination and data taking instruments are created prior to the data collection process (Bryman 1993). In respect to research findings, a differentiation is made between quantitative and qualitative methodologies in regards to nomothetic and ideographic modes of reasoning. This is clarified by Bryman (1993) who stated that "A nomothetic approach tries to establish general law-like conclusions which can be deemed to exist irrespective of time and place; an ideographic approach obtains its results in specific time-periods and locales" (p. 100).

The reality quantitative researchers impart is static and exists independently of the researcher. It is based on the idea that there is only one social reality in existence. Alternately, qualitative researchers are of the opinion that social reality is constructed by the role player and can be altered. Qualitative researchers try to maintain the many realities that may exist.

4.5. The Framework of Social Science

Burrell and Morgan (1979) formulated a framework for social science research. It is this framework has been utilised by many researchers. Burrell and Morgan (1979) put forth that assumptions about the social sciences can be thought of in regards to what they labelled the subjective-objective dimension, and suppositions about the nature of society in regards to a regulation-radical change dimension. They have divided assumptions about society into those that have typified society as orderly and those that have typified it as subject to fundamental conflict. The two primary sets of assumptions about the nature of social science and the nature of society create four different paradigms. A matrix is developed based on these two sets of assumptions, which is basic and suffers from limitations (see for example Chua 1986), but commonly used and referred to in literature. The matrix has two separate dimensions: the subjective-objective dimension and the regulation-radical change dimension. Each square of the matrix represents one of four paradigms.

The framework in Figure 2.4, developed by Burrell and Morgan, categorises these paradigms as:

- The functionalist.
- The interpretive.
- The radical humanist.
- The radical structuralist.

They suggest that these four paradigms can be used for the analysis of a broad range of social theories.

Figure 4.2: The four paradigms for the analysis of social theory

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As shown in the above figure, the functionalist paradigm is situated in the bottom right-hand side. It puts forth an objective position in regards to the assumptions of social science and the regulation dimension in regards to the assumption relating to the nature of society. Functionalists are concerned about exploring the social order from a realist, determinist, positivist and nomothetic point of view. The paradigm is committed to the utilisation of natural science methods to confirm or falsify theories and to identify causal relations.

According to Burrell and Morgan (1979), the functionalist paradigm "represents a perspective which is firmly rooted in the sociology of regulation", "It is characterised by a interest for providing an explanation of the status quo, social order, consensus, social interaction, and solidarity, need satisfaction and actuality"

(p. 25-26). In more generic terms, functionalism is of a realist-objective orientation, where rules, regulations and solid facts exist. This paradigm addresses the social science from an objectivist viewpoint (realism, determinism, positivism and nomothetic). Functionalists perceive accounting phenomena as solid real-world relations containing regularities and causal relationships that are conformable to scientific explanation and prediction (Belkaoui 1997). Theories formulated under this paradigm are taken to be value free and used to understand and anticipate behaviour.

The interpretive paradigm in the Burrell and Morgan framework is situated in the bottom left-hand side. From this place, it assumes the subjective dimension with regards to the assumptions of social science, and assumes the regulation position with regards to the assumption about the nature of society. The focus under the interpretive paradigm is moved from the natural sciences, with their emphasis on the research of the external process in a physical world, to the cultural sciences, with their emphasis on the research of the internal process of the human psyche. As described by Parker and Roffey (1997), "interpretive knowledge seeks to identify what the participants in any organisation, grouping or interchange are doing when they act and speak in their normal course of interaction." (p. 216). Burrell and Morgan (1979) stated that: "the interpretive paradigm is informed by a concern to understand the world as it is, to understand the fundamental nature of the social world at the level of subjective experience. It seeks explanation within the realm of individual consciousness and subjectivity, within the frame of reference of the participant as opposed to the observer of action" (p. 28).

The interpretive paradigm seeks for an explanation within the scope of individual understanding and subjectivity. More simply put, the interpretive paradigm is where implicit rules and regulations impacting relations in society can be expected, but where a subjective element is considered when looking at how people interpret those same rules and regulations. This is very much a behavioural aspect, and as such, depends upon many factors that may affect each person's perception of those same facts.

According to Gioia and Pitre (1990), the interpretive paradigm opinion is that "people socially and symbolically construct and sustain their own realities" (p. 588). Therefore, the purpose of interpretive research is to ameliorate understanding of the underlying meanings of people's actions. Consequently, a mutual communication and influence is required for the process of understanding. Burrell and Morgan (1979) defined interpretive research as "intends to understand individual subjective experience involved in the preparation, communication, verification and use of accounting information" (p. 31).

With the radical change humanist paradigm, humanists are interested with how people set up and maintain a form of social organisation in which they live, and try to modify it. Their purpose is to understand the relation between consciousness and the external world. As with the interpretive paradigm, the humanist paradigm puts emphasis on how reality is socially created and sustained, but links this to how people become confined within the bounds of realities. The radical change humanist paradigm, as illustrated in the Burrell and Morgan framework, is situated in the upper left-hand side. The paradigm takes the subjective position about the supposition of social science and assumes the radical change perspective with respect to the nature of society. This paradigm “is defined by its concern to develop sociology of radical change from a subjectivist standpoint” (Burrell and Morgan 1979, p. 32). It views the social sciences from a subjective point of view, which inclines to be nominalist, anti-positivist, voluntarist and ideographic.

The radical structuralist paradigm is moved by radical change and objectivism. Structuralists focus on structural relationships within the social world. They concentrate on the fundamental conflicts which are the result of, and reflected in, structures and relationships (Hopper and Powell 1985). This paradigm is situated in the upper right-hand side in the Burrell and Morgan framework. It occupies the objective position about the supposition of social science and the radical change perspective with respect to the nature of society. This paradigm “is committed to radical change, emancipation, and potentiality, in an analysis, which emphasises structural conflict, modes of domination, contradiction and deprivation” (Burrell and Morgan 1979, p. 34). It approaches these general concerns from a position which tends to be realist, determinist, positivist and nomothetic. Structuralist accountants possess an objective view of the social world and concentrate on contradictions and crisis created by the accounting process (Belkaoui 1997).

4.6. The Nature of the Current Research and the Choice of Methodology

The research methodology, as a "framework of the means for gaining knowledge" (Gaffikin 2000, p. 1) could then be utilised as a guideline or applied as an approach, and could be depicted as "the way in which one attempts to investigate and obtain 'knowledge' about the social world" (Burrell and Morgan 1979, p. 2). The determination of a research methodology unavoidably depends on what the researcher conceives is the nature of reality and cannot be detached from the "ontological assumption" (Creswell 1998 p. 75) possessed by the researcher.

Although utilising both quantitative and qualitative methods is achievable, the current research has adopted the qualitative approach as the researcher believes the qualitative approach allows the researcher to obtain a deep understanding of the research issue from the interviewees' account (Irvine and Gaffikin 2006). Therefore, this research has adopted the interpretive approach as a means of gaining a deeper understanding of auditors' performance in the Libyan environment.

Qualitative research methods are suitable for this study for a number of reasons, the first being because the research questions are concerned with "how" and "what".

- What is the nature and role of the auditing profession in Libya?
- How do the social factors in Libya interact with the auditors' and users' perception and behaviour?
- What are the factors that influence audit performance in the Libyan environment?

It is argued that research questions starting with 'how' or 'what' are appropriate in a qualitative research inquiry (Creswell 1998).

Secondly, the study needs to produce detailed information on the topic. Research from a quantitative perspective will not sufficiently probe the research questions to provide explanatory solutional answers for any arisen problems. Additionally, in relation to the nature of the research, it is evident that this study falls under a qualitative research category. This categorisation then determines or influences the choice of the research methodology and method. This choice is founded on the nature of the study with respect to the main assumption possessed by the researcher about the ontology and epistemology. Based on the selected methodology and the nature of the research, an ethnographic method is reasoned to be most suitable for this study. In the following section, an analysis of the methodological grounds, with respect to the nature of this study, will be presented.

The selection of one paradigm over another must be founded upon sentiment, taste, habituation and power, instead of on a rationally defensible choice (Gohonson and Duberley 2000). However, the interpretation and evaluation of those rules that give rise to different perceptions, and the AEG that is the focus of this research, fits the Burrell and Morgan interpretive paradigm.

4.7. Research Method

It was stated in the previous chapter that this research is situated within the interpretive paradigm, which is more suitable for exploratory research. Since no studies have been undertaken on the auditing performance in Libya, the main purpose of this study is to explore, investigate and provide a more comprehensive analysis about the perceptions of the associated groups (auditors, users, academics and regulatory).

For the purpose of this study, research methods refer to the assorted means by which data can be collected and/or analysed. Data can be obtained from primary or secondary sources. Primary sources refer to the data collected first-hand by the researcher, such as interviews, case studies, focus groups, observations and questionnaires. Secondary sources refer to information that is already existent, such as books, journals, company records and government publications.

As addressed in the chapter of literature review, the nature of the audit performance gap relies on how one comprehends the phenomenon. Whilst some perceive the phenomenon from the orientation of the profession or from the orientation of individual auditors, others perceive the phenomenon from the view of the users of financial statements. Regardless of the view adopted in studying the auditor performance gap, the environment within which individual auditors, the profession and users of financial statements interact, should be considered, as they shape the nature and perception of the auditing practice in a country.

As the researcher believes, the audit performance gap is not only a technical phenomenon but also a cultural and cognitive concept. In addition, it should be understood that understandings of the AEG have appeared from an intricate series of interactions between various associates within the audit environment, influenced by various factors. According to Askary (2006), there are different factors that may impact accounting in a country and each country is different and has different needs. The aim of accounting is to serve society. As a result, accounting is likely to be influenced and shaped by the different political, social, economic and religious environments in which it operates.

Thus, consideration of the environmental factors that shape the nature of auditing as practiced in the country is crucial for understanding the perceptions of the auditors' performance. Many researchers in accounting conceive that certain characteristics of the environment intrinsically present in a country, will affect the practice in the country (Haniffa and Hudaib 2007). Also, Choi and Mueller (1992), categorising the factors in the environment as internal (e.g. economic and political systems, culture, capital market) and external (e.g. colonial ties, political affiliation, influence of international accounting standards). To understand how perceptions of the Libyan accounting profession performance evolved, requires examining the different factors in the Libyan environment. In this way, audit performance becomes a representation of reality that an individual (e.g. external auditors or users of their reports) uses to arrive at a certain (satisfying or unsatisfying) level of confidence in information exhibited to them, in the situations that are presented to them.

This research principally aims to distinguish the roles users of audit reports expect external auditors to execute, investigate the perceptions of the AEG held by the users and issuers of audit reports, and ascertain factors influencing such perceptions based on the context of the Libyan environment.

To understand the nature of the AEG in the context of Libya requires looking at the various social systems that make up Libyan society, including its ideological norms and beliefs, as well as dominant cultural characteristics (e.g. ethics, morality and religion). In light of the above, this study will take into account the effects of the auditor’s local environment, including: culture, socio-economic, political, religion, authority/position, auditors' and users’ perceptions on audit performance, and other such relevant matters in Libya. Thus, an aim of this study is to ascertain whether perceptions of auditor performance gap are culturally dependent.

Exploring the concerns of this research in the quest to understand whether perceptions of the AEG are culturally dependent, necessitates application of the type of methodological approaches and methods that are susceptible to the various elements within the context being investigated. The interpretive framework based on the ethnographic approach helps achieve the aim of understanding the different concerns brought forth by this research. Burrell and Morgan (1979) state that the interpretive paradigm comprises of "…a wide range of philosophical and sociological thought which shares the common characteristic of attempting to understand and explain the social world primarily from the point of view of the actors directly involved in the social process” (p. 227).

Also, Schutz (1967) mentions that the essence of the interpretive approach, is to research the social actions of others in the inter-subjective world. A few of the characteristics of the interpretive paradigm include viewing a natural setting, studying the human tool being used, using tactical knowledge, selecting a qualitative methodology such as interviews, using purposive as opposed to random sampling, undertaking inductive data analysis, drawing focus-determined boundaries and applying results tentatively rather than generally (Tesch 1990).

In seeking to comprehend the very basis and origin of social reality, the researcher may be required to enter the research arena with preconceived ideas of the object of study, and via interaction, reinterpret, reconfirm or alter perceptions of the known based upon the newly acquired knowledge.

Hence, for the intent of this study, ideology, culture and socio-economic structures predominating in the Libyan audit environment are granted due consideration to assist in the understanding of perceptions of the audit performance gap, because each country is unique, and assuming homogeneity in auditing practice across countries is speculative. Furthermore, auditing includes the mutual relations of human nature in the process. Perceptions of various groups of users and auditors in respect to auditor performance that could have been formed by their cultural background, has to be explored. The goals of this research will therefore be targeted by taking an interpretive approach and by taking the ethnographic method.

4.8. The Definition of Ethnography

Ethnography has a long and discerned history of development from amongst qualitative methods (Sanday 1983 and Vidich and Lyman 2000). The word ‘ethnography’ consists of two components: ethno and graphy. Ethnos is a Greek word which means a people, race or cultural group (Wallace and Wolf 2005 and Prus 1996), and graphy means description. Ethnography consequently means a description of the people (Irvine 1999).

Jacob (1987) describes the role of ethnographic researchers as “seeking to describe and analyse all or part of a culture or community by describing the beliefs and arid practices of the group studied and showing how the various parts contribute to the culture as a unified, consistent whole” (p. 10).

According to Willis and Trondman (2000), ethnography is an suitable method for research in the “social sciences and the humanities, especially to: sociology in all its branches, anthropology, history and human geography, linguistics, education and pedagogy, the arts, health studies, media and cultural studies" (p. 3). Also, this method has been increasingly used in accounting research (Kaidonis 1996; Mir 1998; Wahyudi 2004 and Helen and Gaffikin 2006).

Brewer (2000) stated that “Ethnography is the study of people in naturally occurring settings of 'fields' by means of methods which capture their social meanings and ordinary activities, involving the researcher participating directly in the setting, if not also the activities, in order to collect data in a systematic manner but without meaning being imposed on them externally” (p. 10). Therefore, in order to comprehend the social meanings and actions of people in a setting or field, the ethnographer has to directly participate in their day-to-day lives for a prolonged period of time in order to watch, listen, ask questions, and to gather whatever data is available, letting him or her gain a more profound understanding of the subjects under investigation (Hammersley and Atkinson 1983). It is cited can be referred to as a sub-discipline known as 'Descriptive Anthropology' which is the "social scientific description of a people and the cultural basis for their peoplehood" (Peacock 1986, p. 25).

There is no broad disagreement, but also no concordance of opinion among academics about what ethnography is (Hammersley and Atkinson 1983). So while ethnography may briefly be described as "cultural reconstruction" (Goetz and LeCompte 1984, p. 3), some see ethnography as both a product and a process of field research (Tedlock 2000; Boyle 1994 and Goetz and LeCompte 1984), with emphasis on the centrality of extended involvement and observation (Sanday 1979). However, for others ethnography may be specified as either 'big' or 'little' ethnography. The former is comparable to qualitative research as a whole, where as the later is just confined to field research (Brewer 2000).

For some, the term 'ethnographic research' is able to be interchangeably used with the terms 'naturalistic' or 'interpretive' research (Miller 1994), where as for others, ethnography only means fieldwork, or in more precise terms, 'the result of field work' (Van 1988, p. 4). Thus, doing fieldwork is regarded as a hallmark of ethnographic research (Agar 1980 and Boyle 1994).

From the methodological point of view, it is proposed that ethnography is more than a way of collecting data and may involve both method and methodology (Brewer 2000).

4.9. Appropriateness of Ethnography

The literature review affirms that ethnography is a favourite method frequently used in sociological and anthropological studies of groups such as communities, tribes and clans, associations and organisations, as it offers a wealth of detail and a depth of knowledge of culture that is often deficient in other methods of social research (Taufu'i 1996). Ethnography has recently been extended to be used as a useful method (or perhaps methodology) in other fields.

The choice of ethnography for this study is justified on the basis that culture is central to ethnographic research (Willis and Trondman 2000; Wallace and Wolf 2005 and Irvine and Gaffikin 2006). For this reason it allows the researcher to investigate, explore and interpret the effect and influences of the Libyan culture on professional auditing practice in the Libyan environment which is one of the objectives of this research.

Another reason affecting the choice of ethnography as a relevant method for this study is that the interpretative nature of ethnography and its data collection methods, such as interviews, allowed communication with people in the accounting field so as to interpret "the meanings and perceptions of those actors who develop and use accounting techniques or systems in particular settings" (Miller 1994, p. 15). Most of the research previously carried out on the AEG was quantitative and undertaken in developed countries. There is no ethnographic study on the AEG phenomenon in any Arab country such as Libya, where ideology plays a critical role in the society. Previous empirical studies have been conducted mostly in liberal market economies of developed countries, with few studies conducted on developing countries. These studies have been mainly functionalist studies based on surveys and statistical analysis. In addition, there is a gap in the existing literature review regarding the Libyan accounting profession. One of the objectives of this study is to carry out research previously unconducted in this field to help fill this gap.

Ethnography has gained acceptance, as an interpretive science utilising social psychological theory as a means of portraying and understanding the process of comprehending the characteristics of a social phenomenon. The ethnographic process necessitates prolonged observation of a cultural, social group or system through participant observation where the researcher is surrounded in the daily lives of the people or through personal interviews with members of the group. The researcher studies the significance of behaviour, language, and interactions of the culture-sharing group (Creswell 1998). Hence, this study utilises the qualitative interpretive ethnographic approach; unstructured face-to-face interviews and official documentation are the primary resources used to assist in interpreting and understanding the phenomenon under investigation.

The choice of ethnography over other research methods is justified on the grounds that the nature of this study is to explore an issue in the cultural arena of the accounting profession in Libya. The essence of this study is to provide an interpretation of the Libyan culture in regards to its influences and impacts on the practices of the accounting profession. An ethnographic method is considered to be suitable because the main objective of ethnographic research "is to discover and describe the culture of a people or an organisation" (Dobbert 1982, p. 39). It is also because the concept of culture is fundamental to the ethnographic study (Willis and Trondman 2000). In addition, the definition of ethnography is always affiliated with the cultural concept (Goetz and Hanson 1974 and Wolcott 1990).

The notion of a naturalistic or interpretive methodology is considered to be in concordance with the nature of the ethnographic method. Therefore, because this research is methodologically naturalistic or interpretive in nature, the ethnographic method is more suitable for this study.

4.10. Data Collection and Analysis

An important objective in qualitative social research is to gather the most meaningful data possible. This involves collecting a wide and diverse range of data over a relatively lengthened period of time. The most useful data collection technique in this study is the use of interviews, which will be discussed in the next sections.

Interviewing is an extensively used technique for the collection of data in sociology (Burgess 1984). As such, the most suitable qualitative method in studying perception of participants under ethnography would be by means of personal interviews, a conversational skill of asking questions and listening to the answers to bring forth the perceptions and attitudes of participants (Morse 1994). Interviews offer ethnographers a fantastic chance to learn about different points of view by acquiring a personal understanding of the interviewee's social world (Irvine 1999). Personal interviews allow both the interviewer and interviewee to instantly clarify any misunderstandings, misconceptions or confusion that may exist, thus enabling the former to ensure that all needed data is collected accordingly.

An interview can be categorised as structured, unstructured or semi-structured. A structured interview is where the content is prepared in advance. The disadvantage of this is that it lacks the flexibility required to collect data according to the interviewee’s responses. This is due to the static nature of the chronological questioning in which all respondents are subjected to. By following a pre-selected structure, researchers are unable to probe any interesting points or ideas which may arise during the course of the interview. This could include basic data which may be essential for ethnographers. The advantages of a structured interview is that the interviewer can have a preconceived idea of what information he or she wishes to extract during the course of the interview and then construct a series of questions designed to extract the desired data.

Unstructured interviews do not adhere to any specified format with the researcher using only a lax guide for the interview. Specific data that is desired by the researcher is anticipated. It is gathered by asking general questions (in no particular order or informally), or by speaking to the interviewee according to the context of the interview and the answers provided.

The semi-structured interview is a hybrid between a structured and unstructured interview. It consists of ‘closed’ questions which is typical of a structured interview as well as ‘open’ questions. For example, the same questions may be used for all respondents, but the order in which they are asked may change according to the individual's reaction. Or a basic question structure is prepared, with time to ask open questions based on the responses of the closed questions.

Most researchers opt to use unstructured or semi-structured interviews. Burgess (1982) argues that unstructured interviews or 'conversation' "provide the opportunity for a researcher to probe deeply, to uncover new clues, to open up new dimensions of a problem and to secure vivid, accurate, inclusive accounts from informants that are based on personal experience" (p. 107).

In general, interviewing as a method enjoys several advantages according to Hussey and Hussey (1997) such as "permitting the researcher to ask more complex questions and to ask follow-up questions, which is not possible in a questionnaire… it permits a higher degree of confidence in the replies than questionnaire responses and can take account of non-verbal communication such as the attitude and the behaviour of the interviewee" (p. 158). According to Walliman (2001), "It is a flexible tool with a wide range of application" (p. 238).

Because this study uses the ethnography method, which is reliant on interpretation of the environment related to the subject matter and the perceptions and attitudes of participants, unstructured interviews with open-ended questions are well suited in achieving the objectives of this study. It allows respondents to easily express their opinions on the most relevant issues, rather than being confined to answering a series of questions which may be of less or no importance to them.

The unstructured interview was facilitated by utilising a pre-designed interview guide, which included broad topics and a few direct questions. This was useful in gathering basic as well as comprehensive and sophisticated information about the research questions.

The interviews consisted of a few opening questions and a number of prompting and probing questions. The opening questions primed the mood of the interview, gradually engaging the respondents for more in depth questioning and discussion, while also according the interviewer with an insight into the respondent's personal background. Prompting questions were used to stimulate interviewees to continue talking on particular issues, while probing questions were used to elicit more elaborate answers.

The interviews covered issues pertaining to comprehending users' and auditors' general perceptions about auditors' personal qualities, the role and status of the profession and some other factors such as the legal system, the regulatory framework and the influence of culture. As a researcher, it is worth mentioning that my position as a member of the LAAA and as a lecturer in the Department of Accounting in Garyounis University (a well-known university in Libya for its contribution to the development of Libyan accounting), helped me to develop favourable relationships with the people in the accounting and auditing field (see appendix A). A considerable percentage of Libyan accounting professionals graduated from this department, and the majority of my colleagues (teaching staff in the Accounting Department), were also auditors. Being a colleague and a close friend to many interviewees helped me gain access to many vital sources, and thus obtain genuine and highly beneficial information. As a colleague, I was able to relate to my interviewees on a personal level, and as such they were most cooperative and more than willing to give assistance. While most of the interviews were conducted in the interviewees' offices, some were also undertaken at their homes. For these reasons the information that has been gathered is genuine and sound.

To gain a more insightful view into the Libyan auditing profession, sample audit reports were analysed in this study. By analysing actual audit reports issued by auditors, a more profound understanding of the expectation gap could be reached. Furthermore, the data obtained from the sample audit reports, can be directly linked to the data obtained from the interviews in terms of the correspondence between what the interviewees said, and what was actually written in the report. The sample audit reports were also analysed against the standard audit report as specified by International Auditing Standards as adopted by Libya.

4.10.1. Data Collection

This section discuses the approaches and procedures undertaken for developing and conducting the interviews. Before travelling to the field of study, and in order to get some early feedback about the nature of the interviews to be undertaken, the researcher made a presentation in the School of Accounting and Finance at the University of Wollongong (UOW). In preparing the interview questions, special consideration was given to the professional regulatory environment in Libya, and the interview guide was discussed with the supervisor and several accounting PhD students.

Once the interview guide was ready, the researcher commenced the process by contacting potential interviewees, most of whom were already known, then requesting personal interviews. This was very successfully owing to past contact with the interviewees. A time and venue was organised for the interview. As further information became required, it became necessary to contact different persons. Contacting other persons was made easy via colleagues and the already established contact base. By using this extensive contact base, the researcher was able to not only contact persons at the Garyounis University, but also persons residing in other cities within Libya or working in the government sector. Although social relationships can tend to harm audit independence and the audit function, in the cause of this research, it was very advantageous in gaining unparalleled access to data unattainable otherwise.

The interviewer began by introducing himself to the interviewee if he was unknown, and thanked the respondent for agreeing to participate in the interview. The interviewer mentioned the purpose of the study and assured the respondent he would remain anonymous, and the information provided was strictly confidential. This was followed by the interviewer requesting permission to record the interview.

The introductory statement, after the initial courteous introduction, was as follows: “I am conducting a PhD research titled ‘An investigation into the audit expectation gap in Libya'. As you have knowledge and expertise in this field, I would like to interview you to acquire any information that will be useful in researching my thesis. All issues raised and mentioned within the interview are treated as strictly confidential with neither your name nor the name of the organisation you represent, being mentioned in any part of my thesis or discussed with any third party. As this interview needs to be translated into English, I request you to permit me to record this conversation to help my recollection of our discourse."

As soon as permission had been granted, the interviewer turned on the recorder. It is worthy to note that all respondents agreed to be tape-recorded without any hesitation or conditions. Such was the powerful effect of having a relationship built on trust between the interviewer and the interviewees. This trust would not have been possible without this close relationship.

The interviewer set the mood of the interview by asking the respondent to supply some background information, by asking: "First of all, could you please tell me a little bit about yourself?"

After obtaining personal details, the interviewer then proceeded with the interview by asking the respondents an introductory question related to the role of auditors as follows: "In your opinion, what is the role of the auditing profession in Libya? How and to what extent do you think this role has been fulfilled?"

This was followed by a series of prompting and probing questions, which relate to the perceptions of audit performance. They were put forward to the respondents beginning with the following question: “What are the factors that influence the audit performance in Libyan environment? Why?”

Based on the factors or the situations specified by the respondents, the interviewer then continued by choosing from a pool of prompting and probing questions, relevant to the context of the discussion.

The interviewer tried not to lead the respondents, but allowed them to express their inner thoughts in their own words in a frank manner, with minimal interference by the interviewer. Exceptions were made when clarification was needed, or when a response was unclear. Once the interviewee stopped giving new or relevant responses, the interviewer asked the following question: “Is there anything you would like to add or highlight which has not been covered in our discussion?”

The interviewer then concluded the interview by thanking the respondent with the following closing statement: “Thank you for your time and cooperation. Your openness and frankness in expressing your views is very much appreciated.”

Due to the fact that Australia is a great distance from Libya, it is considered by most Libyans as an ambiguous country. Most interviewees were very interested in learning about its life style and customs. As a Libyan citizen living and studying in Australia, the researcher was able to oblige and provide the interviewees with the information they sought. The researcher also presented the interviewees with an Australian souvenir at the end of the interview, as a token of gratitude and appreciation for their assistance. According to the conservative Libyan culture, treating people in this manner equates to showing them respect.

The 40 interviews that were conducted varied in length, ranging from one to two hours. All interviews were conducted in the Arabic language. All interviews were transcribed by the author of this thesis before being translated into English.

The process of collecting data could be divided into four major steps: data collection, data display, data reduction and conclusion (Miles and Huberman 1994). Figure 4.3 illustrates these steps and their inter-relationships.

Figure 4.3: The process of data collection

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Data was collected primarily through the use of interviews from participants within private audit firms, the Public Control Office, private investors, shareholders, academics of accounting departments and other institutions such as the Tax Office, banks, etc, and a smaller mixed group which consisted of regulator General People's Committee and members on the board of the LAAA.

The researcher developed the interview guide in order to the researcher in the data collection process. The selection of respondents was based on judgemental sampling which concentrated on quality rather than quantity. All those related to the phenomenon of the AEG were included and the number of participants was determined by interviewing as many participants as possible until it was felt that no new ideas were emerging from the interviews (Arber 1993). Thus, no more interviews were conducted after discussions with the forty respondents because no new ideas were emerging.

4.10.2. Data Analysis

There is no agreement among researchers as to the methods of analysing qualitative data (Creswell 1998). Brewer (2000) defines data analysis as "the process of bringing order to the data, organizing what is there into patterns, categories and descriptive units, and looking for relationships between them" (p. 188). Miles and Huberman (1984) state that “data analysis involves three sub-processes: data reduction; data display; and conclusion drawing/verification. Data reduction refers to the process of selecting, focusing simplifying, abstracting, and transforming the 'raw' data” (p. 21).

Marshall and Rossman (1999) organise the analytic procedures into six phases. These are:

1. Organizing the data.
2. Generating categories, themes and patterns.
3. Coding the data.
4. Testing the emergent understandings.
5. Searching for alternative explanations.
6. Writing the report.

Data in this study was collected by conducting interviews with forty respondents in the Arabic (Libyan dialect) language. Therefore, organising and presenting data in this study includes the following steps:

- Transcription.
- Translation.
- Data reduction and pattern coding.

Displaying the interview data in tables and other forms is a helpful tool to simplify, categorise, comprehend and interpret the data (Miles and Huberman 1994). Therefore, after the collection process, the data was sorted and reduced into different categories. Categorising the data assisted the researcher to acquire an understanding of how auditing services were undertaken and understood by participants. This process was coupled with reducing the data gathered into categories to help the researcher arrange the data, in order to identify easily patterns which may emerge.

Data collected from the interviews assisted in forming an understanding of the respondents' views of auditor performance in various situations. It also assisted in identifying their general position towards auditors' ethical integrity, the status of the profession and other prominent factors in the Libyan environment which have shaped the nature of the accounting profession.

4.12. Summary

The purpose of this chapter has been to describe the research methodology and method applied in this study. This chapter has described the purposes of this study, and the rationale for choosing the qualitative approach and using an ethnographic method. The choice of using the methodological approach for this study depended heavily on Burrell and Morgan's framework as discussed earlier in this chapter. This study is natural and interpretive in nature and intends to provide an interpretation of how auditing is performed in the Libyan environment. Based on the criteria of paradigm selection, the researcher chose to work within the interpretive paradigm. The selection of ethnography as a research method for this study is justified on the basis that ethnography is an appropriate method for studying culture. A description of the ethnographic research method has been provided in this chapter, and was intended to provide a background and an understanding of the research process used by this study. The interpretive characteristics of this method would allow the researcher to grasp the social meaning and activities of Libyan auditing performance in a real life context. Comprehensive interviews were considered as appropriate data collection techniques in this study and the process of analysing data has been described in the chapter.

Chapter Five:

Libyan Social, Political and Economic Environment

5.1. Introduction

As Libya has been chosen as the field study, this chapter attempts to provide a background of the Libyan environment. The purpose of this chapter is to familiarise the reader with the historical, social, political and economic aspects of Libyan society. This chapter is arranged as follows: Section 5.2 details Libya's geographical location and population constituencies. Section 5.3 provides a brief historical background on Libya. Section 5.4 explains the components of the Libyan government and politics. Section 5.5 discusses the Libyan economical system. Section 5.6 shows the effects of US and UN sanctions on Libya. Section 5.7 gives a summary of the chapter.

A brief introduction into the characteristics of the Libyan environmental factors, as far as this study is concerned, is essential, as auditing performance cannot be studied in isolation of the surrounding economic, political and social environment. These interrelated factors may influence individual values, attitudes and behaviour towards and about the accounting profession and performance relationships. Therefore, understanding these factors may help in understanding and explaining the AEG. This chapter will provide some information about Libyan economic, political, social systems and developments. The chapter starts with a description of Libyan geography and climate, and a brief historical background is presented. Also, this chapter provides an explanation of the Libyan political and economic perspectives.

5.2. Libyan Location and Population

Libya, officially titled the Socialist People's Libyan Arab Jamahiriya, is a developing Arab country. The term ‘Jamahiriya’ is translated as “state of the masses” (Library of Congress 2005, p. 13). It occupies a strategic historical and geopolitical location in the centre of northern Africa bordering the Mediterranean Sea, with a coastline from Tunisia in the west, to Egypt in the east spanning 1,900 kilometres. Other bordering countries include Sudan in the southeast, Algeria in the west and Chad and Niger to the south and southwest. Libya links both: (i) East and West Africa; and (ii) Southern Europe with the rest of Africa. Libya, as the fourth largest state in Africa, occupies approximately 1,760,000 square kilometres, one-quarter the size of the United States or one-half the size of Europe as it covers an area equivalent to France, Germany, Scandinavia and Holland combined (British Arabic Commercial Bank 2004 and Arab Data Net 2003).

Figure: 5.1- Map of Libya

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More than 90 percent of Libya's land is desert (Sahara), of the remainder, a high percentage is used for grazing, while only 1 percent is arable (United Nations 1991). Libya has a population of almost six million (Central Bank of Libya, Economic Bulletin 2004). The average annual economic growth rate has been about 6% in recent years. The average age is very young with about half the population being under the age of 15 (British Arabic Commercial Bank 2004).

Most of the population is restricted to a coastal strip along the Mediterranean, a few widely scattered oases in the Libyan Desert in the east, and the Fezzan region, in the south.

The Libyan social environment is characterised by the extended family, clan, tribe, village and Islam. These play a major role in the community's life and people's relationships (Agnaia 1997). Islam and the Arabic language are the two main elements of Libyan culture. Even though about 97 percent of all Libyans are Sunni Muslim, there are no restrictions on people of other religions practicing their own faith. Arabic is the official language although Italian and English are also widely understood, with English in particular being increasingly used in education and business transactions.

5.3. Libyan Historical Background

Libya is at the heart of a region that is steeped in history, one which dates back to the Egyptian civilisation of around 10,000 BC. Archaeological discoveries have shown evidence of Palaeolithic man in the Libyan region in the form of pictures drawn on rocks (Ghattour 2002). The words ‘Libya’ and ‘Libyan’ are derived from the name of a tribe who were known as ‘Lebu’ or ‘Levu’ and who lived in North Africa to the west of Egypt (Abuarrosh 1996). The Berbers, who originally settled Libya, are the original inhabitants of northwest Africa. Traces of Berber tribal communities have been dated to between 2000 and 1000 years B.C (Courtney-Clarke 1996).

Libya has often been invaded and occupied by other nations frequently throughout history. For a period of about 3,000 years, Libya was subject to wave after wave of military onslaughts. Early Libyan history was influenced by numerous foreign conquerors, including the Phoenicians (in around 1000 BC); the Greeks (600 BC); the Vandals (431 BC); the Ptolemies (322 BC); and the Romans (96 BC) (Fisher 1990).

The first foreign settlers were the Phoenicians, who formed their trading points on the western coast of Libya some 3,000 years ago and were the first recorded people to settle in Libya (Ghattour 2002). The Phoenicians developed three ports on the coast of Western Libya:

- Sabrata.
- Tripoli – Oea.
- Leptus Magna.

Sabrata may have been used occasionally from 8 BC onwards but there was no permanent occupation until two or three centuries later. The Phoenicians were more interested in trade than colonisation and operated in harmony with the indigenous population. The Phoenicians were the first traders who brought the Mediterranean civilisation of the first millennium BC to the North African coast.

Merchandise was transported from Libya to the central African states by two great trade routes which joined about 150 miles south of Ghadames and then continued as a single route to the River Niger. Sabrata, Oea and Leptus were preferred routes to towns which were deeper in the mainland. The shortest route from Niger to the Mediterranean was from Ghadames to Sabrata. After the decline of the Greek empire in Cyrenaica and that of Carthage in Tripolitania, the country was invaded by Romans; the influence of which is still evident today in terms of the remaining ruins of their empire at Sabrata and Leptus Magna.

Following the death of Alexander the Great, king of Macedonia in 323 BC, his vast empire, which included much of North Africa, was divided among his close generals. Egypt and its neighbours fell to Ptolemy, a Macedonian whose family ruled Egypt until 30 BC. Libya became a Roman colony from 74 BC until 422 AD. The country was gradually developed socially and economically to provide Rome with supplies to the extent that Libya became known as the granary of Rome. The Romans grew olives, barley, wheat and other cereals in addition to what they had inherited from the Greeks and the Phoenicians (Ghattour 2002).

Roman control came to an end in 422 AD at the time of the Vandals' occupation. Subsequently the land was occupied by the Byzantines who also, despite their superior administrative resources, could not establish a route in Tripolitania. The Byzantine rule ended when Arab Muslims took possession of Libya in 642 AD, bringing Islam to the region (Saleh 2001 and Shareia 2006).

Berber Tribes that lived in North Africa were deeply influenced by the Arab conquest. Steel points out that: “With the Arab conquest, beginning in 643, the history of Libya took an entirely different course. Its culture was changed and so was its language, religion and population. In a few years the Arabs were able to do in Libya and the rest of North Africa what neither the Roman nor Byzantine had been able to do in centuries” (1967, p. 191).

Muslims ruled Libya until the 16th century when the country was invaded by Europeans, however within 40 years, the European rule was overturned and Libya became part of the Othman (Ottoman) Empire's long occupation (1551-1911). In spite of this, Turkish control was minimally noticeable, with local Arab rulers maintaining the greater portion of control and influence (The Economist Intelligence Unit, 1997–1998). Under Othman Turkish rule in the 19th century, Islam became a powerful force, playing an increasingly political role (Peoples 2007).

In 1911 Italy invaded Libya, but the invasion proved not to be as easy as Italy had expected, with strong Libyan resistance occurring. It was only in 1934 that Italy succeeded in governing the whole country, setting up a new administrative system that joined together the country's three main regions, which were known as Cyrenaica (in the east), Tripolitania (in the west) and Fezzan (in the south) (Vandewalle 1998).

Despite the vast developments the Italians made to Libya's port facilities, road, rail network as well as irrigation projects, they did not provide the residents of Libya with proper education, or training in technical or farming fields. Most Libyans fought beside the British through the Second World War as they assumed that supporting the Allied Forces was the best way to achieve independence. This statement was proven true as Italy was beaten, and Libya gained independence after a short eight years (1943-1951) of being supervised by the British and French. Libya became a free sovereign country backed by the United Nation, with

King Idris Sanusi as the first king. Fezzan, Tripolitania and Cyrenaica provinces formed the Kingdom of Libya through the years (1951-1963). The existing self-ruling systems in these provinces was eradicated and replaced by a central administration in 1963 (Mahmod 2001).

Aid offered by international organisations and foreign countries became a necessity in Libya due to the harsh financial circumstances the country suffered through independence. This situation shaped Libya’s image at that time to become more of a geographical term, than an actual country (Vandewalle 1998). Benjamin Higgins headed one of the three United Nations technical assistance teams that explored Libya in 1950 and 1951 (Wright 1981). Higgins (1959), noted the poor conditions existing at the time, and made the following statement: “Libya has great merit as a case study prototype for a poor country. We need not construct an abstract model of an economy when the bulk of the people live on a subsistence level, where per capita income is well below $40 per year. There are no sources of power or mineral resources. Agricultural expansion is severely limited by climatic conditions. Capital formation is zero or less and there is no skilled labour supply or indigenous entrepreneurship” (p. 26).

Higgins (1968) later stated that: “When Libya became an independent nation under United Nations auspices at the end of 1951, the prospects for Libyan economic and social development were discouraging to Libyans and foreigners alike” (p. 819). Consequently, Libya was classified as one of the poorest countries in the world. Higgins prepared a six-year social and economic development plan which was adopted by the government soon after independence. The plan placed great emphasis on education and training, while in addition as part of a broad assistance package, the UN agreed to sponsor a technical aid programme that emphasised the development of the country's agricultural and education system.

In July 1953, Libya signed a 20-year agreement with the UK, whereby in return for the granting of a number of Libyan military air bases to the UK, Britain agreed to grant Libya an annual sum of £2.7 million to meet budgetary deficits and a further £1 million annually for economic development (Saleh 2001 and Shareia 2006). Later, in September 1953, a similar agreement was signed with the US, granting America permission to maintain military bases in Libya in return for economic aid of $40 million over 20 years. Libya also signed a friendship pact with France in 1955 and a trade and financial agreement with Italy in 1957 (Al-Sherif 2005).

Despite the stable economic growth Libya encountered back in the 1950s and early 1960s, this growth was not fast enough to move Libya from being a poor and underdeveloped country, deeply reliant on foreign aid, to a wealthy nation. The turning point for Libya was in 1959 when massive petroleum deposits were proven to exist in the country by researchers from Esso (Mahmod 2001). Concession owners undertook many commercial projects rapidly following other discoveries of petrol. Oil discovery in 1959, assisted Libya as it changed the investment atmosphere from being a very discouraging one to an encouraging one, and turned the wide, thinly populated, poor country into a rich one. Furthermore, it provided Libya with huge possibilities for development, and established the key turning point in the history of modern Libya (Wright 1981 and Vandewalle 1998).

Before the Libyan currency act of 1951, Libyan provinces used different currencies as follows:

- Egyptian pound in Cyrenaica.
- Sterling in Tripolitania.
- Algerian Franc in Fezzan.

The reason behind using Sterling in Tripolitania was the English military authorities present there (Saleh 2001 and Shareia 2006).

In 1951, a Libyan currency was created and introduced subsequent to Libya's enrolling in the Pound Sterling area. In the same year, the government of the United Kingdom announced the 'Transfer of Powers No.1, Proclamation No.220' giving the Libyan Government permission to put legislations and enforce laws needed to present the new currency. The Libyan Currency Law followed shortly on the 24th October 1951, and passed as law No.4, giving the Libyan Currency Commission the authority to regulate the nation's currency. This commission held its first meeting on the 12th February 1952 in London (Blowers and McLeod 1952) consisting of:

- A Chairman and seven members.
  - Two of which were chosen by the Libyan Government.
  - Two were chosen by the Bank of England.
  - One from the Banque de France.
  - One from the Banca d'Italia.

- One from the National Bank of Egypt.

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The Libyan Pound (LP), as the currency was originally known, was set equal to the value of one British Pound Sterling (BP). The LP remained linked to the BP until the latter's devaluation in November 1967, when the Libyan currency strengthened in relative terms and the direct link with the Sterling collapsed. Libya continued as a member of the Sterling bloc until it was expelled by the British in the aftermath of the Libyan nationalisation of British petroleum assets in Libya in December 1971. Shortly prior to this in September 1971, the currency unit itself was formally changed from the Libyan Pound (LP) to the Libyan Dinar (LYD) (Kelani 1988).

In April 1956, the first national bank in Libya was created under the name of 'Central Bank of Libya' (CBL). This bank consisted of two departments:

- The issue department
- The banking department.

The CBL announced the following points as its main objectives (International Bank for Reconstruction and Development 1960):

- To control the release of notes and coins.
- To maintain economic steadiness in Libya and the external value of the LYD by managing reserves.
- To positively impact the kingdom's status.
- To carry out the functions of government's banker and local commissioner.

On the 1st September 1969, the political system of Libya changed dramatically as military officers overthrew King Idris and took control of the government. The movement was headed by a twelve member directorate that designated itself as the Revolutionary Command Council (RCC) who then formed a new government. The Libyan revolution was exceptional for the absence of opponents and the relatively low number of arrests. Virtually no fighting or deaths were reported (Saleh 2001).

Revolutionary policies emerged as a direct result of Arab nationalism which had created internal restrictions to the development of business since laws obliged businesses operating in Libya to be exclusively controlled by Libyans. These laws influenced negatively the CBL. Accordingly, all the military organisations belonging to both the UK and US in Libya were completely discharged in March and June 1970 respectively upon Libyan government request. Arabic became the only official language for administrations and publications; furthermore, positions held by European and American experts, including accounting, were to be only occupied by Arabs, mainly coming from Egypt. The RCC in its first declaration on the 1st September, 1969 announced Libya a free and independent country, known as the Libyan Arab Republic. Muammar Al Gathafi was the chief member of the RCC, and he served as both Prime Minister and Defence Minister. After the revolution, the public sector grew rapidly due to the policies the government enforced which consequently restricted the private sector. Manufacturing, banks, insurance corporations, international trade and the majority of national trade became under the authorities of the state as nationalisation, industrialisation and community services plans were presented.

In 1976, Al Gathafi, who was influenced strongly by the revolutionary ideas of the Egyptian leader Gamal Abdal Nasser, produced a book of three parts known as ‘The Green Book’, containing his political, economic and social programmes. Al Gathafi’s pursuit of socialism as set out in The Green Book, entailed the development of Libya’s infrastructure in transportation, communications, utilities and basic services. His policies resulted in the rejection of communism and the official adoption of an Arab interpretation of socialism; integrating Islamic principles with social, economic and political reform. Libya is currently governed under a constitution adopted in 1977 by the General People’s Congress (GPC), at which point the country’s official name was changed to “The Socialist People’s Libyan Arab Jamahiriya (Kelani 1988).

The history of Libya reflects many dramatic changes in political structure and governance. Nonetheless, the modern Libyan economic environment strongly reflects the many political developments since independence in 1951 that will be reviewed in the next section.

5.4. Libyan Government and Politics

The political system in Libya between independence in 1951 and the revolution in 1969 saw the development of a representative organisation of the population in the Parliament, composed of an Upper House, known as the Senate, and a Lower House, known as the House of Representatives. The Senate consisted of 24 members, eight of whom were appointed by the king, with the others being selected by the legislative councils of the provinces. The House of Representatives, unlike the Senate, was seen as representing Libya at large; according to Zuhri (1978) one deputy would be elected for every 20,000 inhabitants.

Tribalism increased vastly in the first twenty years of self-determination. Political rights implementation in Libya suffered from common unawareness, and weak management of political parties. These obstacles encouraged electors to choose their representatives based on tribal criteria, similarly, ministers and executives were selected from famous tribes and influential families. According to Zuhri (1978) “The competition for the Representative seats was between the rich members of tribes” (p. 538). As a study by Abbas (1987) confirms, “Appointments to government jobs were made on the basis of family connection and kinship rather than qualification or experience” (p. 87).

The alteration from a kingdom to the present system began when Libya became the Libyan Arabic Republic following the Revolution on the 1st September 1969. Several actions (e.g., nationalising foreign companies that were operating in Libya, and establishing public-owned enterprises) were taken by the new administration to restructure the economy. The private sector and foreign companies disappeared and a wide range of public-owned enterprises were formed (Killani 1988).

After the revolution on the 1st September 1969, the governing authority became the Revolutionary Command Council (RCC) under the leadership of Muammar Al

Gathafi (Saleh 2001 and Shareia 2006). The Libyan constitution promulgated by the RCC defined its main objectives as follows:

- Islam is the religion of the State and Arabic is its official language.
- The state safeguards the freedom of performing religious rights.
- Social security is the basis for national unity and the family is the core of society.
- The State aims at relating socialism to social justice preventing all forms of exploitation through sufficiency in production and just distribution of national wealth. The aim is also to dissolve peacefully class differences and to move towards a prosperous society inspired by Islamic heritage as well as by endemic conditions of Libyan society.
- The State strives for the liberation of the national economy from dependency on others and on foreign influence in order to create a national productive economy based on both public and private ownership.
- Public ownership is the basis for the development of society and for the realisation of sufficiency in production, at the same time beneficial private ownership is safeguarded.
- Freedom of expression.
- Free education.
- Free medical care.
- The General People's Congress (GPC), as the leadership of political organisation, is the highest authority that exercises the action of supreme sovereignty, legislation and general policy-making.

Only one political party was established in Libya back in the 1971 which is the Arab Socialist Union (ASU) copying Egypt's Arab Socialist Union (Wright 1981). The ASU stated the following main objectives when it was established:

- Diplomatically removing class variations.
- Working for the acknowledgement and approval of socialism in Libya.
- Applying the socialist economic system to realise social fairness.

Nevertheless, the ASU was not only unacceptable in Libya due to the varying customs and culture, but it also failed to accomplish its intended goals as the political construct was founded on family and tribal relations (Zuhri 1978). Abbas (1987) remarks "the Arab Socialist Union failed to achieve its objective of providing mass participation and establishing networks between the people and the new government" (p. 92). These reasons brought the union to an end shortly after a few years. Several attempts carried out by the revolutionary government were launched to damage common conviction and devotion to traditional institutions and leaders and to offer an alternative contemporary life style for a better-informed population. Again, these attempts were to no avail as the new leadership had not expected such strong solid loyalty to tradition. These problems all originated from the reality that social dealing in Libya is based conventionally on a commitment that rises above all others which is loyalty to family and tribe (Agnaia 1997 and Peoples 2007). The accounting profession has been deeply affected by this social situation which will be discussed in the appropriate chapter ahead.

According to Ayubi (1992), it would be incorrect to expressively describe some Arab systems as 'socialist', because they have only used socialist mottos, practiced social guidelines and partially implemented the organisational constructs of Soviet and Eastern Europe countries but failed to abide by many fundamental principles of socialism. Additionally, Jaruga (1990) explains that the socialist ideology is not always present in economic and political systems that follow a socialist style.

In 1973 Al Gathafi introduced a 'new revolution' in a speech that he made at Zuwara, initiating the social and economical development of Libya known as the cultural or popular revolution (Bearman 1986). Many goals were set for this revolution:

- Eliminating waste caused by bureaucracy.
- Improving the public awareness and involvement in the sub-national parliamentary system.
- Addressing the national, political or organisational problems.

Citizens became more positive regarding the creation of basic community parliaments and people's committees countrywide. In the same way, towns, villages, colleges, workplaces, and even schools witnessed similar activities subsequent to the declaration of the Popular Revolution since everybody was empowered to form one (Library of Congress 2005).

During the 1970s, Gathafi's political economic theorising was crystallised in the publication of the "Third Universal Theory" in the Green Book, in which he promoted the design of an egalitarian and socialist society. According to Vandewalle (1998), *The Green Book* clearly represented a turning point for the Libyan revolution; it was the guideline to a new political and economic system for the country.

The Green Book was divided into three parts. The first part was published in 1976 and provides a solution to the problems of democracy. The solution suggests that in a direct democracy, people must participate in the decision-making process through "The People's Authority"; the authority of the people, as outlined in *The Green Book*, is reflected in the Libyan people's ability to exercise their freedom through the Basic People's Congresses, Popular Committees and the GPC.

The second part of *The Green Book* was published in 1978 relates to a solution to economic problems. The main concern in this part is that political freedom is meaningless without economic freedom, but the latter can only be achieved through socialism. Many social and economic changes occurred in the country after the publication of the second part; in particular, investment in private sector housing and the private building industry was ended, while wage earners were now to be treated as partners through the institution of mandatory profit-sharing and workers' committees. The change in the way in which the reward for labour was characterised, encouraged workers to become involved in the day-to-day management of the enterprise in which they worked (Abuarrosh 1996).

The final part of *The Green Book*, published in 1979, attempts to offer a solution to social problems, and deals primarily with questions relating to social equality.

As a result of this philosophy, the Government undertook many initiatives such as the nationalisation of banks, insurance and petroleum marketing companies, as well as the placing of restrictions on the activities of foreigners in commerce, industry, and the creation of public enterprises (Abuarrosh 1996).

In 1977, a new committee, the GPC, was created to take the place of the RCC and to act as the main law-making federation in Libya. The GPC is officially managed by a secretary and it still operates until the present time. The GPC embraces specific resolutions while selecting the General Secretariat and chooses members of the General People’s Committee which is the main executive body. In the beginning, all legislative and executive authorities were transferred to the GPC, which consecutively handed most of its power over to both the General Secretariat and the General People’s Committee where the General People’s Committee operates as the country’s government. Later on, both the Municipal People’s Congresses (MPC) and Basic People’s Congresses (BPC) followed countrywide. GPC receives decisions that were forwarded from regional BPCs for contemplation and operation in the entire country.

The new experiment was not without its problems. Al Shukry (1996) refers to the existence of some: “nonparticipation and abstention” (p. 181). Vandewalle (1998) summarises the process of change in the structure of Libyan political and economic systems during the 1970s as follows: “Economically and politically, the country had been thoroughly transformed by the end of the revolutionary decade (1973 - 1982): the state institutions had been put directly into the hands of the people through a system of political congress and committees, and all private economic activity had been outlawed, “the creation of this congress-and-committee system closely dovetailed with the ideological and political inclination of the regime” (p. 83).

5.5. The Libyan Economic System

Despite the limited farming areas existing in Libya, it was an agricultural nation ordinarily similar to the majority of other Arab countries. The coastal regions hosted most of the important agricultural lands used for farming. Before finding oil in 1959, doubt overshadowed economists’ expectations for the development possibilities that Libya may have in the future (El Hassia and El Megarbi 1984). Foreign aid, currency that the US and UK offered in exchange for military bases, and the support coming from the UN and other institutes became the backbone of the Libyan economy. This aid helped Libya to outlive and defeat the financially harsh years of the 1950s. The UK, the US and the UN also provided Libya with guidance, particularly technical in nature, as the country was not adequately inhabited with experienced and educated staff (Higgins 1968).

During the period 1954-1959, the population was largely engaged in agriculture and animal farming, while the industrial sector was limited by a lack of raw materials, power and capital investment. Many of the industries established prior to the discovery of oil were focused on processing local agricultural products, including flour, textiles, tobacco, footwear and clothing; the main export during this period was scrap metal salvaged from Second World War debris (Abbas 1987).

In 1959, commercial oil was discovered by the US petroleum company Esso, in the Zelten field and production began in August 1961. The discovery and export of oil initiated a profound change in the economy and heralded the start of a remarkable period of change in the Libyan economy. From this time, annual personal incomes have increased, the standard of living has improved and the Libyan economy has changed from being primarily agricultural, into one largely based on petroleum and its derivative products (Al-sharif 2005).

Oil revenues had become the main source of Libyan income. During the 1980s, oil accounted for two-thirds of the national income and nearly 99 % of export earnings. The gross domestic product increased from $1.5 billion in 1965 to $25.4 billion in 1985, and between 1965 and 1980 the economy grew at an annual average of 4.2 % (Al-sharif 2005).

The money invested by companies operating inside the country has grown significantly upon the discovery and the overseas trading of Libyan oil. Subsequently, government spending has since grown quickly, as government income depends mainly on oil profits. Owing to the amplified government expenditure, national need for goods and services rose, and credit in banks went up since individual and company fortunes expanded. Finally, loans given by Libyan banks became available to the private sector, which has made the manufacture and import of goods and services easier and at the same time, promoted the rising economical demand. According to Attiga (1972), this expansion can be confirmed through statistics that demonstrates the huge growth of bank loans from 6.031 (MLYD) million Libyan Dinars in 1956, to 88.846 MLYD in 1969.

The continuous rise of oil returns positively influenced both the GDP and per capita earnings just as the extra profit did to the nation's spending balance. Oil became the most beneficial economic investment among others as a result of the changing relative importance of economic sectors. Consequently, unlike the majority of developing countries, Libya did not undergo serious wealth formation difficulties. On the other hand, Libya suffered other emerging problems such as (Mahmud 1997):

- Excessive inflation levels.
- Shortage in qualified decision-makers and experienced workers.
- Deep reliance on oil income.

Since the revolution in 1969, Libya altered its underlying economic philosophy from capitalism to socialism. As a result, the State had come to dominate all manufacturing activities, as well as foreign and domestic retailing, plus banking and insurance services. However, whilst the Libyan economy was characterised by its central control and authoritarian policies, since 1990 a number of private companies have emerged and started to operate. This change was largely a result of the crises that the Libyan economy faced in the late 1980s and early 1990s when economic conditions and standards of living worsened as world oil prices slumped (The Economist Intelligence unit 1997-1998). This restructuring policy was initiated and regulated through the issue of Government Act number 9, dated the 5th September 1992. The act's objective was to regulate and enhance the role of private sector activities in the national economy (African Development Report 1994).

In 1992, Law No. 9, which relates to partnerships, provided a new basis for individuals to engage in manufacturing, agriculture, professional service and other ventures as sole owners or in partnerships, leading to the emergence of private businesses. Moreover, in 1997, Law No. 5 relating to encouraging foreign capital investment was enacted by the General People's Congress (GPC) (the highest legislative authority in Libya) for the purpose of attracting foreign investments and accelerating social and economic development. Libyan private sector enterprises started to emerge, and the state socialism which had been adopted was to be abandoned in favour of private organisations (Knipe and Venditti 2005).

In line with the implementation of development plans, the emergence of a private sector, the growth of foreign investment and the effect of globalisation, there is a strong demand of professional accounting. Indeed, the recent economic expansion had resulted in a growing demand for both qualified accountants and reliable accounting information. However, there were only 1369 qualified and partially-qualified accountants in Libya in 2002. For a country with a population of over 5.5 million, clearly, there is an acute shortage of qualified accountants.

5.6. The US and UN Sanctions on Libya

Ever since the terrorist attack against Rome and Vienna airports that took place in December 1985, Libya was banished from worldwide investments and relations which almost destroyed all existing development plans. Rules that incorporated economic sanctions against Libya were put into operation in January 1986 after being internationally accepted according to the International Emergency Economic Powers Act and the International Security and Development Cooperation Act of 1985. Regarding this matter, Ronald Reagan the former American president, was quoted as saying that Libya's continuous support and use of terrorism in opposition to the USA, countries and innocent individuals is the main reason behind his approval of the sanctions. All US populace and permanent inhabitants regardless of their location, as well as every company or individual actually existing in the US and all international offices of American corporations were required to follow these regulations. Moreover, extra sanction regulations were enforced on Libya on the 5th August 1996 by the USA. Those sanctions came as a part of the Iran-Libya programme to expand the level of foreign companies to include those who spend 40 million dollars or more yearly in Libya's oil and gas business. Just like Iran, more limitations of investments in Libya were made in August 2001 as the foreign company spending in Libya was lowered again to reach $20 million per annum. (Al-sharif 2005)

However, large amounts of contributed clothes in addition to food and medicine were allowed inside Libya through new modifications made to the sanctions by the US on the 28th April 1999 due to humanitarian causes. Books, movies, and other informational materials were also permitted. Later, on the 23rd April 2004, almost all sanctions made by the US against Libya were abolished as a reaction to the major actions taken by Libya to remove its weapons, whether they were chemical, biological or nuclear. President Bush, on the 21st September 2004, revoked all US sanctions which brought back commercial air services to Libya and unconstrained frozen Libyan resources estimated at $1.3 Billion. (Al-sharif 2005 and Alkawfi 2005)

Sanctions formulated by the UN against Libya were launched on the 15th April 1992, under Security Council resolutions 748 (1992) and 883 (1993). Those sanctions required Libya to turn down two citizens believed to be involved and sought after for the bombing that took place in 1988 on board of US Pan-American flight 103 over Lockerbie, Scotland. Furthermore, they incorporated a prohibition on air and weapons deals besides decreasing the number of Libyan diplomatic employees working outside Libya, restraining all Libyan assets and economic resources worldwide, and preventing Libya from obtaining any tools that can be used in oil refining and shipping (Peoples 2007).

According to a report of the impact of the UN sanctions against Libya which was transmitted by the Libyan Mission to the UN Security Council in March 2000, the sanctions cost Libya approximately $34 billion, and caused substantial damage in the humanitarian, economic and social spheres. In addition, all infrastructure development programmes and plans were adversely affected, thereby affecting Libyans' ability to achieve progress, development, stability, security and peace (Al-sharif 2005).

The Council suspended the sanctions against Libya in April 1999 after the Libyan government handed over the suspects for trial in a special court. Eventually the court found one of the two suspects guilty. In August 2003, Libya accepted responsibility for the bombing and agreed to a $2.7 billion settlement. In return, the UK and the US immediately began to push the Security Council to lift all UN sanctions against Tripoli, and Resolution 1506 (2003), adopted on the 12th September 2003, by the Security Council, was formally lifted (Shareia 2006).

5.7. Summary

The above sections provided a framework within which the study's observations are to be interpreted and understood. This chapter provided an overview of the Libyan geographical, historical, political and economical backgrounds. The influence of the early movement in the development of the country's economic and social aspects was explained. This chapter highlighted the role of foreign countries, foreign businesses, international aid and the United Nations in the country's economy. This chapter also informed of the economic development of Libyan after the discovery of oil. A description of the changes induced by the 1969 revolution which transferred Libya from a Western-orientated capitalist country to a nationalist, socialist country through the growing of government's role and intervention within the economy. The recent changes of the Libyan political and economical system were explored. Also a brief discussion of the US and UN sanctions in Libya was provided.

Chapter Six:

The Accounting Profession in Libya

6.1. Introduction

This chapter focuses on presenting knowledge regarding the accounting profession in Libya as well as associating the audit prospect and fieldwork gap theory discussed in chapter seven with the study difficulties. This chapter is arranged as follows: Section 6.2 provides a brief history of the accounting profession in Libya. Section 6.3 details the function of auditors in the private sector. Section 6.4 details the function of auditors in the public sector. Section 6.5 portrays the accounting educational environment in Libya. Section 6.6 gives a summary of the chapter.

6.2. Brief History of the Libyan Accounting Profession

It was not until after independence (1952), that business had finally recognised the presence of a local accounting profession in Libya in addition to the foreign Italian and British accounting firms (Bait El Mal et al. 1973). However the Italians, throughout the colonisation period, did not provide Libyans with any knowledge or training in business. This had negatively influenced the Libyans' educational and technical preparation and prevented them from occupying administrative positions in government and private enterprises as they were considered disqualified (Bait El-Mal et al. 1973). As a result, in the early years after independence, Libya did not witness any major development to the existing primal accounting practices. Illiteracy was extremely widespread as only 10% of the populace were literate and a very limited number of Libyans studied at university. Through that period, no proper or official accounting training was offered inside the country, which left Libya with a huge lack of employees to occupy secretarial and technical vacancies in both governmental and public institutes at the time of independence. After independence, it was clear that Libyan staff were incapable of applying Italian accounting professional standards due to their insufficient training. This encouraged Libya to adopt other country's standards. Foreign corporations, mostly American and British, working in Libya, did not encounter such difficulties as their financial statements were all certified, as obliged by their own countries' laws, through any other international accounting firm they hired.

The Libyan auditing and accounting profession finally followed the UK and US schemes for the following reasons (Buzied 1998):

- The previous existence of established British and American accounting companies in Libya.
- The first books provided for the training and education of Libyans in Accounting, were actually just Arabic translation of UK and US texts.
- Libyan accountants were trained and qualified in foreign countries.

Primarily, three main factors impacted the accounting profession (Saleh 2001 and Mahmud and Russell, 2003):

- Statutory requirements; which are the administrative laws and policies managing trade in a country.
- The influence of accounting technology, publications, and the skills and experience of knowledgeable employees or companies brought in from other countries (mainly the UK and the US).
- The positive impact of researchers' and practitioners' involvement in the accounting field in addition to the effect education has on accounting profession.

Nevertheless, no regulations or rules were set for the accounting profession in Libya during the 1950's. Therefore, accountants were able to work without any official authorisation or recognition which had led to many inconsistencies and variations in the arrangement of financial reports or certificates (Kilani 1998).

The economy grew extensively in the early 60's due to the discovery of oil which supplied the national economy with an extensive financial boost used to build up businesses and infrastructure. As a result, the need for financial expertise and required accounting services continuously grew from shareholders, creditors, corporation executives and governmental expenditure. The accounting principles and auditing standards adopted by the UK after the Second World War, significantly influence those used in Libya (Mahmud 2003). Generally, accounting principles and auditing standards employed by the UK after World War 2 are the same as those which were employed in Libya. The existing British companies and British government counsellors up until the revolution in 1969, impacted Libyan accounting standards profoundly. The State Accounting Office was directed by J.H. Newbegging, a British Chartered Accountant (Bait El-Mal et al. 1973); furthermore, the Libyan accounting education in the University of Libya (later known as Garyounis University), which is the first university founded in the country, followed British outlines and used British course books.

American impact on the Libyan accounting profession began to form early in the 1970’s as American companies, especially petroleum, began expanding their investments in Libya following the discovery of oil reserves. These companies brought with them their own accounting systems, coupled with American Accepted Accounting Principles. They hired Libyans in both accounting and managerial positions which were then subjected to these accounting systems and principles. Subsequently, the Faculty of Economics and Commerce at the University of Libya embraced the American accounting system and began teaching in accordance to the American syllabus. Both foreign corporations working inside Libya and the accounting education are clearly the most important factors affecting the accounting profession in the country (Bait El-Mal et al. 1973).

Libya, after its radical revolution, departed from UK and US accounting systems and applied a robustly different university education and qualifications to educate and qualify accountants (Ahmad and Gao 2004). Numerous Libyan accounting firms were since launched as a large number of accountants graduated from the University of Libya and foreign universities abroad.

6.3. Libyan Private Sector Audit

Libyan companies were required to supply the newly established divisions of foreign banks with their financial statements verified by independent examiners if they wish for a loan from them. Furthermore, the increased growth of accounting companies in both quantity and capacity, and the spread of irregularities in the practices of accounting and auditing, produced an enormous need for the creation of a specialised organisation that could introduce a common outline for accounting. Law No. 116 of 1973 was passed by the Libyan government to solve these issues on the 20th December 1973. This law aimed at founding the Libyan Accountants and Auditors Association (LAAA) and coordinating the Libyan accounting profession. This law is unprecedented in terms of the areas it covers; including accountancy and related topics. Eight chapters were presented in this law to manage the following issues:

1. The founding of the LAAA.
2. Enlisting of accountants.
3. Exercise of profession.
4. Charges.
5. Income and contribution finance.
6. Accountants' and auditors' responsibilities.
7. Punishments and penalties.
8. Common and intermediate provisions.

June 1975 witnessed the launching of the LAAA that declared the following major goals

- Promoting and providing higher standards for accountants and auditors at professional, intellectual, cultural and social levels in addition to controlling and enhancing their working conditions.
- Organising and taking part in conferences and seminars related to accounting, as well as staying updated with events, technical publications, seminars…etc.
- Fund raising and seeking every possible help for its members.
- Reaching an excellent level of harmony and collaboration among members.
- Protecting members' rights; and taking disciplinary action against members who infringe ethics and rules of profession.

The General Assembly of the LAAA elects a chairman and eight members for the directors' board which in turn performs an internal election to select the: vice chairman, treasurer and secretary. This board is responsible for the management of association according to Law no. 116, articles 10, 11.

According to Law no. 116, articles 36, the profession membership incorporates the following different groups:

- Working accountants and auditors list that consists of:
    - Accountants and auditors list.
    - Accountants' and auditors' assistants list.
- Non-working accountants and auditors list that consists of:
    - Non-working accountants and auditors list.
    - Non-working accounts and auditors' assistants list.

Law no. 116 and other Libyan laws connected to this area of research are broadly examined in the next section.

6.3.1. Membership and Qualification Requirements

LAAA membership is the primary requirement for accountants to be considered professionally qualified. Law 116, article No 3 stated the following five conditions for accountants who wish to register as members:

1. Libyan citizenship.
2. Holding a bachelor degree in accounting from a Libyan University, or any other accredited university or higher education organisation.
3. Have practiced any accountancy related job for five years or more in an accounting office following the acquisition of a bachelor degree.
4. Being an active citizen regarding political and civil rights.
5. Behave with good manners in addition to having a good reputation and decency appropriate to the profession.

If all those qualifications are met, an individual wishing to become a member is required to maintain the oath stating that this person swears by Allah 'God', that he/she will work with attentiveness and integrity and perform audit services in the highest degree of excellence. Vowing unto Allah according to Islam, implies that this person confirms the responsibility and answerability to Allah and His laws. This oath obliges members to honestly execute their auditing without misconduct or fraud. Auditors' responsibilities and ethics will be examined later in the appropriate chapter.

Registered accountants in the audit practicing list, are entitled to verify all companies' and taxpayers' accounts and balance statements. LAAA licensed accounting companies in Libya are allowed to provide several services like:

- Producing financial statements.
- Auditing.
- Tax services.
- Insolvency.
- Management consulting.
- System design.
- Set up.

Public accountants are chiefly engaged in auditing and the preparation of financial statements due to the lack of knowledge and skill of other services and the minor need for those services in corporations and institutes. Therefore, further services are rarely performed (Buzied 1998).

Experience stops being a requirement when the individual obtains a higher degree than bachelor that entails four or more years of learning and training. As for those who wish to practice accountancy and hold no more than a bachelor degree without any experience, they are allowed to enrol as a practicing accountant assistant. Initially, the bachelor degree holder should join a firm of accountants and start practicing the profession in order to become entitled to practice in their areas of expertise with certain restrictions. Those restrictions allow them to only verify:

- Stake-free companies' accounts and balance sheets.
- Accounts of Tax-payers' whose wealth does not go beyond 20000 LD (US$32800) or whose annual net income does not exceed 5000 LD (US$8200) and whose incomes are produced from commerce, industry and private businesses professions.
- Accounts of taxpayers whose revenue is less than 10000 LD (US$16400) and who still have to pay general income tax.

Accountants, who hold a bachelor degree and haven't practised or wish to practice accounting, register as an assistant accountant not in practice. Some accountants are practicing the profession yet don't possess a sufficient degree, those according to the LAAA, still can be listed under the title of working accountants' or auditors' as long as they are regarded as either accountants', auditors, or assistants. Years of experience are used to determine the proper title in this case as follows:

- 2 years of experience: Assistant.
- 5 years of experience in a full-time accounting job plus gaining the required grade in a special LAAA test: Accountants and Auditors.

Nevertheless, more than thirty years have passed and this test has not yet been prepared or conducted for those accountants and auditors. This strongly illustrates how the LAAA has failed to accomplish its objectives as an administrative organisation for accounting in Libya (Alhsadi 2007).

6.3.2. Auditor's Independence

Auditors must be independent and reliable; therefore, Law No. 116 article 25 of 1973 was issued to preserve objectivity by banning auditors from occupying certain positions that can affect their work such as:

- Being a minister.
- Temporarily or permanently holding any public position, with salary or payment, however, certain cases are excluded on conditions explained by law.
- Practicing any other income generating work.
- Involving in dealings that are non-harmonious with the profession.

Members are also prohibited by law from advertising or using intermediaries while working in the auditing field. All those obligations which are enforced by law and professional ethics must be taken into account and maintained by all members of the LAAA (Law No. 116, article 49). Both managing and auditing committee members are not allowed to be permanent workers in the audited company and any of its subsidiaries or have kinship to the fourth degree to any executive of the company according to the L.C.C of 1953 and the Commercial Companies Act No. 65 of 1970. However the full adherence to this act is not in practice yet.

6.3.3 Professional Code of Ethics

Ethics refer to all the virtuous values, morals or laws that people should obey in their behaviour. According to Larkin (2000), in all lines of work, ethical and unethical behaviour are significantly important. Auditors in the same way are frequently confronted by ethical dilemmas, which enforce them to ethically judge their choices for the general benefit of the auditing profession (Pomerantz 1998 and Larkin 2000). Therefore, an appropriate code of ethics must be established in order to guide members of the profession among themselves and between the members and their clients.

Technical education focuses deeply on ethics as an essential matter in the practice of a profession. Ethics are considered a fundamental part of any auditing course, where a separate chapter in any auditing textbook must be dedicated to professional ethics. A book lacking such a chapter is perceived as deficient. Almost all renowned lines of work have a formal code of ethics; nevertheless, the accounting profession in Libya and few other similar countries, lack these formal codes of ethics. The professionals in this situation can meet and unofficially embrace or agree upon a reasonable code of ethics which helps them to promote a vocation into a profession if this code of ethics was unanimously decided on and properly obeyed (Kilani 1988).

Despite the fact that Law No. 116 of 1973 requires the executive board to discuss the proposed code of ethics, more than thirty years after the committee's establishment such a code is yet to be established. The public general committee was approached by only one member of LAAA who had offered a draft of a code; however, this draft did not eventuate as no such law or code has been evidently published.

The accounting profession in Libya uses similar rules to those existent in the US and UK to cover the lack of formal codes of conduct in Libya. These rules which are used to a very narrow degree, are distributed over both the Commercial Companies Act issued in 1970 and Law No. 116 issued in 1973. Clearly, until present time all these regulations were not provided by the profession itself or any specialised committee, therefore, the Libyan government itself was the only body issuing such laws and regulation.

6.3.4. The Audit Report

The process of auditing relies heavily upon the auditor’s mental representation of objectivity and experience in his opinions. Audit reports are unified and standardised in almost all countries with a well managed accounting profession. Libya, on the other hand, lacks the existence of any standard format for the auditor's report. This has produced many infringements through the implementation of reporting standards by the auditors in Libya and less attention is given to the generally accepted and agreed upon standards. Clearly, auditing reports issued by Libyan auditors do not conform to standards of reporting. The LAAA still has not provided members with a standard audit report form. This has made auditors’ education and experience the only background as a determination of report form and content. As a result, these reports were extremely diverse and varied causing confusion to both auditors and clients. Chapter 7 provides more discussion about the audit report. An analysis of sample Libyan audit reports is presented in chapter 7. Also, appendix C includes some sample Libyan audit reports.

6.3.5. Responsibility to Clients and to Third Parties

Maintaining the privacy of customers' information and collecting charges, are the accountants responsibilities to the clients. Responsibility to the public, on the other hand, implies public accountant's suitable thoughtfulness and good sense while communicating judgements regarding the financial statements of the auditors customers.

Article 51 of Law No.116 of 1973 lays emphasis on the obligation of privacy by prohibiting accountants from giving any piece of information that might have come to their knowledge through their work. This law, however, allows accountants to disclose information if it can prevent an illegal act.

As for public accountants' accountability towards the public, this law offers no legal statements apart from broad conditions existing as small fragments inside various articles. Article number 49, 53, and 56 are good examples of this. Article 49 stated that: "an accountant and auditor should operate according to the principles of honesty and should fulfil all of the duties which are imposed on them by the profession's laws, arts and traditions." Penalties given by the association are described in Article 53 where members, who demean the profession or infringe on the obligations of honesty and integrity while performing their professional work, can be warned, suspended for a maximum of three years or even expelled. The directors' board selects two people to be responsible for making the decision of expulsion, suspension or warning. The public prosecutor can also put accountants on trial according to article number 56.

In Libya, accountants employ what they have been taught in their daily practice, since they don't have any definite or official code of ethics, accounting principles, auditing principles or processes. Moreover, the absence of a uniform audit report requirements, and professional test requirements make accounting education the only source of information to accountants (Kilani 1988).

The Libyan accounting profession has not been positive influence by the establishment of the LAAA since its establishment in 1975. This association did not accomplish anything related to the organisation of the Libyan accounting profession by publishing or embracing auditing standards or a code of ethics (Alhsadi 2007). Obviously, it can be stated that the LAAA has not succeeded in setting rules for itself, or to acknowledge its responsibility towards the public benefit. Additionally, the following goals set by the LAAA, still have not been realised, those are:

- Organising and taking part in constructive activities like: studies, conventions, lectures, persistent teaching and training programs.
- Making good use of accounting publications in order to stay well informed with all recent developments in the profession and to enhance the conditions of the profession appropriately through its members.

The Libyan accounting profession standing is clearly weak as indicated by the previous factors.

6.4. The Libyan Public Sector Audit

Laws relating to each Libyan public sector, determine whether that public sector should be independently audited. The State Accounting Bureau (SAB) was founded based on the Law No. 31 of 1955, with the Ministry of Treasury. The improvement of the accounting profession in Libya has been deeply affected by the SAB, which became directly responsible to the entire Ministries' Council of Libya as indicated by the Audit Bureau Law of 1966. Accounting companies accredited by the Ministry of the Treasury, undertake audit processes. Every minister responsible for an enterprise is in charge of choosing and evaluating those companies' payments. In this situation the auditors are responsible to the ministry in charge of the operation of the audited company.

The revolutionary government of 1969 formed two branches: an executive and a legislative one. The SAB was also altered to become absolutely accountable to the RCC as stated by Law No. 79 of 1975. The objectivity and goals of the bureau were explained through the first article in the SAB Law of 1973; this law stated that the SAB is an independent organisation, associated to the RCC with the aim of efficiently managing the public income. This authority practiced by the RCC over the SAB was delegated in 1977 to the General Public Congress (GPC) as a new legislative body. Public accountants in Libya enjoyed a golden age back in the early 70's due to the huge growth of business companies and government projects and hence, the development of the economy.

All those factors continually intensified the need for accounting services which consequently increased the number of working firms of public accountants. The endorsement of Law NO.116 of 1973 which created recognition of the accounting profession has also facilitated this growth and made the public accountant more precise and comprehensive in their inspections as they dealt with bigger government owned companies (Kilani 1988).

In 1988, the SAB and the Central Institute for General Administration Control were merged together following the Law No. 7 of 1988 under the name of the Institute for Public Follow-Up. However, this name was later changed to become the Institute of Public Control (IPC) in 1996. This institute was originally created to perform auditing for all the governmental organisations' subdivisions which are financially supported or have governmental loans; moreover, all companies that the government holds 25% or more of its shares are also covered by the IPC. Those audits were set so as to verify whether if the way those organisations were managing their financial accounts conformed to social and economic common goals in addition to regulations and guidelines prepared by their own ministries. Extra expansion was appended to the IPC's tasks to include the auditing of non Libyan firms and enterprises working in Libya, with the aim of ensuring the legality of operations in those companies. Such audits have no explicit guidelines provided by authority despite the legal obligation for these enterprises to be audited. The IPC forms rules on which the auditing process and administration are dependent. Those rules are in alignment to the offered economic strategies, rules and Libyan laws. However, the IPC failed to successfully finish this duty punctually, mainly owing to the lack of human resources, this delay has caused a delay in the auditing of the accounts of the above organisations which became a critical problem. As a result, the existing qualified public accountants were asked to perform the state enterprises' audit reports which intensified the country's need for them.

Accountants may join the IPC as members to acquire its acknowledged qualification in Libya. Those who wish to join must meet the listed conditions

- Be a Libyan citizen.
- Hold at least a bachelor degree in accounting.
- Be an accountant in the IPC for five years or more.
- Be involved in political and human rights.
- Behave in a professional manner in addition to having a good reputation within the profession.

Once accountants acquire full membership of the LAAA and the IPC, they receive no further benefit from professional training in terms of status or qualification. This discourages accounting firms from organising any training courses for their employees and thereby the competence of Libyan professional accountants is negatively affected. Moreover, under-qualified accountants managed to become authorised as no measurement or evaluation exists to assess their competency or skills. The definition of profession borders based on both its membership and knowledge-base is significantly affected by professional education, examination and certification as stated by Annisette (2000). Likewise, Dewing and Russell (1998) argue that accounting competence can't be fully realised unless both professional assessments and 'apprenticeships' are covered by a professional accountancy body. The bachelor degree alone is not enough to ensure competency. An additional problem resulting from this situation is illustrated through the non-standard audit report structure which creates large differences in the produced reports that depends on accountants' personal and educational backgrounds (Bengarbia 1989).

Razek (2002) conducted a survey to measure the quality of auditing services provided in Libya. This survey indicated that different standards, processes and methods of producing an audit report existed inside accounting firms. This huge gap complicated the comparison between firms. Moreover, participating accountants did not refer to any accepted auditing standards while preparing their reports. This significantly decreased the published information's meaning and value.

As stated earlier, no specific or official code of ethics, accounting principles, auditing standards or procedures clearly exists among accountants. Moreover, neither a uniform audit report requirement nor a professional test requirement was defined which made accountants' own education and background the only base for their practice. Both accounting education and background are imported from the US and the UK which makes the Libyan accounting profession and its goals identical to ones existent in those countries (Saleh 2001). Still, economic, political and social factors of Libya's environment are notably unlike those of the UK or the US.

In Western societies like the US and the UK, the common investment in private enterprises contributed in creating the accounting profession which was derived from the accountability concept to harmonise with their own environmental factors. Despite the success of this system in several countries, developing countries like Libya have different needs that make such a system irrelevant and unsuccessful.

Based on the fact that Libya is an Islamic country, the Libyan accounting profession is expected to be based on Islamic ideology clearly distinguished from the one embraced and established in Western countries. The main difference between Western and Islamic societies is seen through the Islamic law (Shari'a) claim of individuals' responsibility towards Allah, rather than the principle of personal accountability that is widely accepted in Western societies. Islamic principles need to be followed in accounting to help achieve the aims of the country and social accountability instead of political outcomes.

The G*reen Book* written by the Libyan leader Al Gathafi, declares that the Quran is the law (Shari'a) of state. So, the highest priority for the accounting profession, while conducting and preparing annual audit reports or any other accounting services, has to be the way it functions to the state's environmental aspects, and the constant emphasis on laws, regulations, and economic policies execution.

Some laws have been passed and publicised by the government in order to control the accounting profession in Libya, just like many other similar countries worldwide where the profession's responsibility to standardise accounting is non effective. As a result, the Libyan Commercial Code (LCC) and Accounting and Auditing Profession Law, Law No. 116 of 1973 were the main sources of stating accounting practices in the country.

Some weaknesses relating to the Libyan accounting profession appear when evaluating both commercial and financial laws in addition to the accounting profession law in Libya. Since no Libyan auditing standards or regulation exist, auditing reports written by Libyan auditors significantly rely on their own educational and professional backgrounds and skills which produced large variances in their reports.

In view of that, a new official code of ethics must be created to fulfil the Libyan need; moreover, a thorough evaluation and renewal of all existing laws dealing with audit profession management should be performed to facilitate the adaptation of up-to-date developments in the auditing area.

6.5. Accounting Education in Libya

This chapter aims at evaluating the existing Libyan accounting system and ensuring that it effectively helps to fulfil Libyan economic and social needs in view of the fact that education is a fundamental factor in the progress of every nation. The existence of a good educational system helps maintain a professional accounting practice. Just like all developing countries, Libya has great potential for developing a strong accounting profession by means of a proper accounting educational system that makes accountants more prepared and well-informed about the accounting profession (Mashat et al. 2005).

Until independence, no official accounting education or training was offered inside Libya; moreover, Libya suffered a lack of employees in public clerical and technical positions even after independence (Azeem 1988). Italian and British accounting firms were almost the only providers for accounting and auditing services in Libya which created serious internal difficulty (Ritchie and Khorwatt 2007). Therefore, American, British and UN consultants were needed through the 1950s and 1960s in Libya to set up an initial accounting system. Many factors affected the development of the Libyan accounting profession from the early 1950s including:

- The accounting education in Libya.
- Accounting researchers.
- Global corporations.
- Global accounting firms.

Moreover, the fast transformation of the Libyan financial, political and legal systems, played a major role in that development.

Libyan accounting education is mainly influenced by the following factors (Azeem 1988):

- Existing syllabuses of accounting courses in economics and commerce colleges.
- Researchers' education and experience which are predominantly obtained from UK and US colleges, makes the Libyan accounting profession similar to the ones in these countries.

The Libyan accounting education system consists of two periods:

- The first which is pre 1976, is adapted to the British system.
- The second post 1976 is adapted to the American system (Azeem 1988).

6.5.1. The Influence of UK Accounting Education

Ever since the accounting education system in Libya was founded back in the 1950s, the UK has had a strong impact on the accounting syllabus created for the four-years-bachelor's degree. According to that syllabus, students must spend the first two years studying a variety of topics including economy, management, accounting and political sciences, while the final two years are dedicated to specialised and more focused accounting education (Saleh 2001).

In almost all cases, textbooks used in Libyan universities before 1976, were British or Arabic. However, those Arabic books were originally taken from English books or written by Arab writers who were former British university students (Ritchie and Khorwatt 2007 and Azeem 1988). British references were additionally used by Libyan accounting researchers when creating outlines for courses or planning for lectures. It appears that all of these British books had been brought from where the majority of Libyan accounting researchers had graduated, and were written to specifically work for the British needs (Kilani 1988 and Saleh 2001).

Accounting students were required to successfully pass thirty-two courses, consisting of:

- A research project incorporating twelve accounting courses.

- Six courses related to economy.
- Three courses related to management.
- Eleven courses covering several topics like statistics, mathematics law, English language, and geography.

42.2% of the total hours required for accounting students to hold a bachelor degree were focused on accounting which is a huge burden compared to other similar subjects. Accounting courses given in the Libyan University were almost 66% focused on financial accounting topics related to external financial reporting, external auditing and taxation (Mahmud and Russell 2003 and Azeem 1988). No more than 8.5% of accounting courses were given to cost accounting while 5.8% was given to both managerial and governmental accounting. Yet, it was not until 1975 that governmental accounting as well as micro and macroeconomics were introduced into the accounting program in Libya.

The grading system required student to achieve at least 50% in each course to pass it as the following performance descriptions were used (Azeem 1988).

Less than 35% Very weak

From 35-49% Weak

From 50-64% Pass

From 65-74% Good

From 75-84% Very good

From 85-100% Excellent

6.5.2. The Influence of US Accounting Education

The American influence came on the Libyan accounting educational scene in 1976. All aspects were radically transformed to adapt to the new system including the syllabus, assessment, text books, teaching staff, and the managerial approach. According to Azeem (1988), at the beginning of the academic year of 1977 the accounting department had replaced the British education system with the American education system. The new American system consisted of two sixteen-week semesters every year, instead of a full nine month block. Students were evaluated according to hours earned rather than the full academic year. Under the new system students were required to earn at least 120 credit hours in order to graduate (Azeem 1988).

An average of eight semesters is the expected duration for students to graduate; still, students are allowed to graduate in six semesters if they successfully pass required credit hours. The upper limit of duration allowed is ten semesters. Attendance is very important in the American system as a minimum of 75% of all course hours must be attended by students. Unlike the British system, performance and grading according to the American system are measured by points starting from ‘zero’ points given for an F (fail), to ‘four’ points given for an A (excellent). The lowest acceptable total average for students who wish to graduate is a C (two points), yet a D grade (one point) is sufficient to make the student pass a course (Azeem 1988).

Similar to the British system, the American system gives accounting courses a large share of the total courses. Yet, it also includes many courses that are not accounting related from which students can take besides accounting courses. Except for the books that directly discuss Libyan social, economic, and political environmental factors, all other texts, whether accounting or non-accounting related, were taken from similar courses at American universities (Kilani 1988). The new accounting syllabus of 152 credit hours contains 107 compulsory credit hours (70%) covering both accounting and non-accounting topics and 45 optional credit hours (30%) from which students can choose both accounting and non-accounting topics as well. No less than 13 optional credit hours must be taken by any student who wishes to graduate. Student are only allowed to choose 6 optional accounting hours from a pool of 13 accounting hours while the remaining 44 credit hours of accounting are compulsory.

Libyan Researchers and professors in the accounting field mostly graduated from the USA during the early 1970s (Kilani 1988). As a result, books used by teaching staff and students were all replaced by either:

- American texts.
- Arabic texts taken from American texts.
- Created by Arabic authors who were former US university students.

In recent years there has been some effort to develop the accounting education in Libya by focusing on creating strong university education and training to bring about more professional accountants as stated in a study by Ahmad and Gao (2004). The newly created accounting practices in Libya were significantly and positively influenced by Universities in Libya since they provided students with proper knowledge and education (Mahmud and Russell 2003).

In a study by Mahmud and Russell (2003), the primary obstacles to the development of accounting education and practice in Libya were pointed out as follows:

- The old and outdated accounting curriculum and courses.
- The lack of up to date Arabic course books and references.
- The absence of operational specialised associations.
- The inadequacy of public understanding about the accounting profession.

Mahmud and Russell (2003) stated that a long term plan must be launched so as to adjust and renovate both Libyan accounting education and practices.

Ahmad and Gao (2004) tried to highlight the issues that complicates the job of Libyan accounting lecturers. Their study concluded that those issues include:

- The limited number of eligible accounting teaching staff.
- The unsuitability of foreign curriculum to the individuality of the Libyan economy.
- The failure in combining both university education and professional training due to unsuitable set of courses provided.
- The insufficiency of accounting research.

As much as accounting education is vital for economic development, it has to be relevant to every country's environmental factors in order to achieve maximum effectiveness. Those methods described as relevant must take in to consideration all economic, political and social environmental factors; moreover, a relevant educational system is a system that incorporates all appropriate components too.

Undoubtedly, the need arises for a better accounting education and professional regulation system that appropriately and specifically complements and fulfils the Libyan environment.

Logically, educational systems and surrounding environments are related since the educational system operating in a certain country both influences and is influenced by all social, economical, political and cultural factors there. A successful education system used in a certain country might not operate or function as expected in other countries. For this reason, each country must plan and work to design and launch its own education system that can better serve the general state needs (Ahmad and Gao 2004). Earlier arguments all suggest that Libyan accounting education was not completely successful at fulfilling the aims or needs of the Libyan economic, political and social system or any of environmental factors.

6.6. Summary

Libya will still have to be considered a developing country until the above mentioned obstacles are resolved. Moreover, the weak Libyan economy can be revived by implementing an operation plan carefully designed and tailored to Libyan environments.

The considerable variation between Libya, the UK and the US accounting environments is a variation that will continue to exist for a long period of time. The UK and the US accounting environment and private sectors are still the main systems the accounting profession and education system in Libya is oriented to. This unfortunately disorients future accountants as their individual talents are as a result geared to an incorrect environment. Moreover, such a situation creates persistent restrictions on the Libyan accounting business which holds back national economic progress.

A useful structure of wide-ranging and integrating information systems that focus on the Libyan environment, is the foundation for implementing a successful development strategy as experts make accounting information accessible. Information requirements of economic development should be the key subject of such accounting information system.

Chapter Seven:

Discussion and Results

7.1. Introduction

The chapter of literature review presented empirical evidence on situations perceived as threatening to the auditing profession and causing the AEG. This chapter continues to provide empirical evidence for an assessment of the factors which influence relations between auditors and users, and shape their perceptions and behaviour in the Libyan environment. The user's expectations reflect their needs as to what external auditors are supposed to do to perform their duty. It is important to first assess whether the expected or perceived function by different beneficiaries have been fulfilled within the context of the Libyan environment. Hence, this chapter is concerned with providing practical insights by applying a qualitative research methodology to help in understanding the phenomenon of the AEG. This chapter is arranged as follows: Section 7.2 presents the state of the audit profession in Libya. Section 7.3 analyses the function of the audit profession in Libya. Section 7.4 provides an analysis of the format and content of Libyan audit reports. Section 7.5 provides discussion about the protection of societal interest in reporting fraud. Section 7.6 provides discussion about early warning and reporting concerns. Section 7.7 provides discussion about the auditor's proficiency. Section 7.8 provides discussion about the auditor's role in providing ancillary services. Section 7.9 provides discussion about the relationship between the auditor and the client and how this relationship influences the audit. Section 7.10 provides discussion about the professional code of ethics. Section 7.11 provides discussion about the influence of auditor's religious values. Section 7.12 provides a summary of the chapter. The results of the interviews will be reported, and a comparison will be made between the response of auditors and users of financial reports in the relevant sections. The following sections will present the results and discuss the issues that may contribute to the expansion of the AEG in Libya.

7.2. The State of the Audit Profession in Libya

During the presentation of the previous chapter, it became clear that although the profession has been organised for a long time, more than thirty years in fact, the development of the profession is not in the required professional stage (Alhsadi 2007). Through tracking the reality of the accounting profession in the Libyan environment, it can be inferred that there is a lack of experienced Libyan professionals, particularly in the accounting profession. Moreover, all efforts of developing the profession are diverse efforts and can not reach the required level of development. This leaves the profession unable to advance and upgrade the professional performance to be on par with other developed countries (Saleh 2001). In this regard the interviewees have been asked to give their evaluation of the state of the accounting profession in Libya. One of the interviewees of academic staff responded with the following comment: "honestly, the state and the development of the accounting profession in Libya is deplorable compared with other countries. Although the accounting professional body the LAAA was established more than thirty years ago, there are no noticeable achievements and no serious attempt was made to regulate and develop the profession"

Another interviewee responded with the following: "I believe the only way for the accounting profession to be developed is through the professional members and their union, but unfortunately the union has not yet professionally matured".

Some participants believed that the impotence of the union was because of the absence of experience and the unwillingness of qualified members to accept the leadership of the union. This has been presented by a member of LAAA in the following statement: "The unwillingness of qualified people to accept the leadership of the profession gives the opportunity to less qualified people to control the accounting profession"

Another interviewee stated "members of the union should elect the right people to be in charge of the union's committee, otherwise the wrong people who have personal interests, will continue controlling the profession. Actually, this requires serious action from all union members".

Another interviewee concluded: "The accounting profession has experienced internal conflicts among members, that is why the profession is at a lower level than required. The absence of qualified members in the election to accept the responsibility of managing the union, has opened up the door of opportunity for inappropriate members to be elected and handle the affairs of the profession. This is one of the main reasons for the deterioration and degradation of the profession in Libya".

Auditors who have high qualifications and degrees, (M.Sc. and Ph.D.) are usually teaching accounting at universities and institutes as well as providing accounting services. They have little free time; therefore they prefer to avoid being involved in serious union activities. The accounting profession in Libya has had a long period of isolation and lack of development (Saleh 2001 and Alhsadi 2007). This is because of the political, economical and professional factors which were mentioned in chapter 5 and 6. Only a few years ago, Libya opened up to the outside world and some efforts have been started to improve the status of the accounting profession. However the development of the profession is still low and needs more research, efforts and regulations (Alhsadi 2007). This view has been expressed in the following response: "The accounting profession has suffered from a lack of intention and regulation, but I think the profession will now be improved, I believe that the coming period will be better and will witness a major development *In-sha' Allah* (By the will of Allah)".

Another interviewee mentioned in regards to the lack of legislation and standards: "As you know, auditors are left to follow whatever standards they choose. This results in auditors following the standards of the country in which they received their education. So auditors with an Egyptian educational background follow the auditing standards of Egypt, a US educational background follows US standards, UK follow UK etc. This leaves Libya with a lack of uniform auditing standards.

In this case the professional standards and legislation can't be harmonised or obligated."

It is clear that Libyan environment suffers from the lack of united legislation. Appendix B is an initial proposal of Libyan Auditing Law submitted by two members of the LAAA on 2006. Hence, it can be deduced that the issuance of Libyan auditing professional law is still in its early stages.

As discussed in the previous chapter, there are several factors that prevented the development of the profession in Libya. These factors include:

- The economic situation.
- The socialist system.
- The status of international sanctions and isolation imposed on the country.
- The lack of a strong professional body to control the profession.
- The dominance of the public sector as opposed to private.

It can be noted through the interviews, that the participants believe that the development of the profession in Libya is unstable and needs to be improved. Also, there is a lack of legislation and standards governing the profession. Therefore, the accounting profession in Libya needs quick intensive interventional actions, which assist in keeping pace with developed countries (see recommendations in chapter 8). These actions should be carried out by those who have a real passion in raising the standards and professionability of accounting.

7.3. The Function of the Audit Profession in Libya

The auditing function is not a unitary phenomenon as it means different things to different people (Humphrey 1997). The understanding of the audit function could be considered an important factor for a proper understanding of the nature of auditing. External auditors interact with many users who may have different expectations. Thus, it is important to consider how users and auditors perceive the function of auditors to help in understanding their perceptions of the auditor's function. In this regard, participants have been asked about their understanding of the audit function. The answers of participants indicate that there is disparity between the auditors and users in understanding the function and role of the audit. The majority of users felt that the function of the audit, included the certification of the accuracy of financial statements, detecting fraud and errors, examine the ability and efficiency of the management, and predicting the capability of the company to continue in its activities. Users also believe that auditors should examine all accounts in full, one hundred percent, to ensure accuracy. On the other hand auditors believe that the goal of auditing, is to examine the internal control system of the company and express an opinion on the validity of financial statements (Porter, Simon and Hatherly 2005).

The next section uses the qualitative approach as opposed to the quantitative approach as the phenomenon of the AEG is linked to the complexity of social reality (Gaffikin 2006). It provides results of the analysis of the responses on the perceived duty of auditors held by both auditors and users. The views expressed by respondents on both the expected and perceived performance of auditors were based on their real experiences as well as their perceptions of the auditors' function. The expected duties of auditors have been identified by interviewees and each of these tasks is discussed below.

7.4. Audit Report

The audit report is the culminating step in the audit process (Fakhfakh and Martinez 2007). It is the summary of the auditors' opinion regarding the financial situation of the company. The audit report is a primary tool that auditors use to communicate with financial statement users (Gangolly et al. 2002). The form and content of the audit report is one of the main factors of the expectation gap between auditors and users of financial report (Sukhraj 2008). Therefore it is essential to investigate this issue to identify and analyse the research problem. As mentioned in the chapter of methodology (Chapter 4), the investigation included two instruments of data analysis. The first instrument is the analysis of sample audit reports. The second instrument is analysing the interviews of auditors and users groups.

In Libya, there are different forms and contents of audit reports and no united standard report (see Appendix C). The multiplicity and variety of forms and content of audit reports have raised the researchers' concerns regarding the auditors' compliance with the standards of audit reports. The reasons for this difference and diversity are that the educational and professional backgrounds of auditors are different and varied. As mentioned in the previous chapter, some auditors have either American or British education backgrounds while others have Italian or Arabic. Moreover some auditors do not have any accounting education background at all, just experience (see Chapter 6). The researcher collected, reviewed and analysed content and wording samples of Libyan audit reports. This analysis included the comparation between the Libyan audit report and other present standards of audit reports.

Regarding the adoption or issuing of Libyan professional standards, it is worthy to mention that, at the end of 2006 for the first time, the LAAA adopted the international accounting and auditing standards as an attempt to regulate the accounting profession in Libya (Alhsadi 2007). Before this there was no serious effective effort made, the reasons for which are listed below:

- The period of (1980-2000) was a period of economic recession. This came as a result of the absolute domination of the public sector over economic activities.
- There was a long period of economic and political sanctions, imposed by the United States and the United Nations.
- The absence of the Libyan stock market. The current market has only been founded about two years ago, on the 3rd June 2006. The General People's Committee issued Decision No. (134) for the establishment of the Libyan stock market.

These reasons had thwarted all previous attempts and efforts to develop the Libyan accounting profession.

As the Libyan accounting professional body LAAA adopted the international accounting and auditing standards, it is important to analyse the level of compliance of Libyan auditors within the international standards. The next section discusses the results by analysing a number of samples of audit reports that have been issued by auditors in Libya. The main aspect of reporting standards are examined through critically viewing the Libyan audit report samples as presented in the following section.

7.4.1. Analysis of the General Format of the Report

According to the ISA, the audit report should be issued with certain conditions and formal aspects (Fakhfakh and Martinez 2007). Theses formal aspects:

- Distinguish the audit report from other reports.
- Make it more understandable.
- Clearly identify the responsibility of auditors and management.

The formal aspects of Libyan auditing reports were analysed as follows:

7.4.1.1. Title of the Audit Report

Through the samples reviewed, the following titles were used on the audit reports:

- Seventy five percent were entitled “The Auditor Report” or “The Report of the Legal Accountant”. This is consistent with the reporting standards, as it shows the readers that the report was issued by auditors.
- Eighteen percent were entitled with the term “Certificate of Auditor”. This may be understood on the basis of the title, that the report is positive and clean, as the term certificate could be used only in the case of the report being an accepted certified document.
- Seven percent of reports did not include any title. Moreover, some reports included additional statements, such as “*Bismillah*” (In the Name of

Allah) and greetings, "*Assalamualaikum*" or "*Tahiaha Taibah*" which are not related to the audit report standards.

7.4.1.2. Who the Audit Report was Directed To

- Eighty five percent were directed to the general assembly.
- Fifteen percent were directed to the management of the company.
- Besides that some report copies were directed to such places such as the Tax Office, Public Control Office and the Secretary of Treasury.

7.4.1.3. Identification of Address

All the audit reports included a postal address P.O. Box, however the auditors' street address is not mentioned in all Libyan audit reports. This is due to two reasons:

- The mail service in Libya is very poor and there are no mail delivery services except by P.O. Box or private companies such as TNT and DHL.
- Some auditors do not have official business addresses as they do not have offices. These auditors operate their businesses from their residential address (Home) and obtain work through their networking and relations.

7.4.1.4. Date of the Reports

Some audit reports are known to have been completed long after the passing of the financial year. This is due to the fact that some companies are unable to prepare their financial statements at the end of each financial year, these cases abound in public companies. Therefore the dates given on these reports are retroactive; being dated at a time previous to the actual completion of the audit.

7.4.1.5. Auditors' Signature

Examination of the samples indicates that all audit reports contain the signature and the seal of the auditors.

These results show that there are presently, different forms of Libyan audit reports, which are not compliant with reporting standards. Hence, a large number of auditors do not care or are not aware of the importance of improving and standardising the format of the audit report.

Having reviewed the formal aspects of the audit report, the next section will examine the contents of the audit report in Libya.

7.4.2. Analysis of the Content of Libyan Audit Reports

The International Standards on Auditing (ISA) state that the audit report should contain three paragraphs as follows (Fakhfakh and Martinez 2007):

- Introductory paragraph.
- Scope paragraph.
- Opinion paragraph.

The review of the samples of the Libyan Audit report shows differences in the amount of paragraphs as follows:

- Twenty-eight percent of the report samples contained three paragraphs.
- Fifty seven percent of the report samples contained two paragraphs only, the paragraph of scope and the paragraph of opinion.
- The rest of the reports samples, which is fifteen percent, included only one paragraph.

In this category, auditors issued their report in the form of normal letter, which may contribute to confusion among the users of the audit report. Hence, by observing the results, it may be seen that the audit reports issued by a number of auditors are not in perfect compliance with the report requirements enumerated by IFAC. The twenty-eight percent of three paragraph audit reports, are chiefly issued by firms that have partnerships with international auditing firms. According to the ISA700, the auditor is requested to include:

- Identification of Entity audited.
- The financial statements audited.
- The period covered by the financial statements.
- Managements responsible about the integrity of financial statements.
- An expressed opinion from the Auditor about the audited entity.
- Whether the financial statements have been prepared in accordance with accepted accounting principles.

The samples of reports show that eighty percent of the reports use the term principles of accounting and twenty percent of reports use the term regulations instead of principles of accounting when confirming the compliance of a company. Almost one hundred percent of reports identify the entity audited, the financial statements, and the period covered by the financial statements. However, none of the samples included any statement relating to management's or auditor's responsibility.

ISA700 requires auditors to write a scope paragraph, which includes the description of the work performed by the auditor and reference to the auditing standards. The analysis of the report samples indicates that:

- Thirty four percent of reports explain, at different levels, the work performed by auditors.
- However, in the remaining sixty six percent of samples, no such explanation is included.

Some reports including general statements like "the audit was conducted based on what the auditor deemed as appropriate", without any further description. In regards to referring to the auditing standards:

- Seventy nine percent of samples included some statement stating that the audit process was performed in line with auditing standards.
- The other twenty one percent of samples indicated that the audit process was performed based on the regulations, company law and tax law.

The standards of audit reporting require that the audit report should include an opinion paragraph, which contains an expression of opinion on the financial statements. However, in cases where an expression of opinion can not be found, auditors should refer to the reasons that led to this situation. The audit report should include a clear statement of opinion as to whether the audited financial statements are in accordance with the relevant financial reporting framework and comply with statutory requirements. The review of the samples of Libyan audit reports, show that all reports included an opinion paragraph, however the content of the opinion paragraph does not meet the ISA requirements of reporting.

Also, the results show that there is no conformality between auditors about what is including in the opinion paragraph, fifty eight percent of the samples don't mention any statement about the audit standards. Forty percents of samples includes general statements that can be given more than one meaning. It can be assumed that auditors are doing so as an attempt to avoid any potential responsibility. Furthermore, the examination of the opinion paragraph show that forty five percent of the samples use the phrase "fairly present”, twenty five percent used the phrase "reflects fairly and honestly", seventeen percent use the phrase "clearly shows" and thirteen percent use the phrase "appear correctly". According to the results of the previous analysis, the majority of Libyan audit reports do not comply with opinion paragraph standards.

In order to support the results of the aforementioned analysis of the audit report, the interviewees were asked whether the contents and format of Libyan audit reports, are easy to understand and provide enough clear information. The objective of this part is to investigate whether the audit report in Libya meets the needs of users. According to interviews from members of the auditing profession, a large number of almost sixty percent, believe that the content and format of audit reports are reasonable, understandable and there is no need to make any changes or improvement. The negative response of auditors regarding the idea of improving or unifying the format of the audit report, could be attributed to several different reasons:

- Some auditors do not want to acknowledge any shortcoming in their issued reports.
- They are unwilling to change or receive any new education.
- They are happy to continue filing the report in their own way.

The professional body does not yet have enough power to force particular standards or audit report formats.

This comment was introduced by an auditor: “yes, I agree that the audit report should be improved and united in content and format, but here we have auditors who have different levels of education and different backgrounds, expertise and experience, so it is to be expected that different formats of the audit report are produced”,….. He continued, “some of these reports are not professional and do not follow any standards, I believe that the weakness of the professional body to force a united format has contributed to this”

Another auditor stated: “as you know, after the long period of sanctions, Libya has now become open to the outside world and international companies are beginning to invest in Libya, globalisation as they call it. Actually, this situation creates pressure on auditors and motivates them to adopt the international standards.” And about whether he thinks the format of the report could be changed: “I am working under the mandate of the Public Control Office (PCO), which assigns auditors to carry out audits. Therefore, all the auditors report to the PCO. I don't think we can change the format of the report, the report that is issued by us, is not final as there is another report that will be issued by PCO based on our report".

There are a few Libyan audit firms that have partnerships with other external firms. These firms provide the domestic firms with their standards and format pertaining to the audit report. These domestic firms are considered in Libya as being the most professional firms in the nation, as they have updated information and standards. A member of an audit firm stated that: "Our firm has a partnership with an international auditing firm, which provide us with the current changes and development in accounting and auditing. Also, all our staff members are qualified, so we are sure that our audit report is the same format as those in developed countries."

On the other hand one interviewee of the users group was asked about the language and content of an audit report. The interviewee expressed his dissatisfaction with the language of the audit report as follows: "although the report is written in Arabic, it is still hard for me to understand some reports as they written in complex language. I think they should make the report more simple and understandable for normal people. I feel that auditors use complex language to avoid any responsibility."

Another respondent who was a qualified bank manger concluded that: "according to my experience, the format of the audit report is not the main concern as long as it gives a clear opinion and is issued by a well-known auditor, which guarantees the quality of the audit and the accuracy of the report."

Another investor stated that "Recently, Libya has established its first stock market, begun privatisation of public companies, and permitted big international companies to enter the country,… indeed all these increase the demand for high quality auditing services and give a good opportunity for auditors to improve their image. However, if the Libyan audit report is still ambiguous, the Libyan audit report will be useless and the auditors will loss their role."

The failure of Libyan auditors to perform their role effectively has significantly contributed to the deterioration and failure of public companies and thereby leading to their privatisation. Interviewees from the user's group put a lot of the blame on auditors for the failure of Libyan public companies. They also believe that if auditing services are not improved, the private companies could face the same fate as the public companies. This has been clarified by one of the participants in the following sentences: "There is no doubt that Libyan public companies failed and therefore had to be privatised. Actually, there are several factors that caused that. In my personal view the inefficient audit and the lack of credibility of the audit reports were among the main factors that caused the collapse of the public companies here."

Also a member of the public control office stated that: "I believe that the inefficiency of the auditor's role and the lack of professional audit reports in

Libya, are some of the main reasons for the failure of public sector companies, that's why a number of public companies were privatised."

According to the analysis of interviews, when comparing the satisfactory levels with the audit report, sixty percent of auditors were satisfied with the form and content of the audit report, while the majority of users, nearly eighty five percent, believed that the audit report does not serve its intended purpose and should be improved. Hence, there is a gap between auditors and users regarding the form and content of the audit report.

7.5. Protecting Societal Interest and Reporting Fraud

The protecting of social interests is among the main factors that cause the AEG. Users of financial reports, expect that auditors should ensure that the company's management is responsible for the resources entrusted to them. With respect to the auditor's responsibility of protecting the social interest, questions have been directed to the participants regarding whether the auditor's have a responsibility to detect fraud, errors and to report illegal acts within the company (Apostolou and Crumbley 2008).

Through the analysis of interviews from members of the auditing profession, the results show that the minority of auditors, twenty eight percent, supported the idea that auditors are responsible for searching for and detecting any fraud or error within a company. Forty five percent of participants from the auditing profession considered that it is the responsibility of the auditors to report any illegal conduct.

This concludes that the majority of auditor’s group felt that it is not the auditors’ responsibility to ensure that the company's management is responsibly using the resources entrusted to them. For example, one of the auditors pointed out that: “I’ve learned through my previous academic accounting study that it is the responsibility of auditors to perform their duties with reasonable professional care; however auditors are not supposed to ensure management performance and detecting fraud as these are the duties of the internal control system of the company”

In this regard, another interviewee who is a part time auditor and university lecturer, believed that this task is fulfilled as long as auditors adhere to auditing standards in the course of performing their audit: “…it is clear that the adherence to the professional auditing standards will protect society's interests, as long as the auditors adhere to the profession rules and codes of ethics, then the final result will protect society's interests.”

Additionally, working especially to discover fraud and ensure management truthfulness and performance, are not among the audit objectives, as explained by one of the interviewees who is an auditor and member of the LAAA who stated that: “auditors are human and they have limited abilities, so it is not the responsibility of auditors to detect all fraud and insure the level of management performance, I don't think this is included in the objectives of the auditing profession.”

Also, another auditor has the opinion that it is the indirect responsibility of the auditor to protect the social interest: “when the auditor provides their services to their clients, they should put in their intentions that there are third parties who are going to base their decisions on the auditor's work (report). Although the auditors do not have a contract with the users, they should consider their benefit and work to protect the social interest.”

The interview results indicate that a large number of auditors do not recognise the all needs of the users of the financial reports. Hence, it is evident that the AEG exists in the Libyan accounting environment.

On the other hand, the majority of the interviewees from the user groups, ninety five percent, believe that auditors are supposed to play a significant role in detecting fraud, error and protecting societal interest. A bank manager stated that: “as a user of audit reports, I believe that detecting fraud, error and protecting social interests, are part of the auditor’s duties. If not, the audit report will be useless and the auditors will be in the position of working for the company's management and share their same common interests.”

There is a wide range of participants from the user group who believe that the auditors put their personal interests above all. This has been stated by an investor through the following statement: "I can't consider that auditors are acting on my behalf one hundred percent as I wish. As you may know, the main concern of the majority of external auditors is protecting their own interests and maximising their wealth regardless of the quality of the audit. I think it is hard to run a business in such an environment, I was very hesitant and cautious when starting my own business.”

Another interviewee, a member of the Libyan Tax Office, responded with the following comment: "frankly speaking, the main concern of a number of auditors, is maintaining their self-interests. However some auditors, especially those who belong to big businesses, are more concerned with their reputation and they may not be willing to damage their reputation by compromising societal interests, so I am more confident in the audit reports that are issued by respectable audit firms.”

With respect to fraud and errors, the participants were requested to discuss their views about the responsibility of auditors to detect fraud and errors. One response is presented in the following statement: “actually this issue is complicated and has raised a lot of controversy. According to my understanding, the management of the company are the ones who are primarily responsible for protecting the resources of the company through the internal control system, which must be evaluated by the auditors. However, if the auditor detects any fraud or misconduct committed by the company, then auditor should inform the other beneficiary users, to prevent them from any risk.”

The majority of the audit report users group, ninety three percent, were of the opinion that auditors have to detect the theft of company resources. A credit manager emphasised that: “it is the auditor’s responsibility to discover the theft of assets of the company. If they are not willing to do so, what their function is then, and for what do they receive their payments?”

Generally in regards to errors, it can be noticed from the responses of the audit report users group, that almost all users believe that it is the duty of auditors to report on irregularities, as stated by one investor: “auditors should have professional skills and moral responsibilities, so if auditors detect errors in the company, they should not be silent and must report the situation to the related authorities, otherwise they will be responsible for it.”

It can be understood that the majority of users hold an expectation which puts the responsibility of protecting social interests and discovering and reporting fraud and errors, on the auditors. On the other hand, the majority of auditors are of the opinion that these tasks are not included in the audit objectives and it is not the duty of auditors to carry out such responsibility. Actually the difference between the perceptions of these two groups, confirms the existence of the AEG in Libya and that indeed this is a wide gap. From the above discussions it can be deduced that some of the users’ expectations have not been fulfilled by auditors. The incongruence in the expectations between auditors and users has important implications for the perception of the AEG. Therefore, a clear gap exists between auditors and report users in regards to the perceived role of the audit report in protecting societal interest and reporting fraud.

7.6. Provide Early Warnings and Reporting Going Concerns

In general, users believe that auditors are responsible for giving an early warning about the possibility of business failure (Ali et al. 2007). However, the majority of the auditors are not willing to accept such a responsibility. In regards to reporting the ability of the business to continue and current going concerns, the majority of interviewees, eighty seven percent from the auditing profession, did not think that it was the responsibility of the auditors, as it is not the objective of the audit. This view is present in the comments of one auditor as follows: "the audit is a reasonable effort by a professional person, to give an opinion on financial statements, but the auditor cannot be a hundred percent sure. According to what I know, predicting future company failure is not the auditor's responsibility. I think this is over the ability of auditors as human beings."

Contrarily, the users of audit reports have a different perspective as shown by the following interviewee: "Every profession has a purpose and a duty, one of the purposes of the audit profession is to give an early warning about the possibility of company failure. If auditors do not accept this responsibility, what do they get paid for and who will perform this duty?"

A number of interviewees from the auditing group accept, with hesitation, the responsibility of giving an early warning. A few of them felt that the reason behind accepting such a responsibility was Islam, as the following response of one member in an audit firm indicates: "if any auditor has integrity and fears Allah, they will perform their audit in a high quality manner, and report any possibility of business failure, I believe there are some auditors with such qualities."

Another auditor gave the following opinion: "if an auditor complies with the audit standards then there is no problem. I believe if there are any signs of weakness in the internal control system or of the business failing, the auditor should not issue the audit report or at least including the apparent warning signs in that report. Otherwise the auditor will be responsible for that".

On the other hand, some interviewees thought that it is not the auditors' duty to give an early warning about the possibility of business failure. For example, a teaching staff member, who performed auditing services part time, stated that: "although the auditors are qualified enough and comply with the rules, they still are human and have limited abilities which restrict their abilities and responsibilities; they cannot in a few working days, evaluate one hundred percent of a company's complete transactions over the past year. This is the responsibility of the company's management."

One auditor gave his opinion by saying that: "auditors are in a critical situation, they are between the company as the client on one side, and the users of financial reports on the other side (a proverbial hammer and anvil), ...if an auditor issues an audit report which includes any concerns about the possibility of business failure, then the auditor will face problems with the company if the concern was wrong and the company's financial situation improved."

7.7. Auditor Proficiency

Arens et al. (2005) mention that competency implies a professionally qualified and independent individual who has the ability to discover failures in the accounting system. Independency requires auditors to adopt unbiased viewpoints regarding their audit assignment in all related matters. They must be capable of reporting any illegal action detected, and must be given sufficient control to refuse to succumb to client interests and influences.

It is believed by the highly skilled auditors, that they provide a high quality audit report which in turn helps to enhance the profession's image. In the case of Libya, a number of audit firms are perceived as highly competent and professional, however some auditors are perceived as not even qualified. At the beginning of the oil boom in Libya, there was an urgent need for auditors, so the initial stage of the audit profession was established. This situation forced the government to issue the auditors licenses to include almost anyone having any certificate in commerce or even some working experience in accounting or any field that related to finance. In some cases the social networking was the most influential factor in the issuing of such a licence (Saleh 2001).

The existence of unqualified practitioners has affected the reputation of the Libyan accounting profession as they lack professional competence, which has a negative influence on the profession. The main targets of such unqualified practitioners are obtaining new clients, retaining current clients and increase their own wealth, regardless of whether they perform a high quality audit or not. A university teaching staff member stated that: “with the beginning of the seventies, the Libyan economy started to grow and the country needed a large number of accountants. So, in order to solve this problem and fulfil the demand, the government as a temporary solution, granted licenses to practice the profession without stringent or strict conditions. Unfortunately, a number of these practitioners still exist."

It is expected that these practitioners willingly or unwillingly, violate the regulations and make faults in their work. This causes immense harm to the repetition of the profession, as they do not have a deep academic background and are not aware of the professional standards.

Most of interviewees agreed that the majority of auditors should have an extensive period of education and recommended that they have memberships in international professional bodies but they expressed their disappointment with the existence of some licensed auditors who are unqualified and perform the audit without integrity in which the reputation of the profession is harmed. This is mentioned by a university teaching staff member in following statement: "the deficient auditing performance and the lack of integrity by those carrying out the audit who are not professionally educated but licensed, harms the professional image …I have heard that some auditors issue the audit report without even performing an audit."

It is worth noting that some auditors practice their profession from their own homes as individuals. This format allows them to operate cheaply by avoiding most of the overhead costs associated with big businesses. Most of these (cut-price) auditors, are rogue auditors that visit companies to seek out auditing work. In this way they are seen as asking for a service from the company and not the company seeking an audit from them. In this way they compel themselves to produce positive audit reports irrespective of their findings and thereby compromise their independence. Sometimes, as mentioned by the previous quote, they don't even perform an audit.

More generally, the existence of auditors who lack skill and competence, has been another cause for the poor representation of the accounting profession. This can be related to the recruitment process. A number of highly skilled auditors have difficulty finding work because of the negative societal values of networking, bias and nepotism that prevails in Libyan society. Some of the employees in Libyan audit firms have been employed not because of qualification, but personal relationship. Actually, this seriously harms the integrity of the profession as commented by a member of an audit firm in the following response: “employment should be conducted in an objective way based on qualifications, experience and intelligence. However I’m sorry to say, the common practice is through networking and nepotism. One day I witnessed such a case. There was a job vacancy available in our firm, so many people applied for the position. I still remember there was one of them who had a higher qualification and experience than the others, I was surprised and disappointed, when the firm employed one of the applicants who had a low qualification, just because that person had contacts and relations with one of the firm’s partners.”

From the discussion, it can be deduced that the existence of unqualified auditors who lack the required skill and competence, affects the audit quality and professional reputation in Libya. In contrast, a number of interviewees from both groups (auditors and users) believe that auditors are adequately professionally qualified. It is likely that the reason for this view is that in the last few years, LAAA has set tough requirements for candidates to be entitled to practice as auditors in Libya. In order to enhance the profession's image in Libyan society, some auditors have provided suggestions which include continuing professional development and training; they believe it is a necessary requirement to have well qualified auditors in Libya (Ritchie and Khorwatt 2007).

7.8. Providing Ancillary (Non-Audit) Services

The discussion in this section will be about the influence of providing additional services (non-audit services) on the audit profession in Libya. Non-auditing services mainly refer to management consultancy services, taxation services, bookkeeping and preparation of financial statements. In order to maintain the auditor's independency, it is highly recommended for auditors to avoid performing any non-audit services for a client at the same time as holding the position of auditor. However, a number of Libyan auditors still perform such services.

In response to whether performing additional services to the same client would influence auditor performance and independence, a large number of auditors believe that it is their role to provide additional services for their clients. The majority of auditors, sixty eight percent of interviewees, believe that they have a good opportunity to provide additional services to their clients as they have a deep understanding of the situation of their clients through their auditing function. Moreover, the auditors believe that the relationship between them and their clients will be improved and a mutual trust generated. This view is presented in the statement of the following auditor: “I totally agree with allowing auditors to perform additional services beside the audit services. In this case the auditor will be the best person to provide such services as they will be aware of the environment of the clients’ business. Actually this will be a big benefit to the client who will obtain services in addition to the audit, so it will be like a two in one deal.”

Moreover, a number of auditors believe that their audit clients would benefit more from their services since they are more aware of their clients’ business. They believe that the client prefers to have the same auditor to provide the audit and additional services at the same time. In other words, they perceive their role in providing additional services as doing a great favour for their clients as mentioned by the following auditor: “I would be more motivated to consider the client’s interests and benefit if I provide additional services to the audited clients as I’d be more familiar with their business.”

Also, the auditing fees in some cases are less than the additional services fees, and the auditors generally are not willing to lose such fees. In this regard an auditor said the following statement: “as an auditor dealing in the profession of accounting, I try to provide my services to the highest amount of customers possible, therefore to be honest with you, I can not refuse to provide any service to any customer. If I don't provide the services, some one else will do it, and I’ll lose the customer.”

On the other hand, the majority of the users are of the opinion that auditors should not be allowed to perform additional services for the same client, as this will influence the auditor's independence which is not acceptable under auditing standards. The users also believe that it may influence the auditors' independence and performance which will negatively affect the benefit of users as shown by the following statement: "I think the auditors should not provide additional services because of the conflict of interest contained therein. As I heard, the fees of additional services are more than audit fees, so some auditors go through some negotiation with their clients to issue a clean report and in return the clients will allow the auditor to provide the additional services. As a result, auditors may be forced to issue unsuitable audit report to maintain the fees of additional services."

According to the analysis of the interviews, the majority of Libyan auditors believe that it is their duty to perform additional services. On the other hand users have different beliefs, which is that the additional services will influence the auditor's independency. The majority of users, sixty nine percent, believe that auditors should not be allowed to perform non-audit services, to avoid conflicts of interest and maintain their independence.

From the above discussion, it can be deduced that the majority of auditors would like to provide the non-audit services for their audit clients as it will be more beneficial. On the other hand, most of users do not agree about performing additional services for the same audit clients. Hence, this confirms the existence of the AEG in Libya between the auditor's belief and user's perception.

7.9. The Influence of Auditor's Client's Relationship

There are a number of ways in which the independent auditor can be influenced by conflict and pressure from powerful people or corporations. The first, and probably the most intense pressure, is that which stems from the auditor's fear of replacement; management may choose to replace the audit firm once their interests or positions are threatened.

The powerful managing directors who have strong personalities and political connections may use their power to put pressure on auditors to impair auditors' independence. This was confirmed by the following statement of one of the interviewees: "this society is an intertribal society where the family name of the person gives that person some extra advantages, especially if that person has political connections or is from a rich family."

The disunity between users (for example, client management) and auditors has important implications for the concept of auditor independence. Management's main source of power in auditing stems from its ability to select its auditor from amongst a vast number of competing audit firms, determine the conditions of audit engagement and audit fees and also replace the auditors (Dewing and Russell 2001).

Some insight into this area is provided by an auditor who stated: "…in order to guarantee auditors' independence, auditors should have numerous clients and therefore, have different sources of income. But that will be hard to do in practical life as the clients chose their auditors and I don't think any auditors will refuse to provide the services."

Some more insight into the mindset present in the Libyan environment is seen in the following statement: "…I have never heard of a Libyan auditor leaving or refraining from providing services before. I don't think auditors would be willing to make such a sacrifice. Usually auditors seek large companies in order to achieve greater revenue income, and some auditors provide their services to these companies for many years."

One interviewee stated that: "the audit services, as any other service in Libya, depends on networking and relations rather than qualifications. I know of some auditors that have been providing their services to the same clients for many years. I believe if the company management are not happy with the auditor they will not allow the auditor to continue providing the services."

The more time auditors spend with clients, the higher the probability that their interactions will result in good expectations, and the development of a cosy relationship, which in turn affects auditor independence. Four situations have been perceived by respondents as impairing independence. They are:

- Lengthy audit tenure.
- A trade and rent relationship.
- Shareholdings or acting as a shares trustee.
- Frequency of interactions.

According to Jager and Gloeck (1993), many auditors are dishonest and inefficient, and are performing their work without complying with the profession's ethics and standards. The auditor cannot and does not report “without fear or favour”, they operate in an environment which is not conducive to enhancing their independence.

Auditors were asked to respond to a statement about whether their independence would be influenced by the company managers. The majority of auditors thought that there was no influence by the client management on their independence. As stated by an audit firm member: “there is no influence on auditors, because the auditors are appointed by LCO for public companies and by the shareholders in the private companies at their annual general meeting.”

It is clear that there is considerable variation between auditors and users about auditor’s independence, this indicates and confirms the existence of an independence gap in Libya. The doubt in the independence of auditors is one of the causes of the expectation gap in Libya.

7.10. The Professional Code of Ethics

The code of ethics is said to exist in the profession to maintain its integrity and guarantee the performance of the auditors. Gaffikin (2007) noted that “the independence of auditors requires them to have reached a high stage of moral development in order that they avoid conflicts of interests” (p. 9). On this subject, the majority of interviewees expressed their regret, that the professional code of ethics is based on Western ideology, which does not reflect Libyan culture which is mainly based on Islamic values. The code of ethics will be ineffective in deterring inappropriate behaviour if it is not compatible with the ideology of auditors and the general public.

The professional code of ethics is necessary to improve the representation of the profession. Ethical reasoning may be different in different nations, for that reason, it is significant to recognise culture diversity when drawing up a professional code of ethics. Gaffikin (2007) mentioned that "Most professional bodies have some form of ethical statement in respect of the operations of their organisations" (p. 10). However this is not the case in Libyan professional bodies as can be understood from the following respondents: "LAAA did not issue a code of professional ethics so far, some academicians and auditors submitted to the LAAA, a proposal of a code of ethics which is still a draft, this is just a translation of the American code. I expect that this code will be ineffective as it does not present our Islamic values and virtues"

Some interviewees expressed their dissatisfaction with the full adoption of the Western rules and ideology as it will only increase the dichotomy between the secular and sacred life which will lead to pursuance of economic rationalism at the expense of Islamic rationalism. This can be seen in the following statement:

"I don't know why we have to follow the US and UK in every step? It is okay to export some goods from other countries, but it is not acceptable to totally adopt their thinking and behaviour. I believe that we have the self-confidence to enforce our own thinking."

The major distinction between the code of ethics that is based on Western secular ideology and that based on Islamic beliefs are the enforcement and the compliance. The secular ideology does not recognise sacred conscience as a factor in decision making. As stated earlier in the chapter on the accounting profession in Islam, Muslims consider Islam as a way of life, so business and religion cannot be separated.

The majority of interviewees felt that most of the clauses, in the proposed code of ethics, do not reflect Libyan Islamic ethical values but are imported western principles. The interviewees believe that the current code of ethics does not fully correspond with the Libyan Islamic ethical values as expressed by the following respondent: "in my view, the intention of high performance and behaviour has long been shaped by Islamic spiritual teachings ... but the current code which LAAA tries to impose on auditors is based on Western ideology and secular thinking. This may harm the profession, as it requires auditors to discard their Islamic values and embrace the secular Western code of ethics. However, a code of ethics using Islamic values would help to deter any prohibited behaviour. We (Muslims) believe that every human action and intention will be judged and punished or rewarded by Allah on the Day of Judgement."

Regarding the implementation of the ethical codes, it was exposed by the interviews that only a number of auditors comply with the code while many auditors are not willing to do so. The lack of obedience has significant implications as failure to do so limits auditors' ability to perform high quality audits. This reduces the professional objectivity and reputation.

From the views expressed by respondents, it can be deduced that respondents were unhappy with the current state of professional ethics because this code does not consider the inherent culture and auditors' ethical reasoning that are mainly based on Islamic values. Moreover, there are no sanctions in place against auditors who infringe the rules of LAAA. Furthermore, the adopted code of ethics is based on foreign ideology imported from the West.

Culture has a significant influence which shapes the attitudes and behaviour of the members of society. In Libyan society there are some prevailing values which may have a negative effect on the development of the profession. One feature is the careless attitude towards rules as well as spiritual and ethical values. Libyan society in general has become lax regarding the enforcement of rules and regulations. This flexible attitude is not only about man made rules and regulations but also religious rules as well. The next comment made by a member of a large audit firm, explains how such values could harm the society and the profession: "actually, the main problem that threatens the profession is the carelessness in complying with the rules and standards which have no power to be enforced. In order to develop the profession, there should be enforcement of the rules and standards. Unfortunately, LAAA has no power to enforce their rules and standards especially for anyone with a government connection".

In other words, the careless attitude of society has put fewer obligations on LAAA and auditors to strictly enforce and adhere to rules and standards. In fact this damages the current image of the profession. Moreover, the obedience is obviously less when the authorities and society do not reward those who comply with the rules and punish those who do not. The following LCO member expressed his feelings as follows: "I regret to say this, but the careless attitude, which is dominant at most levels of society, is the main factor that discourages the implementation of rules and ethical codes”.

Another member of an audit firm mentioned: "see my brother, ethical values may be similar, to some extent, across nations especially that have same ideology, however the dissimilarity is in the methods of the implementation ... unfortunately, in this country, the compliance with such rules and ethics is low especially by those who have some contact with authorities.”

Furthermore the negative collectivist value of networking, nepotism and favouritism limits the enforcement of rules and regulations. The first idea that comes to many people's mind in Libyan society when rules are violated, is to try and find help for solving the problem through their networking to escape prospective punishment. This is unhealthy and affects the image of profession and hinders the implementation of rules and justice as stated by the following interviewee who is a member of the public control office: “I feel sorry to say that social relationships have a negative effect on the profession of auditing, as people do not distinguish between job obligations and social relations, some people are willing to sacrifice their work obligation for their social relations, this harms the development of many professions including accounting and auditing."

As can be seen, the Libyan accounting profession suffers from poor adherence to rules and regulations and the absence of united regulations. These are results of the weaknesses of the professional body. It is therefore up to the auditors themselves as to how they perform their duty. By establishing a code of ethics based on Islamic teaching and combining it with accounting professional ethics, the auditors would be more inclined to implement it in their daily work. This code of ethics would contain all the legal requirement of a professional accounting code of ethics, but also include Islamic teaching to motivate accounting professionals on a personal level. A code of ethics using Islamic teaching would contain Quranic verses and sayings from the Prophet Muhammad (PBUH) which are revered by all Muslims worldwide. This would help to motivate accounting professionals perform their duty diligently and help to remove the negative effects of tribalism, carelessness and nepotism as Islam has positive teaching regarding all of these issues (see section 3.7). As these issues are some of the causes of the AEG, any effective steps towards reducing them can be seen as an effective step towards eliminating the AEG.

7.11. The Influence of Auditors' Religious Values

Since the early ages of human life, religions can be considered as the initial sources of guidance that have been provided for human beings to direct their behaviour. Religious values, regardless of the kind of religion, affect human behaviour. Religion instructs individuals and groups on how to act as human beings with Allah (as the Creator), among human beings and with other creatures. Muslims believe that Islam provides a set of ethics and rules for every aspect of life, including business transactions.

According to Preston (1996), religion serves as one of the most powerful sanctions and motivations for people to behave morally. Hence, it can be expect that high quality work and performance is due from the person who complies with religious commands. In other word, the individuals who are more religious, are expected to be more ethical in performing their duties as they feel that Allah is aware of their actions in which they will be accountable for.

Auditors are human beings and as human beings they are part of their society. In Libya where they claim it is an Islamic country, auditors are influenced by Islam, the religion that is dominant in the country (almost 100% of population). Auditor's behaviour and performance are affected by their religious values.

For this reason, this research investigated the influence of religious values on the auditor's performance. The researcher believes that this will be one of the contributions of this study as no previous studies have investigated the influence of religious values on auditor's performance, especially in Libya.

The respondents were interviewed in order to investigate the influence of religious values on auditor performance. All the interviewees were Muslim, however in order to make sure that they were aware of the relation between Islamic values and work performance, the researcher gave a brief background about the topic. The interviewees were then asked to answer the following question: “do you think the religious values could influence the auditor’s performance?” Most of the interviewees, both auditors and users, believed that religious values had a positive effect on auditor performance. This is present in the following auditor’s response: “well, that's a great question, and I think it is the essential part of the problem. People forgot why they exist in this world, and as a result, we hear bad news daily about professional crises and corruption.”

A member of audit firm expressed his opinion as follows: “well, if the auditor is a qualified person, I agree that the more religious any auditor is, the more ethical they are and the more professional their job performance is. I myself believe that Allah is watching me all the time.”

A university teaching staff and auditor mentioned that: “I never thought about this before, however when you asked me this question I found it is a very good point and I’ll put it in my mind in my future work and I’ll ask my colleagues to consider this point, I believe it will help.”

On the other hand, few auditors consider religious values as part of their professional values as they mostly obey and follow their professional values as stated by one auditor: “I agree that religion is important in our lives, but we cannot limit this problem just to religion, I myself follow the professional standards and rules in my work.”

Another interviewee presented the following opinion: “I think it will be hard to judge if the person is religious or not, as religious values are internal issues and attitudes. In some cases people pretend they are religious.”

From the above interviews, it can be seen that all of respondents believe in Allah and acknowledge the importance of religious values in enhancing the auditors’ performance. This is typical throughout the Libyan environment. Although the majority of Libyan auditors practice Islamic rituals (daily prayers, fasting, charity and pilgrimage) however a number of them don’t apply Islamic Shari’a in their daily life. This is due in part to a lack of proper Islamic education with many not even know the rulings, and weak faith with many performing the rituals out of habit, usually given from the culture during childhood. A few auditors believe that the professional standards are more important in performing their job; also they think it will be hard to judge the auditor's intention. In this regard it can be concluded that Islam does not differentiate between Secular and sacred. This affects the mentality of the accounting profession, as well as all professions, throughout Libya.

7.12. Summary

This chapter has investigated and discussed the findings related to the AEG in the Libyan environment. This chapter provided an analysis of the interviews of related groups, auditors, users of financial reports and accounting academic staff. This chapter presented an evaluation of the profession in Libya. The results show that the profession in Libya is suffering from a severe lack of legislation and standards. Also, the level of professionalism of the profession is lower than the required level. The analysis of audit report indicates that there are different forms and contents of audit reports and no united standard. A large number of the issued audit reports are not in compliance with reporting standards. The interviews showed that a large number of users are not satisfied with the format and content of the report as most of the reports are vague and hard to understand. The interviews showed that only a small number of auditors accepted responsibility for detecting fraud, error and reporting illegal conduct. Moreover, the majority of the auditing group felt that it is not the auditors' responsibility to ensure the performance of the company's management. Regarding reporting the ability of the business to continue, the majority of interviewees from the auditing group did not agree that they should have to carry this responsibility. The results indicated that some auditors are not qualified because they received their licenses from a past period when there were no qualification requirements. Also, obtaining work in the market of audit services relies heavily on social relations rather than qualifications. Although providing non-audit services to the audit client can influence the auditor's independence, most of auditors believe it is their role to provide additional services for their clients. The study confirms that tribalism and social relations have a strong impact on the professional performance of the Libyan auditors. This has a negative effect on the auditor's independency and reduces the audit quality. This chapter discussed the professional code of ethics. The results show that the code of ethics is an important factor that contributes to the AEG, which can be considered as an ethics gap. The code of ethics should be generated, consistent and compatible with its environment. This chapter also discussed the influence of religion (Islam) on the auditor's performance. The results show that Libyan auditors are more willing to apply a code of ethics that is derived from Islam. They believe it could act as a standard for Muslim auditors that motivate their performance. As can be seen by analysing the data, the AEG is evidently existent in the Libyan accounting environment at many issues.

Chapter Eight:

Summary and Conclusion

8.1. Introduction

The purpose of this chapter is to summarise and synthesise the results presented in the thesis. This chapter attempts to provide an overview of the findings, and draw some overall conclusions. The remainder of this chapter is organised as follows: Section 8.2 provides a general summary of the research project. Section 8.3 outlines the detailed results and attempts a synthesis of the evidence in order to identify pervasive conclusions from the data analysis. Section 8.4 discusses the main limitations of the thesis. Section 8.5 presents the contributions of the study. Section 8.6 provides some recommendations. Section 8.7 suggests a number of potential areas in which further research could usefully develop the work documented in this research.

8.2. Summary of the Research Project

The previous chapters of the thesis were laid out as follows: Chapter 1 introduced the research problem and outlined the structure of the thesis. Chapter 2 provided a literature review which focused on the emergence of the AEG and audit crisis. It provided relevant background for the research problem and fieldwork of this study. The review of previous studies attempted to offer an essential foundation for developing the thesis' methodological and theoretical framework. Chapter 3 provided a background and framework of an Islamic accounting profession and linked it with the research problem. This chapter also presented Islamic ethics and accountability, which are supposed to be present in such a country. Chapter 4 then provided a detailed discussion of the research factors influencing the selection of the appropriate methodology and research method. An ethnographic qualitative approach was used in this study. Chapter 5 provided background information concerning the social, political and economic environment of Libya. Chapter 6 presented the historical stages and the current state of the accounting profession and auditing in Libya. Chapter 7 presented the data analysed and provided a discussion into the results of the interviews.

8.3. Summary of Findings

As mentioned previously, this research analysed interviews and document samples in order to collect data. The interviews were conducted in order to obtain a better understanding of the topic. Documents, chiefly analysed samples of audit reports, were used in order to support the outcome of the interviews. The results of the analysis of the audit reports show that there is no specific unified format of audit reports in Libya. Also there are various irregularities in the preparation and issuing of audit reports.

The results of the interviews taken from auditors, users and accounting academic staff, are reported in Chapter 7. These indicate that an audit expectation gap (AEG) exists in Libya. The evidence shows that the gap covers a number of issues, particularly those issues that have been identified in the accounting literature. The results show that there is a perception gap between the auditors and users regarding the audit function and objective.

The majority of auditors and users acknowledge that the international scandals in recent times have influenced to some extent the Libyan accounting profession and contributed to the AEG. Some interviewees in the auditing group, expect the profession in Libya will become more sensitive to the recent changes throughout the world, especially now as Libya has become more open to the rest of the world.

Regarding the format and content of the Libyan audit report, there were found to be different perceptions among the auditors and users. Some auditors believed that the format and contents of the current audit reports are satisfactory, understandable and there is no need for any changes or improvements. However, part of auditor's group believes that the format of audit report should be developed and improved. In the same way, the majority of users are not happy with the existing format of the audit report and they expressed their dissatisfaction by stating that the audit report is not clear or understandable enough.

Providing ancillary (non-audit) services is another issue that influences the integrity and independence of auditors. This contributes to the extension of the AEG and harms the accounting profession in return. In response to whether performing additional services to the same client would influence auditor performance and independence, a number of the auditors believe that it is their role in providing additional services for their clients as they know better about the nature and the situation of their clients' business. By contrast, the majority of the users, especially investors and creditors, were of the opinion that auditors should not be allowed to perform additional services for the same client as it may influence the auditors' independence and performance. This can be seen as clear evidence for the existence of the AEG.

On the topic of client influence over the auditor's performance, it appears that there are many negative influences, especially if the client is supported politically or financially. The results confirm the negative role of social relations and networking in the Libyan professional environment. This networking harms the accounting profession in Libya. Also it can be seen in the Libyan environment, that auditors are in little or no position to effectively resist clients as they will probably lose their works, as companies go to auditor who issue favourable results.

Regarding whether it was the responsibility of auditors to report the efficiency of management and protect social interests, auditors believe that it is not the function of the audit. On the other hand, most of the interviewees from the report user group indicated their wish for auditors to play a significant role in protecting society's interest and detecting fraud as they consider these tasks, a fundamental duty of auditors.

On the issue of giving an early warning about the possibility of business failure, the majority of users expected that it is one of the duties of auditors to give early warning signals about the possibility of company failure. Some auditors explained their critical situation as not being able to report the possibility of business failure, because that will cause problems between them and their clients. The clients most likely will then change auditors to one who is willing to write favourable reports. However a small number of interviewees from the auditors group were willing to report any possibility of business failure.

On the issue of whether the Libyan auditors are acceptably well-qualified to accomplish audits, a number of Libyan auditors are perceived as highly competent, however some licensed auditors are not perceived as qualified auditors. This is the result of early governmental policy, which was adapted to meet the urgent need of auditing at the beginning of the oil boom in the 1970's. The existence of unqualified practitioners has affected the reputation of the Libyan accounting profession in general, because they lack professional competence, which has a negative influence on the profession.

On the issue of professional code of ethics, no formal code of ethics has been issued in Libya; however the LAAA has tried to adopt a code of ethics which is mixed between the US and UK codes of ethics (one of the proposals is in Appendix B). In this regard, a large number of interviewees expressed their regret with professional codes of ethics which are based on western secular ideology that do not reflect the Libyan cultural which is mainly based on Islamic values. It can be seen that both auditors and users of the audit reports in Libya accept Islamic principles. It can be assumed that if the Islamic values were enforced with regard to auditing, both parties would accept these values and thereby the expectation gap would be reduced.

In this study, which presented the AEG in the Libyan environment, the influence of the professional regulations and standards were presented, and the influence of the Islamic construction of identity and responsibility of the individual to Allah was pronounced. Thus, the explanation offered for accountability was related not only to economic ideology, but also to social and cultural reasons as well. This explanation encompassed values and beliefs that were related not only to secular but also to sacred activities.

8.4. Limitations of the Study

Although every effort has been made to conduct comprehensive and detailed research analysis in this thesis it is nevertheless naturally incomplete, and remains subject to a number of limitations as follows:

- All the participants in this study were Libyan; therefore, the findings of this study are limited only to Libya because it only reflects the views of the participants living in Libya. These views may be influenced by the culture, regulations and the system of the country. Thus, the findings of this study may not be capable of being extended or generalised to other countries.
- Due to time limitations, the researcher could not use direct observation to collect data so the study uses interviews as the main method of data collection. Also, as the researcher lives and studies in Australia, which is a great distance from Libya, distance, access, time, cost constraints and the

amount of work involved, prevented the researcher from expanding the research setting.

- Due to the fact that it is very rare for women to practice auditing, although it is permitted and legal, the researcher could not interview any female auditors.
- Although the study argued that most of the previous studies have been conducted in Western countries and ideologies that did not explain or answer all aspects of the Libyan AEG, this study has been written and presented in Australia, which is considered as a Western country and influenced by Western ideology.

8.5. Contribution of the Study

In light of the study's remarks, the following points are the study's main contributions:

- Methodologically and methodically, the study was reinforced by the importance of and the need to conduct in depth field research, as the accounting profession in Libya still needs much more study and research.
- To extend the limited amount of research on the AEG in Libya by providing a more comprehensive analysis of the perceptions of auditors and users in Libya.
- Although there are huge amounts of research on the AEG, most of the previous studies were quantitative. This study is one of the few qualitative researches about the AEG and it is the first in Libya.

- This study contributed to the limited studies on the AEG conducted on Arab countries in general and within the Libyan socialist context in particular.
- This study provides an understanding of the influences of cultural, social and economical contexts on the auditing and accounting profession in Libya.
- The observations of this study complemented previous studies in their attempt to theorise the AEG and Libyan professional performance.
- The study contributed to knowledge by including the AEG in the debate around Libyan accounting practices.
- This study is the first that links the AEG with Islamic religious values that are dominant in Libya.

8.6. Recommendations

Based on the study's findings, some recommendations are made in relation to the accounting professional practices within the Libyan context. The recommendations are as follows:

- In order to improve the accounting profession's status and auditing practices, the Libyan accounting profession should develop and adopt accounting and auditing standards that are suitable for the country's environment. These standards will provide guidance and rules for all related parties which have any interest and concern in the accounting profession.

- It is evident that accounting and auditing practices are to be reflected in and reflect accounting education. Thus, the accounting education should be oriented and developed to serve the peculiar problems the accounting profession faces in Libya.
- In order to improve the accounting profession, efforts should be spent to co-ordinate cooperation between the Libyan accounting professional bodies and audit firms to enhance the image of the profession.
- The LAAA should be more active in monitoring and controlling their members and audit firms.
- Auditors should observe the independence concept, and should not engage in activities which decrease their independence.
- The professional body of auditing should issue accounting and auditing magazines in addition to building a website that contains the latest developments in the field.
- LAAA should reassess the qualifications of the licensed members, adopt training programs in the field of auditing and accounting and hold regular seminars.
- Audit firms should adopt a quality control system to ensure the quality of their services and the level of the compliance to professional standards.
- Libyan accounting education and training needs to be improved to meet the needs of the Libyan environment.
- Auditors and professional bodies should adopt the standards of the audit reports as well as unite and standardise the format and contents of audit reports to reduce any ambiguity and misunderstanding of the report.

- The professionals and academicians have to make concise efforts to increase the awareness of the important role the auditing profession plays. Also, auditors should be aware of their responsibilities toward society. Thus, auditors must make more effort to achieve the needs of the community and maintain and develop the auditing profession.
- As Islam is a key factor in influencing the attitudes and behaviour of Libyan auditors, it should be used as a means to motivate Muslim auditors to increase their performance.
- At the governmental level, as Libya becomes more open to the world, the need is to increase awareness of the importance of establishing and enforcing suitable regulations in the accounting profession to meet the recent changes in Libyan environment. Hence, there is an urgent need to update and improve the Libyan Laws that related to the accounting profession.

8.7. Suggestions for Future Research

In the light of the study's findings, there appear to be a number of ways in which future research could build usefully on these findings.

- In contrast with the previous studies, which have been undertaken in Western countries, this study has been conducted in Libya. This study did not observe a divide between the sacred and the secular in the Libyan context which may open the door for more in-depth comparative studies in the future. In this regard, the researcher has become involved in teaching and practicing accounting and auditing in Libya and Australia with the intention of conducting a comparative study between these two countries.

- Some of the limitations of this thesis outlined in the limitation section could guide future research endeavours in specific directions.
- From the time since the data was collected for this study, the political and economic landscape in Libya has begun to change. Movements are more frequently taking place to allow the country to integrate more fully with the global economic community. Once these changes have had time to take effect, it would be worthwhile to undertake further researches to examine whether the recent developments have impacted the Libyan auditing profession.
- Since the problem of the AEG could be considered as an ethics gap, it is suggested to conduct more research into this area. Also the influence of religion on the AEG could be an interesting area of further research especially in the countries where religion plays a crucial role in the daily life of society.
- As Libya has recently adopted the International Auditing Standards, it is recommended to study whether these standards are fully compatible with the Libyan accounting environment.

Finally and generally, the expectation gap may exist in our lives in different areas with different levels. This gap could arise between entities that interact or have direct or indirect relations. These entities could be the government and its people, teachers and their students, employers and their employees, friends, partners, family members, husbands and wives… etc. All these different gaps need to be investigated in order to narrow it and reduce its negative effects. This will promote a better and happier life for all of us.

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AppendixA

Membership of LAAA

Great Socialist People Libya Arab Jamahiriya
General Union of Accountants & Auditors

الجماهيرية العربية الليبية الشعبية الاشتراكية العظمى
النقابة العامة للمحاسبين والمراجعين الليبيين

Date:26.03.2003

Certificate

This is to certify that ***Abdelasalam M. Ahmed El- Darragi*** has been a registered member of this union since 22/03/2000. His number on the list of Accountants & Auditors is (825).

As from the registration date above, he is entitled to practice Accounting & Auditing in accordance with Act 116 of 1973. He also has the right to use the title of "Authorized Public Accountant"

Mohammed B . AL Barghathi
Secretary
Union of Accountants & Auditors
Benghazi – Libya

Appendix B

The Proposed Libyan Auditing Law

(Translation of the Arabic text)

- The Planning of Legal Accounting in the Auditing Profession
- Presented to/ The First National Conference for Accounting
- (The Accounting as a Profession and Criteria…Evaluation and Reformation)
- Tripoli 12/06/2006.
- Presented by/ Faisal Mukhtar Swaidan and Abdul-Hakim Rajab AL-Musallati (Legal accountants and auditors)

"The planning of legal accounting and auditing"

(The foundation of the Libyan accountants' experts association)

Article (1)

This law is called "the law of planning of legal accounting and auditing"

Article (2)

The following words have a special meaning unless they have been given another one:

- The profession: Legal accounting and auditing.

- The council: The council of accounting and audit planning which is formed according to this law.
- The chairman: The head of the council.
- The expert: The authorised legal accountant who is allowed to practice accounting.

Article (3)

It is not allowed for any person to practice legal accounting in Libya unless he/she has been authorised from the council according to the terms of this law and registered in the financial auditing institution and related institutes.

Article (4)

Those who are authorised to practice accounting should be:

- Libyan.
- Legally competent.
- Should not have been convicted in a crime or an offence unless he/she has been rehabilitated.

He/she should have one of the following:

1. BA degree in accounting and have practical experience for a minimum of 5 years in accounting or auditing, including a minimum of 2 years in auditing after obtaining the BA degree.
2. MA degree in accounting and have practical experience for a minimum of 2 years in accounting and auditing, including a minimum of 1 year in auditing after obtaining MA degree.

3. PhD degree in accounting and have practical experience for a minimum of 1 year in accounting and auditing, including a minimum of 1 year in auditing after obtaining PhD degree. Or taught accounting or auditing in one of the Libyan universities for a minimum of 2 years.
4. Worked as a financial inspector or in any other official organisation, for 8 years in a position as the main auditor (general manager) with a BA degree or equivalent.
5. An internationally accredited certificate in this profession from an accountants institute or organisation.
6. That who ever has any of those above mentioned certificates in the sections (1.2.3.4.5) from the term (d) of this article should pass the council's test in accounting and auditing and in the legislation related to accounting, auditing and financial and taxation matters in Libya.

Article (5)

The committee of assessment in the education department, is the authorised authority of assessment of the scientific certificates mentioned in article (4) of this law. While other documents, the council will assess them.

Article (6)

The non-Libyan is authorised to practice this profession in Libya if he/she is authorised to practice it in his/her country and meets the authorisation conditions mentioned in this law in condition of respiratory, committing to the work legislations and has a valid settlement.

Article (7)

a) Establishing civil firms among practicing experts is permitted after the council's agreement as long as this firm is registered with the relevant authorities and according to the known legislations and under the following conditions:

1- The auditor should not be a partner in more than one firm and not practice auditing outside of the firm whether independently or working with others.

2- The council should be notified when an auditor has joined or withdrawn from a firm.

b) If an auditor died in one of the established firms according to the term (a), his/her successors, other than auditors, should arrange their situations in the firm within 3 years from the death according to the terms of this law including meeting the authority conditions, or else, the council will evaluate the rights and decide the way of classifying them and its decision will be irrevocable and obligatory to all parties.

Article (8) in the profession council

A council called the Council of Accounting and Auditing Planning is formed as follows:

1. The secretary of the general popular committee of the auditing board "the chairman".
2. The secretary of Libyan accountants' experts committee "a member and vice-chairman".
3. The scrivener in the financial secretariat "a member".
4. The general directorate of the taxation office (or his/her deputy) "a member".

5. The deputy governor of the Libyan central bank “a member”.
6. The general directorate of the securities market “a member”.
7. Two specialists in accounting from the teaching staff of the general Libyan universities “members”.
8. Four Libyan accountants’ experts “members”.

The general popular committee appoints those who are mentioned in the sections (7,8) of the term (a) from this article for 2 years non renewable, provided that the four accountants’ experts nominated by the administrative board of the Libyan accounting experts committee after establishing.

c) The vice-chairman assumes the works and authorities of the chairman when absent including heading the council and calling it to hold meetings.

d) The council meeting becomes legal if a minimum of two-thirds of members attend, provided that the chairman or his deputy, in case of the chairman absence, is one of them. The decisions are issued unanimously or according to the majority of the attendants’ voices. If the voices are equal, the side in which the chairman is with will be preponderate.

e) The council appoints a secretary within the first official meeting provided that the secretary must be exclusively occupied with the council duties and a number of employees, to help him. He should be responsible for all the council duties including preparing the agenda and the meeting reports, decisions, correspondences and records, folders and archives filing. Their wages are determined by a decision from the general popular committee on the basis of the council proposal.

Article (9)

The council assumes the following duties and authorities:-

1. Adopting the accounting standards and the standards of essential auditing on the basis of a proposal after consulting the accountants' experts committee.
2. Forming a professional licensing committee and creating the necessary instructions to plan its work and determining its authorisations and the way of testing and other matters in coordination with the Libyan accountants' experts committee established according to this law.
3. The approval of granting the professional licence on the basis of the licensing committee proposal and canceling this license according to a recommendation from the secretary-general of the Libyan accountants' experts committee.
4. Studying the objections on the secretariat-general committee decisions.
5. Forming the necessary assistant committees to the profession council in order to achieve its duties and determine its authorisations.
6. Issuing instructions related to planning the council duties and the necessary instructions to implement the terms of this law and the regulations and rules issued according to it.
7. Preparing the projects of the legislations related the profession in cooperation and coordination with the secretariat-general committee including forwarding a proposal for the rules of procedure to the Libyan accountants' experts committee established according to this law.
8. Approving the professional institutes of the legal accountants or equivalent according to the committee recommendation.

Article (10)

a) A request for a practicing accounting license, is forwarded to the licensing committee chairman by lodging the committee approval application form. The request is enclosed with certificates and documents which prove the required qualifications and conditions for licensing. The licensing committee has the right to ask the licensing requester submitting any other certificates or documents to consolidate the request.

b) The licensing committee has to decide within 60 days from the date of submitting the request and it has to notify the requester within 15 days. Any written notification the committee send to the claimant is considered as if he/she has received the notification within a minimum of 10 days from the date of sending it through the registered or electronic mail on the claimant address found on the application form.

Article (11)

If the committee declined the request regarding granting the practicing profession licensing, the claimant has the right to appeal via the legally qualified court within 30 days from the date of informing him/her of the decision. Also, every auditor (expert) has the right to appeal the committee decision regarding granting the licensing to every person appealed at the court within 15 days from the date of publishing the decision.

Article (12)

a) The expert who has been licensed to practice the profession himself/herself or working with others, is registered in the profession practicing accountants register and granted the professional practicing licence on the designed form signed from the council chairman and the accountants' experts committee secretary and stamped by the council stamps and the committee of accounting experts after paying the financial obligations.

b) The auditor (expert) who has been granted the licence should swear before practicing the profession, the following legal oath before the council chairman: (I swear by the great Allah that I do my duties in auditing and accounting with honour and honesty without partiality and to abide by the laws and rules and to keep the profession secrets and observe its morals and rules).

c) The council decisions regarding granting the profession practicing licence is published in the authorised record.

d) The council transfers the issued decisions to the committee for implementation and performance.

Article (13)

Those who were licensed to practice the profession before working according to this law as if they are licensed to practice it according to its terms provided that the granted licence for anyone is considered declined if the person did not practice the profession according to this law within 1 year from the date of the validity of its terms provided that it is particularly taken into consideration the provisions of article (14) of this law in order to prove actual practicing of the profession.

Article (14)

That he/she who has been licensed to practice the profession, should inform the council secretary of his/her address and where he/she will practice the profession or the office where he/she will practice, if working with others within 6 months from the date of informing him/her about the granting of the licence or else the licence would be considered declined and he/she has the right to again request a new license of practicing the profession. The council or that who is authorised from its members has the right of checking the office where the expert (auditor) will practise the profession in order to make sure of committing the provision of this article including his/her devotion to practise the profession.

Article (15)

The expert who wishes to work overseas in legal accounting or in jobs related to auditing, has the right to request the council chairman transferring his/her name to the non-practising experts records, permitting him/her practicing the profession after returning to the country if he/she requested re-registering his/her name in the practising experts record, provided that licensing conditions are still available and he/she has to pay the financial obligations according to the issued rules of this law.

Article (16)

The licence is considered declined if the expert did not practise the profession for 3 sequential years including the period of working overseas unless it is permitted to him/her practicing it on this basis according to article (15) of this law.

Article (17)

a) According to this law, an independent professional committee called The Libyan Accounting Experts Committee is established which enjoys artificial personality with a financial and administrative independence and it owns the movables and immovables and does all the necessary legal actions to achieve its goals including making contracts. It has the right to litigate and appoint a solicitor to act on its behalf related the legal procedures.

b) The secretary (chairman) represents the committee before the official authorities or other authorities.

c) The committee headquarters is in Tripoli and it has the right to establish branches or open offices inside Libya after the committee secretariat-general agreement.

d) The committee aims to do the following:

   1- Caring for the members and keeping the profession traditions and honour.

   2- Encouraging the scientific and professional research in various professional fields.

   3- Participating in planning and developing the training programmes to promote the workers qualifications.

4- The cooperation and coordination with the local, Arab and international professional and scientific organisations and committees.

e) In order to achieve the committee's goals, it undertakes the following duties and competencies:

1- Providing information related the profession among the accountants' experts by publishing books, magazines and professional and scientific periodicals, exchanging them and holding conferences, meetings, seminars and training sessions.

2- Cooperation in professional fields with the universities and educational institutes.

3- Consolidating the professional and social relations among the professional practitioners locally, Arably and internationally.

4- Joining the related Arab and international committees.

5- Recommending of developing legislations related to the profession, and participating in the professional legislation committees.

6- Training the accountants' experts in order to apply the accounting and auditing criteria.

f) The membership of accountants' experts who were licensed to practice the profession to the committee after establishing is obligatory or else they will be prohibited from practicing the profession.

Article (18) the committee general assembly

a) The committee general assembly forms from all the legal practitioners' accountants' experts paying the financial obligations before 30 days of holding the meetings.

b) The calling for the general assembly meetings is done through registered mail with a minimum of 21 days before the date of the meeting and through publishing in two local daily newspapers 7 days before the date of the meeting. It is possible that the calling will be done via modern instruments like fax and electronic mail. The calling must include the agenda.

c) The committee general assembly holds an ordinary meeting within a minimum of 3 months from the date of the end of the committee financial year in the place and time the committee determines.

d) The chairman or his deputy, in case of his absence, heads the general assembly meeting and in case of their absence, the general assembly chooses one of the attendants as a meeting chairman.

e) It is possible for the training accountants attending the general assembly meeting without the right of voting.

1) The committee general assembly in its ordinary meeting assumes the following duties and authorities:

   a) Discussing the annual report of the committee secretariat and approving it.

   b) The certification of the committee final accounting presented from the secretariat-general.

   c) Discussing the committee's estimated budget and approving it.

d) Choosing the external auditor (expert) to revise accounts provided that he/she is not a member of the committee secretariat-general or any formed committee according to the terms of this law and the issued rules or a partner in a firm with any of the committee secretariat- general member.

e) Choosing the committee secretariat- general.

f) Approving the legislations' project related the committee work which is recommended from the secretariat-general.

g) Any other matters related the profession which is proposed in the general assembly meeting and it agrees on putting it down in the agenda.

2) a) The quorum of the ordinary meeting of the general assembly becomes legal by the attendance of more than half of the practicing accountants' experts who pay the financial obligations. If the quorum is not complete within 1 hour, the meeting will be postponed for not more than 7 days from the date of the first meeting. Publishing the calling of the meeting in two local daily newspapers will be enough and the quorum of the second meeting will be legal whatever the number of the attendants is.

b) The general assembly took decisions within the ordinary meeting with the majority of the practicing accountants' experts who attend the meeting.

3) a) The general assembly is called to hold unordinary meeting discussing the matters listed in the agenda including modifying any issued rules according to this law or deposition the committee secretary or his deputy or any member of the committee secretariat-general in the following cases.

- According to a decision from the committee secretariat-general.

- According to a request presented to the committee secretariat-general 30 days before the date of receiving the request provided that it includes the agenda by a minimum of 30% of the practicing accountants' experts who are also paying the financial obligations.

b) The quorum of the unordinary meeting of the general assembly becomes legal by the attendance of more than half of the practicing accountants' experts who are paying the financial obligations. If not, the meeting will be considered declined within 1 hour from the time of the meeting.

c) Applying the terms of (b) of the third section from the article (18) on the unordinary meeting of the general assembly.

d) The decisions in the unordinary meeting of the general assembly are taken with the majority of not less than two-third of the attending accountants' experts' voices.

Article (19) the committee secretariat-general

1. The committee secretariat-general consists of the secretary and eight members. The general assembly chooses them for 3 years according to the terms of the committee rules of procedure.
2. The secretariat-general chooses, within the first meeting, a secretary and a treasurer.
3. It is permitted to re-choose the committee secretary or his deputy or one of the members for a second period and it is not permitted to anyone to propose himself for the same position unless a minimum of one period has been passed since the end of his last period.

a) The committee secretariat-general assumes the following duties and authorities:

A. Running the committee administrative and financial affairs.

B. Consolidating the professional manner rules.

C. Directing the profession council to undertake accounting and auditing criteria.

D. Cooperating with the profession council in designing the projects of legislations and recommending the project of systems related the professions.

E. Presenting recommendations to the profession council to cancel a profession certificate or licence.

F. Calling the general assembly to gather and implementing its decisions.

G. Forming the necessary boards to help the committee secretariat-general to do duties including the investigation board of the practicing accountants' experts' offices.

H. Retirement, cooperation, health security and accommodation affairs and collecting revenues according to recommendations created by the committee secretariat-general, approved by the general assembly and certified by the profession council. These recommendations should include the committee secretariat-general right to authorise this authority to an administration board of any treasurer's office or contracting with any other authority for this purpose and within the limitations of the enacted local legislations.

I. Studying the disputes among the accountants' experts related profession practicing and among the accountants' experts and their clients and stating the suitable settlements regarding these disputes.

J. Establishing the bases of employing the committee employees, specifying their rewards and their employment conditions and ending their services.

K. Any other matters related the committee work.

c) The committee secretariat-general meets once every month due to a calling from the secretary or his deputy in case of his (secretary) absence or due to a written request from five members. The meeting will be legally if at least the majority of members attend provided that the secretary or his deputy is one of the attendants. The decisions are taken with at least the majority of the attended members' voices and if the voices are equal, the side where the meeting chairman gives preference will be given preference over. It is not allowed to abstain from voting.

d) In case of the committee secretariat-general period has been ended and the general assembly found that it is difficult, for any reason, to hold a meeting in order to choose a new secretariat, the secretariat continuos doing his duties. The profession council chairman, in this case, has to call the general assembly to choose a new secretariat-general within no more than 3 months from the date of the end of the secretariat-general period and it is renewable for another 3 months.

e) 1- The secretariat-general keeps the records of the accountants' experts including the following:

   a) The general register.

b) The record of the practicing experts working on their own.

c) The register of profession practicing accountants' experts working with others.

d) The register of trainers.

e) Any other registers the committee secretariat-general decides.

2- All the information and data of the accountants' experts registered in all the records mentioned in section (e). The register is arranged by a form which contains that information, data, and other amendments. The records which are arranged according to the rules of this article are considered as legal official evidence.

Article (20)

First: The expert has the right to check and revise the accounts of individuals, firms, organisations and committees according to the profession requirements rules and scientific and technical sources. In addition, he/she can do the following duties:

A. Provide professional consultation and experience in accounting, financial and taxation fields.

B. Do arbitration, settlements and provide experience in the fields mentioned in section (a) of this article.

C. The professional training for the purpose of promotion and creating new abilities.

D. Professionally representative according to the valid legislations and laws.

E. Any other duties explained in the issued regulations according to the law and approved by the committee general assembly for the Libyan accountants' experts established according to this law.

Second: The expert in connection with practicing profession has to take the following into consideration:

a) Be aware of all the records, registers and budgets related individuals dealing with and revising their accounts and asking them to provide him/her with what he/she sees necessary to do his/her duties perfectly.

b) Making sure that the account books, registers and accounts he/she is revising, are arranged in accordance with the rules, and that he/she has to indicate in writing any breach, and request to handle and correct it.

c) He/she has to write a perfect memorandum regarding accounts he/she checked and revised, and commit to the accepted professional standards, and general classification rules when certifying the final accounts and budgets he/she is revising.

Article (21)

The auditor (expert) is prohibited to do the following, or else he/she will be subject to punishment stipulated in this law:

a) Working as an administrative, consultant or technical employee in the state or in any general official organisations or in any other private authority of non-practicing profession with or without wages, and he/she has to totally dedicate him/herself to practice the profession.

b) Professional pursuit of trade or industry or working in any other profession.

c) Practicing auditing in any firm he/she is a partner in.

d) Advertising for him/herself in any media in a way that violates profession honour.

e) Competing with any auditor (colleague) in order to get work in a way which is offensive to the profession.

f) Revealing information and secrets that he/she became aware of through his/her job as an auditor, except in the cases where the law allows. Then it is allowed to submit this information and secrets to the relevant authorities.

g) Expressing an opinion contradicting to what the account books, records and accounting data contain and signing reports of not revised accounts by him/her.

h) Signing and certifying data, final accounting and budgets which do not reflect the right financial situation for the authority he/she is required to revise its accounts.

i) Committing any gross professional negligence or fault that harms others.

j) Violating rules and instructions issued according to this law and other valid legislations related the profession including not informing the authorised bodies about embezzlements which he/she is revising their accounts or falsification or wangling of accounts.

Article (22)

Any establishment or firm which the law orders it to have an auditor (expert), is prohibited from changing the auditor within the financial year in which he/she is revising its accounts. It is prohibited to employ an auditor (expert) for more than 3 successive years.

Article (23)

1) If the auditor committed a violation regarding this law or behaved in a way which violates the responsibilities, rules, or morals of the profession or committed any behaviour which is offensive to the honour of the profession and the employees, he/she will be referred to a disciplinary board formed according to this article in order to be trialled and punished with one of the moral sanctions in case of condemnation:
   1- Written warning.
   2- Written notice.
   3- Stopping him/her from working according to the licence for no more than 3 years and prohibiting him/her practicing the profession.
   4- Cancelling his/her licence and striking off his/her name completely from the experts (auditors) record.

The council forms the disciplinary board from two members and one practicing experts which is renewable once every 2 years. The committee elects one of its members as a chairman. It meets with the attendance of all the members and issued decisions with unanimity or majority.

Article (24)

a) The complaint about the auditor is forwarded in writing to the chairman who refers it to a triple investigating committee to be investigated with him/her. This investigating committee is formed from two practicing licensed auditors and an employee from the auditing department.

b) The investigating committee submits the results regarding the complaint to the chairman provided that he will grant the defendant a chance to defend him/herself and explain the matter and allow him/her to appoint a solicitor if he/she requests.

c) If the chairman sees that the investigating results require disciplinary prosecuting towards the defendant, he refers the complaint along with the investigation and other bills of indictment to the disciplinary board which has to inform the auditor of his/her charge. He/she has the right to reply in writing within 8 days from the date of informing him/her.

d) The disciplinary board determines the time of studying the complaint. The defendant auditor is called to attend and he/she has the right to appoint a solicitor to attend with him/her and studying the bills of indictment or convicting and judging him/her with one of the moral sanctions mentioned in article (23) from this law.

e) If the defendant auditor did not attend before the disciplinary board in any session, he/she will be judged in absentia, unless he/she attends before the disciplinary board before taking the final decision and he/she has to prove that his/her absence was because of a legal excuse.

f) The disciplinary board decision will be subjected to the certification of the council if it condemned the auditor of one of the two sanctions mentioned in sections 3 and 4 of clause (a) from article (23) of this law.

Article (25)

a) If it becomes clear to the investigation committee or the disciplinary board, at the time of investigation or studying the complaint against the auditor, the necessity of taking penal judicial procedures against the auditor, all the bills of indictment will be referred to the chairman who will refer them, in turn, to the authorised judiciary to take the legal procedures against the auditor

b) The absolution of the practicing expert before the judiciary or judging that he/she is not responsible of the accusation, do not prevent from taking disciplinary procedures against him/her related the accusation itself according to this law if the council justifies that.

Article (26)

Those who practices the profession without getting a licence to practice it according to this law, including practicing it within the period of temporary cancellation of his/her licence or after deleting his/her name from the experts record, will be imprisoned for no more than 1 year and no less than 1 month or with a fine of no more than 5000 Libyan dinar and no less than 2000 Libyan dinar. He/she will be imprisoned according to this article in case of repetition and it is not permitted changing it to the fine in any case of these situations.

Article (27)

Taking into consideration what has been mentioned in the other legislations, the auditor is punished with the sanctions stipulated in the criminal law if he/she committed or tried to commit one of the following deeds:

1- Wrote false data in any report or accounts or document he/she did in connection to practicing the profession.
2- Wrote a report opposed to the truth or certified facts opposed to the investigating in any document which should be legally issued or according to the profession practicing rules.
3- Attested on fictitious or fake interests.

Article (28)

The general popular committee issued the necessary decisions to implement the terms of this law including the following:

a) Approving the profession practicing regulation presented from the committee general assembly within no more than 6 months from the time of the validity of the rules of this law provided that it does not especially include the following:
    - The profession practicing fields, the conditions of practicing every one, the rules and the rights of the accountants' experts in their various fields and the commitments resulted from them.
    - The decisions related the continuous education of the legal accountant.
    - Determining the committee's specialisations which it forms and their working style.
    - The conditions of establishing civil firms among the accountants' experts, the required qualifications, the firm responsibility, the accountants' experts in them and any other matters related to it.

b) Approving the committee rules of procedure presented from the committee secretariat-general of the Libyan accountants' experts which is established according to this law provided that it especially includes:

1- The conditions of choosing the members of the committee secretariat-general and the choosing procedures and all the matters related that choice and the cases of losing the membership and its consequences and the resignation from the committee secretariat-general.
2- Distributing the duties among the members of the committee secretariat-general and determining the authorities of the chairman and his deputy and the authorities of the secretary, the treasurer and the authorised agents in signing the financial, administrative and legal matters and the way of holding meetings, writing down the meetings records and any other matters related the secretariat-general work.
3- Determining the amount of the fees the secretariat-general receives and the way of imposing, receiving, collecting and spending them and the procedures related that.
4- Establishing branches or opening offices for the committee anywhere in Libya.

Article (29)

The Libyan accountants' experts committee becomes the only legal professional entity in Libya, all the legal accountants pay their financial obligations and professional practicing according to previous professional legislations and according to the conditions mentioned in article (14).

Article (30)

Despite what has been mentioned in any other legislation, the accountants' experts and all public and private authorities undertake accounting and auditing according to accounting and auditing criteria approved from the professional planning committee, established according to this law.

Article (31)

All the authorities including the taxation office, do not consider as compliant, any budget submitted from a national or foreigner firm working inside or outside the state, unless it is approved by the committee and meeting the determinable fees and determining the regulation describing these firms.

Article (32)

The terms of the legislations related the general meetings do not apply on the committee meetings which are held according to the terms of this law and the issued regulations according to it.

Article (33)

a) The law of (accounting and auditing profession planning) No.116 in the year 1973 and any modifications is cancelled. Any other legislation is cancelled to the extent that contradicts with its terms and the terms of this law.

b) The profession council makes the right decision in the matters which there is no provision in this law until the necessary regulations and instructions of the implementation of this law are issued.

Article (34)

This law is valid from the time of issue and published in the legislations records.

Appendix C

Samples of Libyan Audit Report

Sample No. (1)

… Co., Benghazi

The auditor's report

In reference to the letter of … company dated on …/…/200 which shows its desire of auditing the accounts of … company and estimating its budget on …/…/200, the date of its joining … company.

In reference to the negative detailed report presented from us on …/…/200 which implied the impossibility of continuing in our mission for the reasons mentioned in it.

In reference to the letter of the administrative committee secretary dated on …/…/200 and after a discussion with the administrative committee secretary about doing a repetition of registering most of … company activities.

We did the necessary settlement records of the period since establishment till …/…/200. We re-registered the company activities of the period from …/…/200... to …/…/200... and keeping of accounts of integral pack of books where … company activities record has been repeated from the state of things as they are in the company papers and documents.

So, the … company general budget has been set up on …/…/200 the date of joining the … company. Also the income account of the period since establishing till …/…/200. In addition, the enclosed financial lists according to the presented documents, papers and settlements which the company requested according to what is written down in its books related the joined company.

Accountant and auditor

Benghazi on …/…/200

Sample No. (2)

The auditor's report

Dear brothers: the shareholders of … company.

In order to implement the task you authorized me to do, I'd like to inform you that I audited your company (budget) as it appears on 31/12/200... enclosed with our report and also the profits and losses account of the ended year on that date and I obtained the necessary information to do my mission satisfactorily.

It is clear from checking the company books and registers that it keeps well-organized financial accounts and costs records. In our opinion and in the light of the information and clarifications presented to us that the company accounts include what the law and the company systems stipulated on the necessity of proving it. The budget clearly expresses the company actual financial situation in the end of the fiscal year. In addition, the profits and losses account expresses the right face of the company profits of the ended fiscal year.

The stocktaking has been done in this year on the same prevailed bases that it has been done in the previous year without any change. We also decide that the data stated in the board of directors' report and in the detailed statement is coincided with what is mentioned in the company books and within the checking year and there are not any violations happened to the terms of the company system or to the law terms that affect the company activity or its financial situation according to the information and clarifications I had.

Libyan Arabic Republic

Tripoli, 25, March 200...

Auditor

Sample No. (3)

To: … Company.

The auditor's report

Dear brothers …

Assalam Alaikum,

We did the auditing of the final account of the ended fiscal year on …/…/200 and also the general budget on …/…/200 of the registers and documents of the same year and according to the prevailing auditing rules.

Taking stock of the final period goods was done by the company.

Except what has been mentioned, in our opinion, the enclosed final account of the ended fiscal year on …/…/200 indicates the result of the company activity of this year and according to the data presented for us and also the enclosed general budget, we clearly evaluate the financial situation of the company on …/…/200.

Wassalam Alikum,

Auditor

Benghazi on …/…/200

Sample No. (4)

…Co.

Auditor's report

Dear brothers…

Tahiah Taybah,

We did the accounting of … company of the ended fiscal year on …/…/200... and also the general budget on …/…/200... according to the data and documents presented from the same company and of the same year and according to the prevailing profession rules and manners.

These documents have been registered in the legal general journal which were approved from the official authorities that implies giving it legality, in addition to other integral analytical books of the accounting cycle and appropriate to the company purposes and goals.

In our opinion, the enclosed final accounting of the ended fiscal year on .../.../200... indicates the result of the company activities of this year according to the date presented and it was prepared according to the same basis of the previous years. Also the enclosed general budget describes the financial position of the company on …/…/200 and according to the data and funds listed in the books of the same year and they are coincided with them.

Benghazi on …/…/200…

Sample No. (5)

…Co.-Tripoli

The auditor's report

According to the commission issued from…company, Libyan branch, regarding the auditing of the company accounts and setting up the general budget and the final accounts of the ended financial period on …/…/200.

We did the checking on the general budget as it is on .../../200 and also the income account of the ended year on …/…/200 according to the prevalent auditing rules after getting all the data and explanations from the company which we see them appropriate to do our task satisfactorily and taking into consideration the following:-

- The company did not attain any revenues within the auditing period of the original contracts with the industries secretariat. The revenue stated in the income list represents the direct commission activities of implementing civil works in the site of … factory.
- The company submitted the project of … factory, it results from that that the company has disposed of selling the ready constructions and also the tools, equipments and industrial appliances gaining a capital loss of … as it is indicated in the enclosure ….
- The company re-exported the temporary imported crane and it is deleted from the books by charging the book value on the headquarters account. The company did not take any procedures regarding the letter of insurance submitted to the customs administration.

- The account of cash revenues under the account of insurances and guarantees at others which is mentioned in the current debts represents the value of net settlements of some guarantees in … company which it did not settle yet because of not knowing the guarantees statements.
- We did not obtain any certifications from the debtors and the debits current accounts.
- The banks' funds are coincided with the funds mentioned in these banks' statements of the accounts on …/…/200 after doing settlements.

Taking into consideration what has been mentioned, in our opinion, the final accounts and the general budget clearly show the result of the activities of … company, Libyan branch on …/…/200 moderately according to what is found in the company books, we see that the company keeps well-organized books.

Accountant and auditor.

Tripoli on …/…200

Sample No. (6)

… Co., Benghazi

The auditor's report

Dear brothers … Benghazi

We did the enclosed final accounts auditing of the ended fiscal year on …/…/200 and also the general budget on …/…/200 in the light of the company's books and records of the same year and according to the prevailing profession rules.

- The final accounting statements do not include any ruins to the fixed assets in the headquarters which contributed in gaining the listed revenues in this account such as …. In addition, these statements do not include any expenditure, wages, salaries and even the direct actual expenditures.
- The enclosed budget does not include the fixed assets which contributed in gaining the possessed revenues of the headquarters. Except what has been mentioned, and according to the data and explanations that we got for the purpose of the mentioned auditing, the enclosed final account shows the difference between the … company sales and the expenditure of … company that has spent in order to gain the mentioned revenues. The enclosed general budget shows fairly the financial position of the branch on …/…/200.

Auditor

Benghazi …/…/14

Sample No. (7)

Untitled

Serial No. …

Dear brothers: … company,

Assalam Alikum,

We audited the described budget of … company on the accounts positions for the ended year on 31/12/200... and also the profits and losses account of the period from 01/01/200... till 31/12/200... and for the sake of that, we did the checking and tests we saw it necessary and within the limits of the documents and data offered to us, we have the following notes:

The final period goods have been taking stock and evaluated under the company knowledge.

The certifications of the debtors and creditors have been done under the administration knowledge.

The cashbook funds have been taking stock under the company knowledge.

Except what has been mentioned, we see that … company keeps well-organized accounts and that the budget and complementary clarifications clearly express the company financial position in the end of the checking fiscal year. In addition, the profits and losses account expresses the company activities results during the period from 01/01/200... till 31/12/200…

Accountant and auditor

Benghazi on …/…/200…

Sample No. (8)

Accountants and auditor

Financial and taxation consultations

Laying down accounting and administrative regulations and systems

Dear brothers/… Benghazi

I did the checking on the financial situation list of … company as it is on …/…/200, and also the income bill of the ended year of the same date. My checking was according to the prevailing auditing criteria. Therefore, these checking included some accounting registers and books, in addition to some auditing procedures which I saw them necessary under the prevailed circumstances.

In my opinion, the above mentioned financial bills represent fairly the financial situation of … company on …/…/200 and as a result of its activities of the intended fiscal year according to the accounting principles which are applied in the same method of the previous year.

Accountant and auditor

Benghazi on …/…/200

Sample No. (9)

Accountants and auditors

Experts at the courts

Administrative and financial consultations

Dear brothers/the head and members of the general assembly

To the … company

According to our commission of auditing and checking the general budget of the … company as it appears on …/…/200, …/…/200 and …/…/200 and the final accounts of the ended fiscal years of those dates, we advice you that it is clear that through checking and tests, we did on the company accounts, there are some matters and notes which have direct influence upon the financial situations and the activities results-those in charge have been informed at that time.

The company did most of the reforms on its accounts we have recommended, but there are some notes which we see the importance of presenting them on the general assembly of the company to study and take the necessary procedures as it appears from the enclosed report.

Besides and except what has been mentioned in this report from notes which are considered inseparable part of the budgets enclosures. We see that the general budgets represent the company financial situations as they appear on …/…/200, …/…/200 and …/…/200 and the final accounts express their activities results of the ended fiscal years on those dates.

Auditor

Tripoli on….

Sample No. (10)

The auditors' report

We made the checking on the general budget of the … company as it appears on …/…/200... and the profits and losses account of the ended fiscal year on that date according to the prevailed auditing rules, and our checking has included doing the necessary test for the accounts records and registers. It included other auditing procedures that we found appropriate and everything we required and saw it necessary to do our mission offered to us.

We see that the company keeps well-organized financial accounts, we described the general budget and the profits and losses account from these accounts and in accordance with the law … terms.

In our opinion, the general budget on …/…/200... and the enclosed profits and losses account and they successively and clearly show the fact of the financial position and the company activities result for the ended financial period on

Accountants and auditors

Tripoli on ……/…/200...

Appendix D

Libyan Tax Law

(Translated from the Arabic text)

In the name of people, the Council of Revolution-Leadership, after perusal of the Constitutional declaration issued on 2nd of Shawwal 1389 H. corresponding to 11th December 1969 A.D., and perusal of the Law No.21 of the year 1968 for issuance of the Law of Income Tax and the Law amending thereto, and by virtue of what was adduced by the Minister of Treasury and the consensus opinion of the Council of Ministers, has issued the following Law:

Article (1)

The rules of the accompanying Law shall be applicable pertaining to income and the Law No. (21) of the year 1968 for issuance of income Tax Law is cancelled and void, and cancelled also shall be any other provision or clause that contradict and contrast with the rules of this Law.

Article (2)

Application of Tax-rules on the income of agriculture shall remain ineffective for a period of ten year starting from the date of validity of this Law, This decision shall also be effective on the rules of tax on companies in respect of Companies, branches of foreign companies and public or private artificial persons.

Which are practicing sheer agricultural-utilization and within the limit of their income from this activity. For the effectiveness of this decision on the Companies and public or private artificial persons which are practicing merely agricultural-utilization in addition to other aspects of activity it is conditioned That they should keep regular, separate and systematized accounts for this agricultural-utilization. (See the interpretative instructions of the Income Tax Law).

Article (3)

The rules of the accompanying Law shall not infringe on or prejudice the rules of the Law of Petroleum No. 25 of the year 1955 and the Laws amending to it.

Article (4)

Every income attained before the date of application of the accompanying Law shall be subject to the w applicable at the time of its attainment. But the incomes achieved after the foresaid date shall be subject to the rules of the accompanying Law even if related to periods prior to that date.

Article (5)

Till the issuance of the executive regulation of the accompanying Law and without prejudice to the rules of this Law the executive regulation of the Income Tax Law issued by the Law No. 21 of the year 1968 and the decisions executive thereto shall continue as effective and applicable.

Article (6)

The Secretary of Treasury should enforce this Law and be published, in the official Gazette and shall be effective as from the first of October 1973 A.D.

Council of the revolution-Leadership

Major Abdel Salam Ahmed Jallud.

Prime Minister

Mohammed. Al Zarroug Rajab

Minister of Treasury

Issued on 22nd. Of Shaban 1393 Hijra, corresponding to 19th September 1973 A.D.

Law of income tax

PART ONE

General Rules

Article (1)

It shall be subject to tax, in accordance with the rules of this Law, every income produced in the Libyan Arab Republic from any assets existing therein. Materialistic be it or non-materialistic, or from any activity or work therein. The incomes produced abroad shall, in the Cases stipulated by the Law, be subject to tax.

Article (2)

The following shall be exempted from tax:

1. Income of the artificial public persons except those mentioned in article (94).
2. The income produced by deposit in saving account at banks provided that it does not exceed five thousand Libyan Dinar, if it exceeded this amount the tax s all be imposed on the excess value.
3. The income of the religious bodies and other bodies, institutions, societies, and private institutes and schools recognized by the State and which care for The purposes of education, charity, social reformation - or athletic activity. (Law No. 23 of the year 1994 has replaced this section).
4. The proceeds of charity-mortmains and endowments.
5. The amounts paid to those who deserve it in Life-insurance contracts whether at the death of the insured or after passage of a certain period stipulated in the contract.
6. The student's income within limit of the bursaries and scholarships they receive for study purposes, (see the circular No.2/G/14000 to ministries and departments.
7. Any other income exempted from tax by the Law or by an international treaty or agreement.

Article (3)

In the cases where the tax is imposed on basis of a declaration of income submitted by the financier the tax should be paid according to this declaration after expiry of the period fixed for its submission and on the dates mentioned in article 21-1.

Article (4)

The tax shall be imposed on each financier on basis of aforementioned article if the department of taxation accepts this declaration and the imposition, in such case, shall be final and unobjectionable.

Article (5)

Without prejudice to the penalties decided in this Law, the department may estimate The income as it see suitable and thus impose the tax according to this estimation if the financier refused to submit the declaration mentioned in article (3) or if he submitted it but rejected and not accepted by the department.

Article (6)

In all cases the department should inform the financier of the tax imposition and its date of payment, and the financier, with regard to the rule of article (4), has the right to challenge this imposition at the initiatory commission within thirty days from the date of its announcement.

Article (7)

Settlement and decision on the objections and complaints submitted by the concerned shall be carried and effected by initiatory commissions which competence, location, formation and The remuneration of their members shall be determined by a decision from the Minister. Commission shall be chair manned by one of the judges of the Civil Court of first instancy and the members shall be two officials whose grade-level is not below level four and one of them should be an officer from the ministry of Treasury while the other should an experienced, person selected by The minister from among those nominated by the Governor within whose province or area of concern lies the site of the Commission. The formation of the Commission includes some reserve members.

Article (8)

The Initiatory-Commission shall be competent to settle and decide on all aspects of dispute between the financier and the department of taxation.

Article (9)

The complaint should be written on a sheet and submitted to the Secretariat of the Initiatory-Commission against receipt, submission of the sheet should be accompanied by payment of a fee equal to 1/2% of the value of the tax imposed on him, and not less than one Dinar, otherwise the complaint shall not be considered. The Secretary of the Commission shall send Copy of the complaint - page or sheet to the department of taxation to display and express its opinion within thirty days from the date of delivery of the sheet. The Chairman of the Commission shall fix a date for review of the complaint; both the department and the financier shall be informed of the date at least a weak before it. The financier shall recover the fee he paid if the decision of the Commission came in his favor, while the Commission shall decide the part of the fee to be recovered by the financier in the case of partial winning or compromise.

Article (10)

The Commission may ask each of the department and the financier to submit the information and papers it sees necessary, the officials of the department and the employees of the financier may attend and appear before the Commission. The financier may deputize another to represent him and the department of taxation may also deputize the government's cases administration.

Article (11)

The meeting of the Commission is not valid unless attended by its all members. The meetings shall be secret and decisions shall be taken by majority of votes (opinions), the decisions have to be rationalized, and signed by the Chairman and Secretary of the Commission within thirty days from the date of issue. The Secretary of the Commission shall advise both the department of taxation and the financier of the Commission's decisions.

Article (12)

The tax shall become clue by notification of the financier of the decision of the Initiatory-Commission even if he challenged or objected to it.

Article (13)

Each of the department of taxation and he financier has the right to challenge the decision of the Initiatory-Commission and appeal to the Commission of appeal mentioned in the following article within fifteen days from the date of notification.

Article (14)

Judgment over and Settlement of the complaints submitted against the decisions of the Initiatory-Commission shall be handled and taken charge of by one or more Commissions of appeal each of which to be formed by chairmanship of The chief of The Civil Court of first instancy at which area of concern lies The seat of the Initiatory Commission, and the membership of a professional official of the accountancy-department whose grade-level is not less than grade three to be nominated by the head of department, together with the membership of another person who is experienced, in business and account's matters. The circle of competence, formation and determination of member's remuneration for each and every Commission shall be decided by a resolution from the minister. The decision of formation may include the appointment of some reserve-members.

Article (15)

The complaint should be written on sheet and submitted by the complainant to the commission of appeal against receipt, the Secretary of the Commission shall notify the other party by sending him a copy of the sheet a that he may express and display his opinion within fifteen days from the date on which he was notified by The copy of the sheet. If the complainant is the financier he should attach to the sheet what proves payment of a fee of 1% (one percent) of ho tax fixed by the Initiatory-Commission, the fee should not be less than two dinars. In respect of the complaint before The Commission of appeal and the retrieve of the fee, the rules, measures and procedures decided for the Initiatory-Commission shall be effective and prevalent. The decision of the Commission of appeal is final.

Article (16)

The onus of proof before the Initiatory-Commissions or the Commissions of appeal shall be on shoulder o the complainant

Article (17)

Without prejudice to the determined penalties, no complaint or objection submitted by Companies-financiers shall be accepted unless the complaint is evidenced and supported by the records and the accounts they are bound and obliged to keep as per the Law. This rule is applicable on the partners who a e working in partnership-Companies.

Article (18)

The Secretariat of each Commission shall be handled or functioned by an official from the department deputized by the head of the department.

Article (19)

The department of taxation may, at any time before the Initiatory-Commission issue its decision, reach a settlement with the financier. The settlement or the compromise shall be carried out or effected by a Committee comprised of three officials formed by a decision from the head of the department. The effectiveness of the settlement requires the approval of the Initiatory-Commission if it is reached after the complaint is submitted to the Commission.

Article (20)

The fixation of the tax shall be considered as final and absolute if it has admitted by the financier (enterpriser) or if he did not challenge it during the limited time, or if he challenged it and consumed all the methods resolved for objection. Nevertheless if the department ascertained that the financier (enterpriser) did not submit a correct thorough declaration, concea1ed some activities or documents, submitted incorrect data, used deceitful methods to evade and avoid payment of all or part of the tax or tried to conceal taxable amounts, in any of such cases the department is entitled to fix additional tax without prejudice to the penalties stipulated by this Law. The department may spontaneously and by itself or upon request of the financier (enterpriser) adjust the original fixation if there happened a fault in calculation of the tax. If any adjustment or alteration reached the fixation of the tax the department of taxation should inform the financier of the basis on which the original and additional tax fixation was made and the reasons behind the adjustment. The additional tax fixation is subject to be challenged and objected against as the original fixation was.

Article (21)

With the exception of the cases where otherwise is provide the tax shall be collected at one and the same time, if it does not exceed fifteen Libyan Dinars and shall be collected in two premiums if it does not exceed twenty Libyan Dinars, if the tax exceed this amount it shall be collected in four premiums which should be paid periodically on the tenth day of each of March, June, September and December. The tax or the first premium of it should be paid, as may be the case on the first of the mentioned date that succeed the tax date of dues. Without prejudice to the rules of the following article, the delay in payment of one of the premiums on its fixed date shall result in making all the other remaining premiums due and payable.

Article (22)

In the case of delay of payment of the tax on the fixed date and without prejudice to any other penalties, a fine which is equal to 1% of the value of the due tax shall be imposed for each delay that reach a period of one month or a part of a month not less than fifteen days. The fine shall be collected on the same time at which the tax collected.

Article (23)

The tax-debt is payable at the seat of the department without the need to claim it at the site of the debtor.

Article (24)

The tax-year is the period of twelve months that start from first of January every month. Nevertheless if the nature of the activity practiced by the enterpriser necessitated that his financial year be different than the tax year and if his accounts are systematically kept the need of the department may decide that the financial year of the enterpriser be taken as a base for fixing the tax over him.

Article (25)

If the enterpriser have any obstacle that hampers and prevent him to run and exercise his activities and capital, or if he is not residing at the Libyan Arab Republic, then in such case the person who is in charge of the enterpriser's activity or owning it shall be considered as his deputy pertaining to the obligations and the rights as per this Law.

Article (26)

If the enterpriser died the tax shall become due by his death, and the inheritors or the liquidator should submit a declaration of the activity of the enterpriser till the date of his death, and they should also pay the tax on basis of this declaration within six months from the date of the death and before distribution of the bequest.