The Development of Auditing and the Possible Existence of an Expectation Gap in Libya

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Abstract

Auditing has grown considerably recently but this growth has not been impeded by steady criticism, misgivings and discussions concerning the worth of the auditing function and audit report communication. A great deal of such criticism and discussion typically emerge following major financial scandals and company collapses such as the crash of Enron, Arthur Andersen, not only in countries that suffered from such corporate collapses, but also in countries that have never experienced such crises. This criticism is attributed to the fact that this serious problem is referred to as the "Audit Expectation Gap". Consequently, the "expectation gap", has been investigated by various scholars in order to examine its occurrence in numerous countries such as the USA and the UK; nevertheless, the scope of such gap has not been explored in many emerging economies such as that of Libya.

The main aim of carrying out this research study is to explore and examine the development and current state of auditing in Libya, and the possible existence of an expectation gap in auditing in economic transition conditions in one of the less developed countries, namely Libya.

To realise the research objectives and to respond to the research questions, mixed research methods were applied. A questionnaire was conducted with the general auditing bureau, private auditors, financial statement preparers, lenders and private investors, aimed at investigating the existence of an audit expectation gap and the effectiveness of audit report communication in Libya. 270 questionnaires were gathered. The questionnaires were followed by 15 semi-structured interviews to gain an understanding of the gap the reasons behind the existence of an audit expectation gap.

The outcomes of this study reveal that the Libyan accounting and auditing framework is not properly developed. Furthermore, the study demonstrates that the lack of the accounting and auditing principles has resulted in flaws in the accountability and responsibility of external auditors. Moreover, the findings of both the questionnaire and the interviews evidently indicate that the audit expectation gap (which contributes to the reasonableness gap and deficient standards gap) exists in the Libyan private sector with respect to a certain number of auditing issues. These encompass auditors and the auditing process, audited financial statements, and the audited company, together with prohibitions and regulations in the audit milieu. Also, an expectation gap (a deficient standards gap) was detected especially related to the purpose of an audit, the responsibility factor, assurance of future feasibility, and the utility of decision making processes. On the other hand, it is proposed that the present audit report is not a well-understood document whereas it is surprising to find out that one of the unqualified audit report communication factors examined in this study – the reliability of the financial statements – appears obviously to be communicated in the audit report; both groups were unsure pertaining to this matter as – on average – their responses displayed uncertainty' relating to the reliability issue. These findings have significant implications for the Libyan Authorities regarding the actions that should be considered to bridge the gap. Reducing the gap may need to develop the Libyan auditing profession and increase the utility of the audit report as the main source for taking investment decisions.

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Chapter 1: Introduction and Background

1.1 Introduction

The aim of this chapter is to provide a general introduction to the thesis: the study of the development of auditing and the audit expectation gap in the private sector in Libya. The first section introduces the background for undertaking the study. The research motivation is outlined in section 1.3. The research aims and objectives are highlighted in section 1.4. The methodology of study is discussed in section 1.5. Section 1.6 highlights the chapter development. Finally, section 1.7 outlines the chapter summary and conclusion.

1.2 Background of the Study

1.2.1 The Existence of the Audit Expectation Gap

An audit is defined by the American Accounting Association (AAA, 1973), as *"a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users"*. There are many writers who agree with the definition given by American Accounting Association (AAA), such as (Mautz & Sharaf, 1986; Carmichael, Willingham, & Schaller, 1996).

Also auditing can be defined as "*an investigation or a search for evidence to enable an opinion to be formed on the truth and fairness of financial and other information by person or persons independent of the preparer and persons likely to gain directly from the use of the information, and the issue of a report on that information with the intention of increasing its credibility and therefore its usefulness*" Gray & Manson (2008, p. 21).

Both of these definitions define auditing as a system that consists of inputs, processing and outputs, all of which constitute a set of rationally structured and planned procedures ensuring that all serious elements are tackled. The AAA's and Gray and Manson's definitions incorporate that the external auditor must be competent to comprehend the criteria employed and capable of identifying the sorts and amounts of evidence that accrue for examination purposes, in order to reach appropriate deductions on the one hand. On the other hand, he must retain an autonomous attitude of objectively, and attain and assess results without bias, or prejudice. The recognised criteria are standards on the basis of which the value of assertions within management presentations is decided.

Auditing is a process that notifies readers about the degree of correspondence between the well-known criteria and the quantifiable information. According to the Gray and Manson (2008) definition, the final stage in the audit process is the audit report which is the way that it communicates the final results to the user group, whereas in AAA's definition, it is "communicating the results to interested users". This implies that the findings with the audit opinion should be made accessible to all those who use the auditors' report, including shareholders, the management team, creditors, government agencies and the public. Finally, both definitions emphasise the audit viewpoint from the standpoint of "quantifiable information" and "economic actions and events to ascertain the degree of correspondence between those assertions and established criteria". That is to say, the second definition focuses on the actual utility of audit, on the fact that it is a form of communication to its users, and therein resides a problem when encountering auditing and financial reports with respect to a developing economy such as that of Libya, whereby audit regulation and corporate reporting are still in the process of development.

The nature of auditing, the justifications for resorting it and the concepts presented by the auditors to communicate audit results are surrounded by misconceptions. The basic purpose of auditing is to add credibility to the financial reporting by ensuring that accounting statements follow the generally accepted standards and are accurate, but when the auditor's responsibility and performance is below financial statement user groups' expectations then his signature together with his brief opinion will no longer be useful to decision makers, and are likely to lead to multiple misinterpretations of the financial reports (Liggio, 1974).

Misunderstandings and multiple misinterpretations of financial reports or audit statements are made worse by the use of accounting terminologies and symbols often included in such reports. Different interpretations of the audit function and the exact responsibilities of external auditors, and the audit concepts, with which they operate, have contributed to creating an expectation gap not only in interpreting the auditors' report, but also in the expectations of the users of these reports. In the 1970s, the expression "expectation gap" with reference to auditing first emerged in developed economies as a broad expectation gap and did not consider the elements within, and this expression was first defined by Liggio (1974), who defined it as the difference in the levels of expect performance as understood by the auditor and as perceived by users of the financial statements. Furthermore, the American Institute of Certified Public Accountants (AICPA) defined the audit expectation gap, as "*the difference between what the public and financial statement users believe auditors are responsible for and what auditors themselves believe their responsibilities are"* (American Institute of Certified Public Accountants AICPA, 1993, p. iii). Therefore, the expectation gap can be viewed from two different perspectives, which are those of the auditors and the users of the financial reports.

A few years later, the Canadian Institute of Chartered Accountants (CICA, 1988) and Porter (1993) described deficient performance, deficient standards and unreasonable expectations as components of the audit expectation gap. However, a recent empirical study conducted by Porter & Gowthorpe (2004) has exposed that these elements have changed over time depending on the interaction between the audit profession and the public, although the perceptions of pessimism as to the audit functions have not been eliminated.

Humphrey (1991) explains that the gap is a representation of the feeling that the auditors' performance varies in accordance with the beliefs and wishes of the beneficiaries concerned with the audit, emphasising that this was very much in the context of developed countries.

Thus, for many years, there has been some concern about the company audit functioning resulting from numerous accounting and corporate scandals like the downfall of Enron, Arthur Andersen in the USA, WorldCom, and Parmalat in Italy, all of which have revealed the crumbliness of professional reputations, together with the fact that financial crises may diminish the reputation of and the public's confidence in auditing. This, in turn, upsets profitability and the capability of auditing to offer the best service, and contributes to the continuance and the probable broadening of an "audit expectation gap". Concerning this point, Aljaaidi (2009) illustrated that the audit expectation gap by itself is a concern whereby the auditors and the public have diverse perceptions regarding the auditors' obligations and tasks and the texts they deliver by the audit reports.

The available literature on the audit expectation gap demonstrates that the gap is harmful to both the auditing profession and the groups that use the financial statements audit. Hence, if the auditors did not succeed in identifying society's expectations, or in recognising the degree to which they meet (or more appropriately, fail to meet) those expectations, then they will be criticised and sued; moreover, in case the failure persists, society's confidence in the audit profession will be undermined, and the audit functioning and profession will be rendered valueless (Porter & Gowthorpe, 1999). Thus, it becomes vital to explore the perceptions of the five stakeholders who are involved in the financial reporting in one of the emerging economies, specifically Libya.

The Cohen Commission AICPA (1978) reported that the main reason for the gap derived from a failure by the profession, which ceased to keep pace with the changing situations in business, and in this view the onus lies with the auditing process and not with the users. Porter (1991), states that the gap exists due to a deficiency in an auditor's performance and auditing standards. However, most recently an empirical study conducted by Humphrey (1997), classified issues about the AEG in four key areas: ensuring audit and audit reports, audit independence and audit regulation.

To solve the problem, due attention has been paid to the issue of the expectation gap by both the auditing professional societies and researchers all over the world. Several commissions have been established such as the following:

In 1974, the AICPA in the United States established the Cohen Commission to examine whether a there is a gap between what the public anticipate or need and what the auditors can and should rationally be anticipated to achieve. In 1978, the Commission accomplished the research, which in fact emphasized the presence of an expectation gap (Humphrey, Moizer, & Turley, 1992).

In October 1987, the USA National Commission on Fraudulent Financial Reporting (Treadway Commission) issued a report that it is considered a central duty for the auditors to sense and prevent fraudulent financial reporting, though the auditor's role with respect to deception and other misbehaviour is inferior to that of management and the board of directors (AICPA, 1987).

In 1988, the Canadian Institute of Chartered Accountants (CICA) subsidised an extra study on what the public expect of auditing, "the MacDonald Report". The Commission prepared a detailed model concerning the audit expectation gap which scrutinised the constituent components of the expectation gap as irrational expectations, inadequate standards and deficient performance. According to the study, the communication and the educational backgrounds of the users (Almer & Brody, 2002), the extension of the auditor's tasks, together with the auditor's own education and discipline, were the efficient correctional measures required to reduce the gap (Porter, Simon, & Hatherly, 2009).

In 1992, the Cadbury Committee issued another assertive investigative report regarding the auditor's obligations with respect to the discovery of fraud and other irregular acts in the UK. This report suggested legislation for the expansion of constitutional protection t o all auditors who provide warning of suspicion of fraud to authorities in charge of investigation, in order to reduce the expectation gap (performance gap and reasonableness gap); different approaches were investigated and several suggestions were made by accounting authorities, auditing researchers and associated professional bodies.

The major approaches suggested by the earlier studies can be summarised as follows:

(1) Extending the audit report.

(2) Promoting the education, training and development of auditors and users.

(3) Pinpointing the responsibilities of the directors and auditors with respect to detecting fraud and defining the limits of the role of auditors and their expansion.

(4) Setting up an autonomous regulatory agency that takes into account the appointment, determination and practices of auditors of the listed companies.

In recent decades, numerous empirical studies have been conducted on the issue of the audit expectation gap, and the effectiveness of audit report communications in the developed economies including the USA (American Institute of Certified Public Accountants AICPA, 1978; Schelluch, 1996; Frank, Lowe, & Smith, 2001; Almer & Brody, 2002), the UK (Holt & Moizer, 1990; Hatherly, Innes, & Brown, 1991; Humphrey, 1991; Institute of Chartered Accountants in Ireland ICAI, 1992; Sikka, Puxty, Willmott, & Cooper, 1992; Innes, Brown, & Hatherly, 1997); Canada (Canadian Institute of Chartered Accountant CICA, 1978); Australia (Gay & Schelluch, 1993; Schelluch & Gay, 2006), and New Zealand (Porter & Gowthorpe, 2004).

Soon afterwards attention was paid to emerging economies, where few studies have been conducted in emerging economies such as South Africa (Gloeck, Dejager, & Mclnnes, 1994), Singapore (Best, Buckby, & Tan, 2001), Bangladesh (Chowdhury & Innes, 1998; Chowdhury, Limes, & Kouhy, 2005), Saudi Arabia (Haniffa & Hudaib, 2003, 2007), Egypt (Dixon, Woodhead, & Sohliman, 2006), Lebanon (Sidani & Olayan, 2007), Iran (Salehi, 2011) and Nigeria (Adeyemi & Uadiale, 2011). These research studies have confirmed that there is a gap between what the user groups expect from an auditor or the auditing process and what the auditor realises as the objectives of auditing. This is perhaps because auditing is not viewed as an exact science whereby the aim is to produce 100% precise results concerning the extent of the accuracy of information including the financial data, as some believe (for more details on the previous studies, see Chapter Three). In actual fact, while the auditing process is carried out according to the auditing standards, in many cases, it relies on the subjective judgement of the auditor. The aim of the auditing process, however, is to produce reasonable statements about the extent of the reality and fairness of the financial data involved, but not the absolute truth; that is, the statements provided are reasonably true and fair rather than absolute (Humphrey, 1991).

1.2.2 The Development of the Audit Report

The audit report was defined as the primary means of communication that is at the disposal of the auditor. It enables him/her to communicate the outcomes of the audit to groups outside the company management. In the audit report, the auditor can communicate his opinion; s/he can state the type of assurance to be given, and call attention to further information s/he feels significant concerning those documents or areas of organisational performance falling within the range of his/her audit. If the meaning expressed in the auditor's report is not comprehensible, then the value of the audit could be uncertain (Higson, 2003).

Changes have universally been made in both the form and content of the audit reports to address apparent misinterpretations of the message transmitted by the audit report; for instance, numerous countries have suggested and then adopted extended audit report wording in a bid to deal with the audit expectation gap. The expansion of the audit report was intended to elucidate the particular roles of the auditors and the management staff in arranging the financial statements (AICPA, 1988). Higson (2003, p. 162) illustrated the objective of extending the audit report in the UK; it was to "set out in more details the work of auditors, as well as the auditors and directors' responsibilities, and thus help to tackle the audit expectation gap"; nonetheless, in 2001, this report was revised.

On the other hand, the nature of the expectation gap and the efforts exerted to tackle the liability and credibility issues in one country may not be applicable to another country, since the auditing function is influenced by environmental factors whereby the audits function. Suggestions to bridge the gap without comprehending the interaction of factors in the business environment that impact the nature, objective, potentials and restraints of auditing are doomed to failure (Zaid, 1993; Sucher & Bychkova, 2001; Lin & Chen, 2004; Haniffa & Hudaib, 2007). Such suggestions are also unsuccessful in developing countries with diverse cultural values, such as Libya. Thus, the findings, prescriptions and different courses of treatment proposed for one society, may not be applicable or practical for another (Haniffa & Hudaib, 2007).

However, the review of relevant literature reported a lack of research regarding this issue within developing countries. Thus, there is an urgent need for undertaking more studies in this area to help reduce the literature gap and to explain and understanding the audit expectation gap which may exist in developing countries; for instance, Dixon et al (2006) highlights an expectation gap concerning the reliability of audit and audited financial statements in Egypt, which can be attributed to a difference between what auditors provide and what other users expect from auditors. Therefore, this study aims to add to the existing literature by suggesting how it might support and account for the developing corporate reporting and audit regulations in the Libyan context. It also aims to investigate the extent to which the Libyan auditing regulations are compliant with international standards, as well as examining the perception of external auditors and users regarding auditors and the auditing process. The final aim is to examine the effectiveness of the audit report communications in current unqualified audit reports used in the Libya context.

Developments in Libya in recent times have created a demand for audit as an open door policy following a prolonged period of sanctions (see Chapter Two, the Libyan background). The implementation of such a policy, the encouragement of the private sector to work in line with the public sector, and the establishment of the Libyan stock market have drawn foreign and domestic investors; thus, while the speed of economic growth and the demand for professional accounting services have increased, including providing auditors with more job opportunities, it has nonetheless encouraged auditors to carry out their tasks and responsibilities professionally.

This thesis sets out to examine the audit expectation gap in the context of Libya as one of the emergent economies, by adopting a mixed method approach. This study attempts to reduce the literature gap that exists on the audit expectation gap in emerging economies. It attempts to identify the extent, to which the audit expectation gap (the elements of the audit expectation gap) may exist between auditors and users of the financial statements in the Libyan context, to highlight possible causes, and to make suggestions and recommendations.

1.3 Motivation for Undertaking the Research Topic

Numerous studies on the audit expectation gap have been undertaken in developed economies; for instance, Gay, Schelluch, & Baines (1998); Frank, Lowe, & Smith (2001); Gowthorpe & Porter (1999) and Humphrey, Moizer, & Turley (1993). Nevertheless, only limited research has been carried out in developing countries such as Libya: Fadzly & Ahmad (2004); Best, Buckby, & Tan (2001); Dixon, Woodhead, & Sohliman (2006), Chowdhury, limes, & Kouhy (2005) and Adeyemi & Uadiale (2011). Excellent opportunities and new challenges are made open to researchers to discuss the development of auditing and to investigate the existence of an audit expectation gap within these countries, particularly during the period of their conversion from a planned to a market economy. Among these transformations are five key reasons that the study of the expectation gap should be taken to Libya.

First, the significant increase in the number of private and joint venture corporations operating in Libya over recent years, partly due to the government's policy which involves enhancing free-market capitalism and promoting foreign investment into the country. As a result, it is particularly important for foreign partners and shareholders to understand fully the audit profession and the meaning of the audit report that is presently in use in order to guarantee their sustained self-confidence in the national auditing profession and in the reports that are audited by its members to assist foreign business partners in the investment decisions they make. Therefore, much is expected of the auditor in giving credibility to the market economy.

Second, the conversion from a planned to a market economy in the Libyan situation, which started a decade ago, has produced certain changes in the Libyan milieu. For example, several reforms have been implemented: the country has witnessed a key economic and regulatory reform in incorporating the introduction and observance of International Accounting Standards (IASs) and International Standards on Auditing (ISAs) within both the banking sector and the Libyan stock market (Faraj & Akbar, 2010). It is expected that such a step could sustain confidence in auditing (Central Bank of Libya CBL, 2005). Moreover, such initiatives soon followed the enacting of a new foreign investment law whereby the audited financial statements play an important role in securing both local and foreign investors. The new Libyan stock market is also established to take other aspects into consideration.

Third, one of the changes that have an impact on auditing and any potential expectation gap in Libya is the entry of the Big four auditors into Libya. The authoritative body of accounting in Libya is the Libyan Accountants' and Auditors' Association (LAAA founded by the Libyan government Act Nr 116/1973). The absence of Libyan auditing and accounting standards (Wallace & Wilkinson, 2004) signifies that the accounting profession in Libya is still at its formative stage and its primary focus is on developing the external financial reports and external auditing, which is primarily enforced by the laws rather than driven by the need to supply helpful information to the potential users (Bait-El-Mal, Smith, & Taylor, 1973; Kilani, 1988; Buzied, 1998; Khorwatt, 2006). Thus, the emergence of the Big Four suggest demand for auditing is more prevalent in Libya which means users of financial statement are going to increase in number and type.

Fourth, the rationale for the audit expectation gap that has been selected for this research is multiple. Such as, though several research studies have been conducted lately on the existence of the audit expectation gap and the effectiveness of audit report communication, no empirical study has explored the audit functions and the efficiency of audit report communication in the Libyan setting. Furthermore, most of the studies undertaken on the audit expectation gap have been carried out by applying the quantitative approach. This research study aims at bridging this gap by implementing the qualitative approach to support the quantitative approach and to cultivate confidence, thus enriching and corroborating one another (Creswell & Plano Clark, 2007). In addition, the qualitative approach will deepen understanding of the expectation gap in an emerging economy.

Fifth, Libya is among the countries whose auditing profession has not been fully investigated or explored. The aim of this research is to bridge this academic gap by giving a deep insight into the Libyan emergence of the auditing profession. To the researcher's best knowledge, this study is the first of its kind that focuses on the audit expectation gap in Libya. The researcher has recognised the challenge of embarking on a study in such a unique developing economy and has designed the methodology (the interviews support the questionnaire by helping to explain the context of the questionnaire findings in the case of Libya) to cope with that variable. Further, the outcomes will be of interest to those concerned with developing the reliability of auditing in Libya in the future, and the academic community, and it will contribute to improving the auditing profession. The data for this work was collected between January 2010 and the end of April 2010, long before the crisis in Libya.

1.4 Research Aims and Questions

The main aim of carrying out this research study is to explore and examine the development and current state of auditing in Libya, and the possible existence of an audit expectation gap, in economic transition conditions in one of the emergent economies, namely Libya. To achieve this aim, the following objectives were set for this research study.

1. To investigate the role and the purpose of auditing from the perspective of external auditors' and financial statement preparers, together with the prospective users, comprising investors and lenders, by investigating the following aspects:
   - The auditor's role with respect to audited financial statements and audit clients;
   - Recent and potential prohibitions and other regulations in the audit environment and
   - The groups to whom auditors should be responsible.
2. To investigate the perception of the external auditors and that of the stakeholders of the information communicated by the Libyan audit report.

The objectives of the study are to answer the following research questions:

RQ1**-** What are the external auditors, financial statement preparers, and user groups' perceptions of the role and the nature of auditing in Libya, which contribute to the components of audit expectation gap?

This question covers a number of questions in the following order:

RQ1-1 What should be the auditor's and the auditing process?

RQ1-2**-** What should be the role of the auditor with respect to audited financial statements and audit clients?

RQ1-3-What prohibitions and regulations should be placed on audit firms?

RQ1-4-Who are the third parties to whom auditors should be responsible?

RQ2- What are the differences in perceptions of the message(s) that is/are (or is/are not) communicated in the current unqualified audit report used in Libya between the external auditors, financial statement preparers, and users' groups in Libya?

1.5 Research Methodology and Method

As will be discussed in more detail in chapters four, this research lies within the functionalist and interpretive paradigms. Certain features are shared by both paradigms, but the interpretive paradigm is more appropriate for exploratory research. Money and Samouel (2003), observed that exploratory research is helpful in case the researcher's experience or knowledge as related to the research issue is limited. The functionalist paradigm is associated with empirical or quantitative research (Creswell, 1998), as well as, most of the research conducted within the interpretive paradigm is termed as qualitative research.

The audit expectations gap is acknowledged as a worldwide problem and an international issue. For example, in the United States, new auditing standards that became known as the expectations gap standards were introduced in 1988 as a response to the audit expectations gap problem. The audit expectations gap was also recognized in the United Kingdom and other countries. The growing literature on the audit expectations gap can be seen as an indicator that it is a significant problem, which needs additional research. Therefore, the potential for the development of an expectations gap in the Libya context arises because; firstly, Libya is a developing country and it is at a transition stage; as a result auditing and audit professional needs to be researched to meet users' need. Secondly, from 1992 onwards, there were an increasing number of private companies, because of the government policy that involves obtaining free market capitalism and encouraging foreign investment into country. Thirdly, commensurate with the increase in private companies the Big Four accounting firms began to see a developing market in Libya and set up offices. Finally, international Accounting Standards were being adapted in the banking sector and Libyan stock market. Thus, similar to other emerging economics, the demand for audit was increasing. Therefore, the increasing demand presents the possibility of an expectations gap. Since there is no evidence of differences in perspective between auditors and users in Libya about the duties and responsibilities assumed by auditors and the messages conveyed by unqualified audit reports. As a result, this thesis seeks to reduce this gap in the literature.

The main purpose of this study is to explore and offer a more inclusive analysis of the perceptions of the relevant groups (the private auditors, the general auditing bureau, financial statement preparers, credit managers and private investors) on several pertinent auditing issues in the context of Libya. Patton (1990), recommended that studies which only adopt one method are more exposed to errors related to that particular method than studies which use multiple methods in which different types of data provide cross validity checks. Therefore, due to the nature of the required data and the research objectives, and to overcome the weaknesses of using either one of the methods alone and to obtain the most useful results, questionnaires, and semi-structured interviews are used in this study. Thus, this research advocates the use of diverse data collecting methods especially those that involve conducting questionnaire surveys and interviews. Whereas most studies in both developed economies (Hatherly, Innes, & Brown, 1992; Humphrey et al., 1992; Monroe & Woodliff, 1994; Gramling, Schatzberg, Wallace, & Walsh, 2000) and emerging economies (Schelluch, 1996; Saleh, 2002; Fadzly & Ahmad, 2004; Dixon et al., 2006; Haniffa & Hudaib, 2007; Adeyemi & Uadiale, 2011), have relied on the questionnaire method, that approach is supplemented here with interviews.

Two methods are applied, namely the questionnaire and the interview, in order to develop a comprehensive picture of the auditors and stakeholders' viewpoints or to meet the research aims, concerning the developed of audit and the audit expectation gap in new environment in Libya.

The most well-known method utilised by most of the previous studies, as mentioned earlier, was the questionnaire; it was primarily used for exploring the individuals' views as related to the expectation gap issues (see chapter three). The questionnaire is planned to draw out the viewpoints of the diverse groups of stakeholders concerning the role and purpose of auditing generally and the efficiency of unqualified audit report communications in the Libyan context; the data are used to answer most the research questions, namely research question 2 and research question 3.

The questionnaire survey is regarded as an efficient method for examining the presence of the audit expectation gap, in order to inspect the individuals' views (Hatherly & Skuse, 1991; Humphrey et al., 1993; Schelluch, 1996; Innes et al., 1997; Hussain, 2003). The questionnaire used the five-point Likert scale. The questionnaire was divided into three sections; the division is based on areas specified in the literature. The sections were as follows: the first section covers the common information about participants; the second one concerns itself with the respondents' viewpoints as related to the role and purpose of auditing; it is divided into four parts: the first one emphasises the auditors and the auditing process in general, the second part examines audited financial statements and audited corporations in particular; the third is dedicated to prohibitions and regulations in the Libyan audit milieu, and the fourth includes the auditors' legal tasks and responsibilities. The third section explored the attitude of the Libyan stakeholder towards the efficiency of the audit report as the main tool to communicate the results of audit work in Libya.

The questionnaire survey was piloted by colleagues from Huddersfield University and Liverpool John Moores University. The comments and suggestions they made were included in the final version of the questionnaire. The researcher translated the questionnaire into Arabic which was later passed on to a translation expert for checking.

The second stage was the administration of a questionnaire survey to five groups. The groups were:

***The Auditors Group*:** the external auditors (private and government) were surveyed to find out the belief of those who are in charge of validating the financial statements of Libyan private companies, including the Big Four auditors' partners and correspondents.

The Preparers: are represented by the financial directors of a sample of Libyan private corporations both listed and non-listed in the stock market. The general managers are legally and theoretically in charge of preparing the Libyan companies' annual reports. The reasons for choosing this sample are based on the fact that these corporations should conform to the tax law and the monetary directors; their nominees may have the practical accountability for the preparation of the company fiscal statements.

***The Individual Investors (Shareholders)*:** shareholders were chosen as one of the main groups that will benefit from the audited financial statements. A large part of the literature on the subject is related to individual investors presenting their views about different aspects of the auditors' function regarding audit reporting.

***Credit Managers*:** the current credit directors of the twelve Libyan commercial banks comprise another user group of the audited fiscal statements. The audited statements help them evaluate the capability of the borrowers to pay back their loans along with servicing their interest charges. Thus, they have to rely on auditors extensively to supply them with plausible and dependable data that will help them in their lending decisions.

The participants in the interview were split into five groups as mentioned earlier: private auditors[1] (4 auditors), GAB members (3 members), financial statement prepares (3 people) and 'other users' consisting of private investors (2 investors) and lenders (3

[1] In Libya, most practitioners practice the auditing profession through accounting and auditing offices. Mostly, those offices are owned by one registered auditor who may employ other auditors with him. I may refer to those offices as firms when two or more registered auditors practice their profession under one name and through one office.

managers). All the interviews were conducted in Libya by the researcher; it was decided to restrict the location of those being interviewed to Benghazi and Tripoli, the capital of the country, this location being relatively accessible to the researcher. Further, the biggest auditors' offices that have long experience and audit the accounts of most companies and economic enterprises which including the Big Four auditors are located in Tripoli.

The interviewees were free to respond to the questions, and to choose the place and time of the interview. The interview questions were inspired by the literature review, discussed with the supervisors and reinforced by the questionnaire responses. Great care was exercised in preparing and conducting the interviews to reduce the impact of probable problems. To realise that objective, the interviews were normally arranged in advance. Before conducting the interviews, the following steps were taken: the interviewees were supplied with suitable information related to the research and to the general content of the interview; cautious thought and careful consideration were accorded to the opening section of the interview and the phrasing of the questions; permission was obtained in advance for recording of the interviews confidentially. During the study, the moral considerations mainly focused on safeguarding the confidentiality of the respondents which was secured via anonymity.

1.6 Chapter Development

<u>Chapter 1: Introduction to the Thesis:</u> this chapter serves as an introduction to the thesis which offers an overview to the research, it also introduces the research aims and objectives and the research methodology. Chapter one also provides an overview of the remaining chapters and the chapter development.

<u>Chapter 2: The Development of Auditing in the Libyan Context:</u> this chapter reviews the country's historical, political and economic background and Libyan cultural aspects since they are considered as part of this research. The second section focuses on analysing the status of auditing in Libya through presenting the history of accounting, specifying the

nature of accounting education in Libya, examining the law of the Libyan Accountants and Auditors Association (LAAA) and focusing on the significant features of auditing. Furthermore, this chapter incorporates information on the Libyan stock market.

Chapter 3: Audit Expectations Gap Literature Review: this chapter establishes the literature on the auditing expectation gap. The first part of this chapter presents a discussion of the concept of the audit function; the second part discusses the theory of the auditing role; the third part includes the other studies that examined the existence of the auditing expectation gap in developed countries as compared to those applied in developing countries. The fourth part of this chapter present a discussion of the factors contributing to audit expectations gap. The fifth part of this chapter incorporates the development of the audit report, and evidence obtained from the empirical studies that are conducted in this field

Chapter 4: Research Methodology and Method: this chapter outlines the research methodology adopted in this study. It considers the various kinds of research methods. It concludes that the survey method (the mail-questionnaire technique) and the interview are the most appropriate methodology taking into consideration the Libyan auditing and auditing environment. The design and planning of the study, including the research administration, are introduced. The questionnaire structure, format, content, translation, and pilot study are among the aspects discussed. The semi-structured interviews are presented. The procedures whereby the data were gathered are also highlighted. Finally, the reliability and validity of the research findings are elucidated.

Chapter 5: Data Analysis, Descriptive Statistics and Inferential Analysis: this chapter exhibits the detailed findings of the descriptive analysis. The demographical data are presented and discussed. The stakeholder groups' perceptions of the role and nature of auditing are examined and the effectiveness of unqualified audit report communications in the Libyan context is assessed.

Chapter 6: Interview Analysis: this chapter analyses the data collected via the semi-structured interviews. The primary objective of the interview is to obtain more detailed information related to the present status of the Libyan accounting and auditing profession, the reasons that lie behind the presence of the audit expectation gap and the future perspective on auditing practices. These interviews help develop a more comprehensive representation of the accounting and auditing profession in the Libyan milieu.

Chapter 7: Discussion and Conclusion: the final chapter summarises the major results of this study and provides related discussion, provides the conclusions drawn, and considers possible explanations and the implications for interpretation of the audit expectation gap in Libya. It presents numerous recommendations and makes suggestions for future studies.

1.7 Summary

This chapter serves as an introduction to the most important issues of the research study. It first highlighted the essential problems of this research and then came up with the conclusion that the audit expectation gap is a chronic problem in the auditing literature. Additionally, the audit profession worldwide has not yet supplied the necessary guidance to the autonomous auditors concerning the issues of how to close or narrow the gap. Consequently, further studies are required in this area to improve our comprehension of issues related to the audit expectation gap. An overview of the research motivation, objectives, methodology and structure has also been presented in this chapter. The next chapter will focus on the Libyan milieu.

Chapter 2: The Development of Auditing in the Libyan Context

2.1 Introduction

In order to gain a comprehensive understanding of the accounting and audit development in Libya, this chapter aims to explore and examine the Libyan historical, political, economic, legal, and cultural background. To start with, it is essential to comprehend and examine the role of the external auditors and the communication of the audit report in Libya. In the beginning, a brief historical perspective will be introduced. It presents the political system. The major resources of the economic and business regulations and activities will then be identified. The social and cultural attributes will then be highlighted. A historical account of the auditing profession will then be provided: it comprises an introduction to the history of accounting in Libya, followed by an examination of the law that organises the auditing profession, touching upon the type and nature of accounting education in the Libyan universities.

2.2 Historical, Political and Economic Background

Over the course of time, the people of Libya have been subordinated to different degrees of foreign dominance, predominantly from the Mediterranean empires, the last of which was the Italian occupation. In 1911 Italy invaded Libya but did not gain full control over the whole country until 1934. After World War II, British and French forces occupied Libya. For the period from 1943 to 1951, Tripolitania and Cyrenaica were under British rule, whereas the French ruled over Fezzan. This situation lasted until 24th December 1951 when the United Nations declared Libya as an independent country ruled by King Idris of the Sanusi family (Terterove, 2002; Library of Congress, 2005). Owing to the difficult financial circumstances the county underwent throughout its independence, the financial aid provided by the international community and the foreign countries was desperately needed (Anderson, 1986). This situation marked Libya's image at that time

(Vandewalle, 1998). At that time, there was no source of power or any mineral resources. The expansion in agriculture was strictly limited by the harsh climatic conditions. The capital configuration was zero or less, and there was no skilled labour available or native private enterprise (Kilani, 1988).

However, in spite of the steady economic development Libya enjoyed in the 1950s and early 1960s, this growth was not speedy enough to convert Libya from being a deprived and underdeveloped nation, highly dependent on foreign aid, to a well-off nation. The breakthrough for Libya was in 1959 when enormous quantities of petroleum deposits were discovered in the country by explorers from Esso (Mahmud, 1997). Concessions were awarded to many commercial project owners soon after the discovery of petrol. The discovery of oil in 1959 helped Libya change its investment atmosphere; it became a very encouraging one. It in fact has turned the extensive, less populated, poor nation into a rich one. Additionally, it furnished Libya with enormous opportunities for development, and helped it establish the main turning point in its modern history (Wright, 1981; Vandewalle, 1998).

A new epoch in the history of Libya started on September 1, 1969, when Al Gaddafi and his fellow army officers brought down the previous royal government and founded a republic known as the Libyan Arab Republic. The Libyan political and economic system has seen several dramatic changes. The most significant of these changes are:

- The Revolutionary Command Council (RCC) became the governing authority under the leadership of Muammar Al Gaddafi (Saleh, 2001; Shareia, 2006). Also, two congresses were established: the General People's Congresses (GPC) which represents the leadership of a political organisation as the highest authority that exercises the actions of supreme sovereignty, legislation and the general policy-making, and the Basic People's Congress which represents the lowest authority.

- The public sector then grew speedily after the revolution, because of the policies adopted by the government which aimed at restricting the private sector. The state controls everything: manufacturing, banks, insurance corporations, international trade and the majority of the national trade. Everything became nationalised; industrialisation and community service plans were presented.
- The UN imposed a number of sanctions on Libya during 1992 and 1993. The objective was to force down Tripoli to deliver two suspects who were wanted for trial in a special court for matters related to the Lockerbie bombings. The sanctions were later suspended in 1999. The UN sanctions were completely lifted when the Libyan government reached a settlement with the families of the Lockerbie victims concerning compensations in mid-August 2003.
- In September 1992, the State allowed the private sector to emerge freely by introducing more liberal standards. The general purpose of such measures was to put an end to the public spending, and finally to encourage the growth of the private sector Vandewalle, (1998, p. 84), and to reform the banking sector (Salama & Flanagan, 2005; Twati & Gammack, 2006; Ellabbar, 2007). The reforms included the establishment of a new stock market (General People Committee GPC, 2006, Decree 134) and encouraging foreign investment (General People's Congress GPCO, 1997, Law Nr. 5, amended by Law Nr. 7, 2003). It also included a new banking regulatory requirement (Central Bank of Libya CBL, 2005), which requires the Central Bank of Libya to comply with the International Accounting Standards and the International Standards on Auditing. These issues will be discussed in following sections.
- In October 2004, Libya applied to be member in the World Trade Organisation (WTO). Recognising the vital role of being a member of the WTO, the Libyan government has been an observer since then, and once it becomes a full member Libya will be more open to the world, and the world will be more open to Libya.

This two-way opening will reduce the barriers to entry and departure for international companies and facilitate business.

2.3 Aspects of Libyan Culture

The behaviour and attitude towards accounting and auditing practices like all other human activities, are affected by culture (Douglas, 1989; Wildavsky, 1989; Haniffa & Cooke, 2002). As a result, substantial attention has been paid in the accounting literature to the impact of culture on both accounting and auditing policy and its practices (Hamid, Craig, & Clarke, 1993). A number of researchers such as Adler, (1983); Adler, Doktor, & Redding, (1986); Jaeger, (1986); Hofstede & Bond,(1988); Hofstede, (1990,1991) Hofstede (1991); Belkaoui, (1991); Doupnik & Salter (1995); Belkaoui,(2000); Cravens & Oliver, (2000); Jaggi & Low, (2000); Archambault & Archambault, (2003), have demonstrated that culture is a major factor that affects the structure of business, society and accounting.

Libya is one of a number of Arabic countries included in Hofstede's (1997) cultural study, along with Egypt, Iraq, Kuwait, Lebanon, Saudi Arabia, and the United Arab Emirates. Though Arab countries share many characteristics in common, they differ in many aspects. Hofstede (1980) says Libya has been described as highly masculine and showing uncertainty-avoidance with a large power distance and collectivistic society. Libya is characterised by the extended family, tribe and village which might be a result of the influence of the religion of Islam. Thus, the external auditors are more likely to be influenced by many members within the society.

The Islamic religion, Arabic language, and reputation are the three dimensions that characterise Libyan culture. In this vein, Aghila (2000) pointed out that religion, family, language and reputation have an important effect on the behaviour and attitude of the members of a certain society both in Libya and in the other Arab countries. However, in the Libyan society, individuals and employees in their organisations adhere to societal values such as the reputation of their names, families and tribes. Hence, social reputation is a very important element for societal relationships in Libyan society. Therefore, the strict adherence to the traditions of the Islamic religion by the external auditor in Libya would strengthen deontological norms and codes of audit professional ethics in Libya.

Islam is the main religion of Libyan society which comprises extended family and tribes, where national, culture, values and norms have their influence in all aspects of everyday life, which may also influence the accounting and auditing service. Lewis (2001) maintains that if culture influences the accounting practices, then religion also should have the greatest impact . Similarly, El-Fathaly (1977, p. 12) states that:

> *"The strong role of religion in a traditional Islamic society like that of Libya has produced a society with special features. Conservative attitudes have been predominant in every respect. People's values and behaviour have been a function of their religious background and attachment: hence, evaluation and acceptance of innovation and change have been subject to religious beliefs and notion".*

Pargeter (2006), highlighted that socio-cultural structure in Libya is integrated into the political system such as popular leaders, which is an informal association, which consists of senior leaders of all the Libyan tribes. These values affect the quality and quantity of information disclosed in the audit process (Haniffa & Hudaib, 2007). Therefore, Libya is still suffering real limitations to a development model based on its current administrative system that aims to impose the rule of law in the country.

2.4 The Libyan Privatisation Programmes

The government endorsed a number of laws and regulations from the late 1980s to promote economic development and to change the economy from being centrally controlled to being a liberalised one by encouraging the private sector and foreign investments. These comprise Act number 8 in 1988, Act No. 9 in 1992, Act No. 5 in 1997 and Act No. 107 in 2005. These Acts aimed to permit the private ownership of economic activities, fostering and controlling the private sector activities in all aspects of the economy (that is agriculture, tourism, industry, commerce, transport and finance) together with an open door policy for the sake of the privatisation of several public-sector companies (Alsharif, 2002).

The Libyan Foreign Investment Board (LFIB) was formed in accordance with Act 5 in 1997, to attract and encourage foreign investment into Libya within the already designed socialist framework of economic and social growth. This act and the amendments that followed in 2003 had the objective of promoting foreign investment through a joint venture between Libyan and foreign capital suppliers in diverse sectors such as industry, agriculture, health and tourism. The law embraced in this act aims at enabling the transfer of modern technologies to Libya along with technical progress in human resources, the expansion of sources of income, and the encouragement of national products to be able to penetrate international markets. Consequently, some foreign companies had resumed their operations in Libya in the 1990s and early 2000s. In its attempt to solicit foreign investment, the government has already adopted some steps to lower these barriers. In its attempt to free the economy Libya started to execute its privatisation plan. To realise that, a General Board of Ownership of Public Companies and Economical units was founded by Act No. 198 in 2000. This organisation shouldered the responsibility for managing the transfer of public sector possessions and the ownership of economic facilities to the private sector. It was expected that the a General Board of Ownership of Public Companies and Economical units would achieve the privatisation of 361 State-owned enterprises by the end of 2008 according to a three-stage plan starting on 1/1/2004, but by the end 2006, only 69 state owned firms were privatised[2]. The government took another decision (Act No. 313 for the year 2003) exempting these privatised institutions from

[2] GBOT report (2006)

income and export taxes for five years, the encouragement of foreign investment and the orientation of globalisation.

The aim of a private company is to make profit; therefore the Libyan government at this stage took several steps to reform the financial sectors. The auditors in this time were to play a vital role in the achievement of company objectives (to make profits). Therefore, an urgent need for professional accounting and auditing emerged to control the rights of shareholders. In reality, the latest economic growth has brought about a growing demand for qualified accountants, auditors and dependable accounting and auditing information. However, there were only 1369 qualified and/or partially- qualified auditors in Libya in 2002. The population of Libya is over 5.5 million; evidently, there is a sharp scarcity of qualified auditors, in this regard Shareia (2010, p. 21), stated that

> *"This change has the potential to affect the practice of accounting, and the accounting profession, as a greater emphasis is placed on private activity for profit making, which will necessitate the development of different kinds of accounting information systems. Accounting practice in Libya is thus controlled by various laws which specify in great detail the requirements set out by the Government to achieve its goals, and by the oversight of the accounting professional bodies, also strongly influenced by the State. When these are added to Libya's particular political and social dynamics, the effect on the accounting profession is that of constraint, i.e. a limitation on the perceived role of accounting, and consequently on the appreciation of the need for a well-qualified, robust accounting profession".*

2.5 The Legal and Regulatory Framework of Financial Reporting and Auditing in Libya

2.5.1 The Development of Financial Reporting and Auditing in Libya Context

Libyan financial accounting history is short. The first the profession oversees accounting and auditing in Libya can be traced back to the era of Libyan liberation from the Italian occupation in 1952. That body was referred to as the State Accounting Bureau (SAB). The SAB was established according to Act No. 31 of 1955; it belonged to the Ministry of Treasury. The act was modified to assure the dependence of the SAB; it became directly responsible to the Ministries' Council of Libya under the Audit Bureau Law of 1966. As a result of Al-Fath of September Revolution, the structure of the government has changed; it now consists of two branches: an executive branch and a legislative branch.

Article No. 1 of the SAB Law 79 of 1975 states that the SAB is an autonomous agency associated with the RCC, and that its purpose is to apply efficient supervision over public funds. Since the Revolutionary Command Council (RCC) transferred its authority to the General People's Congress (GPC) in 1977, the SAB has directly become in charge of this latest legislative body. In the early 1970's, the public accountants in Libya enjoyed a golden age owing to the vast expansion of business corporations and new government projects; hence, the economy developed. Kilani (1988), observes that all those factors constantly reinforced the need for the accounting services which subsequently increased the number of working accounting firm. The approval of Act No.116 of 1973 which recognized the accounting profession has also made this growth easy, and caused public accountants to be more accurate and broad in their scrutiny when they deal with bigger government owned corporations.

A new body named the Institution for People's Control and Follow-Up was founded in 1988 as a consequence of the union between the SAB and the Central Institution for General Administration (CIGA) in accordance with Law No. 7. Thereafter, it is renamed as the Institution of People's Control and Follow-Up (IPCFU) in 1996 by the General People's Congress. The major goals of the IPCFU were to supply the auditing services and the administration with the supervision required for all the state agencies and departments' bodies supported by loans from the government or any other company of which the state holds more than 25% of the capital. The aims of the auditing services were to guarantee that these state agencies and the bodies they belong to operate in accordance with the financial regulations and guidelines established by their pertinent ministries; they thus meet social and economic objectives. The IPCFU's responsibilities were expanded to incorporate the auditing services of foreign corporations and joint ventures operating in Libya, with the aim of ensuring that they function in accordance with Libyan laws and regulations.

However, when the accountants become full members of the Libyan Accountants and Auditing Association (LAAA) and the IPCFU, they get no additional benefit from the professional training in terms of status or qualification. This fact puts off the accounting corporation from holding any training courses for their employees; thereby the competence of the Libyan professional accountants is badly affected. Furthermore, less-qualified accountants manage to become authorised since no assessment or evaluation exists to measure their competency or skills. Dewing & Russell (1998) assert that accounting competence can't be attained unless both professional assessments and 'apprenticeships' are realised by a professional accountancy organisation. Bengharbia (1989) confirmed that a Bachelor's degree (BSc) alone is not adequate to guarantee competency.

Table 2:1 The characteristics of LAAA and IPCFU

characterised	the Institution of People's Control and Follow-Up IPCFU	Private auditors LAAA
Function	To audit state agencies and departments' bodies supported by loans from the government or any other company of which the state holds more than 25% of the capital.	To audit private companies
Regulation	Accounting and auditing standards generally accepted provided they do not conflict with the laws in force in Libya	Regulated by Law 116 and accounting and auditing standards generally accepted provided they do not conflict with the laws in force in Libya
Membership	-Employment in the Inspection and Control Department -Libyan citizenship. -Holding a bachelor's degree in accounting from a Libyan University, or any other accredited university or higher education organisation. -Being an active citizen regarding political and civil rights.	-Libyan citizenship. -Holding a bachelor's degree in accounting from a Libyan University, or any other accredited university or higher education organisation. -Have practised any accountancy related job for five years or more in an accounting office following the acquisition of a bachelor's degree. -Being an active citizen regarding political and civil rights. -Behave with good manners in addition to having a good reputation and decency appropriate to the profession.
Criteria	To achieve the goals of economic and social state.	Protect the rights of shareholders in corporations.
Appointment and removal	Direct from the Inspection and Control Department.	The General Assembly.
Training	They get little training.	They get no additional benefit from professional training in terms of status or qualification.

2.5.2 The Influence of the Libyan Commercial Code (LCC)

In 1953, the Libyan Commercial Code (LCC) was passed. Since then, it has been moderately amended more than once (the last amendment was made in 1970 via the Commercial Act) to comply with shifting domestic and global requirements. The LCC deals with diverse types of business enterprises that function in the country; they include rules on business enterprise records together with certain aspects of financial reporting and auditing.

The LCC specifies the requirements for the accounting and auditing practices, and the systems and the reporting methods applied by Libyan corporations (Buzied, 1998). For instance, the LCC demands that the corporations prepare a balance sheet and profit and loss account at least once a year. The preparation of the accounts is assigned to the companies' managers who are also asked to prepare a report concerning the company's performance. The Commercial Act also emphasised the need for appointing auditors (Article 550), (Libya State, 1970) who control the company's administration and guarantee sound progress of the company's activities in compliance with the law. Article 553 of the Commercial Act provides details of the duties concerning the auditing board (Article 553) (Libya State, 1970). The law requires that the auditor hands in a report to the General Assembly covering the results of the financial year's activities, expressing his view concerning the progress of the company's work, along with confirming the genuineness of the budget and the accounts (Article 580) (Libya State, 1970). The law neither states what this report should embrace, nor does it tackle the formality that should be encompassed in this report. On the other hand, Libyan companies are not asked by the LCC to supply to the public the information contained in the yearly reports.

2.5.3 The Influence of Income Tax Law

In 1923, the Italian Income Tax Law was enacted in Libya; it was modified for the Libyan environment more than once and was used for many years (Central Bank of Libya (CBL), 1971; Bakar, 1997), till the first Libyan Income Tax Law No. 64 was enacted in 1968. The Libyan business ventures that are consistent with the Tax Law should hand in to the tax authority their balance sheet, profit and loss account, trading account, depreciation statement, and a detailed statement of the expenses incurred in the profit and loss account. Taking into account the statutory power of the Libyan tax officers that require the financial statements be prepared in accordance with the Tax Law and due to the commonly low request for the financial statements from other parties, many Libyan companies approved the Income Tax Law requirements and guidelines and considered them as the basis of internal and external financial reporting practices (Bait-El-Mal et al., 1973; Kilani, 1988). Therefore, the endorsement of the Libyan Income Tax Law has had a main impact on the accounting practices in Libya and auditing (Bait-El-Mal et al., 1973).

The Libyan Income Tax Law No. 11 (2004) necessitates that the companies' foreign or national give in financial statements audited by authorised public accountants and supply the tax authorities (within seven months of the financial year end) with their balance sheet, trading account, profit and loss account. It is not necessary to give in a cash flow statement and the accounts need not demonstrate comparative information.

2.6 The Libyan Stock Market

In an attempt to reinforce the Libyan monetary and financial bodies and to generally improve the national economic conditions, the General People's Congress (GPC) passed a Law No. 242 in 2003 to entrust the Central Bank of Libya (CBL) with founding a minor securities market. The CBL thus passed Law No. 9 in 2004 establishing a Share Exchange Department, to be the responsibility of the CBL's Investment and Accounts Management support. The Share Exchange Department then started to lay the foundations for opening a Libyan Stock Exchange. In June 3, 2006, the GPC enacted Law No. 134 which founded the Libyan Stock Market (LSM) with a capital of 20 million Libyan dinars, which are divided into 2 million shares with a nominal value of 10 LD per share. Therefore, CBL, the government bank, was the founder of the stock market, and the Libyan government was the dominant shareholder in the companies that registered on the exchange and also the only shareholder in CBL. The other shareholders were individuals. Since the foundation of the LSM, twelve corporations have been listed (as of 30/04/2010). Recently, LSM has been placed under the supervision of the Secretary for the People's Committee for Economics, Trade and Investment (the Ministry of Economics).

The LSM has laid down numerous rules concerning the disclosure of form and content since it was established in 2006. In the last modification it made to its requirements, the LSM demanded that (a) listed companies prepare their fiscal statements in accordance with International Accounting Standards (IASs) and (b) that these statements should be presented in accordance with the International Auditing Standards. Additionally, listed companies are requested to publish their financial statements together with their accompanying notes, the auditor's annual report and the added LSM's notes to these financial statements; they should all be published in at least two well-known domestic newspapers within a week of their approval by the Corporation General Assembly. Listed companies are also asked to publish periodical fiscal reports with a summary form for the attached external auditor's report.

2.7 Accounting and Auditing Profession in Libya

Up to Libya's independence in 1952, the country was greatly dependent on advisers from the UK, USA and UN (e.g., the Libyan Public Development and Stabilisation Agency, the Libyan American Reconstruction Commission, the Libyan and American Joint Service) to build up its accounting system (Ahmad & Gao, 2004). This situation drove Libya to adopt the accounting and auditing standards of other countries. Foreign companies, predominantly American and British, operating in Libya, did not face such problems since their financial statements were all authorised, as necessitated by the laws and regulations of their own countries, via any other international accounting corporation they hired (Bait-El-Mal et al., 1973; Ahmad & Gao, 2004).

There are several factors that have considerably influenced the growth of the Libyan accounting and auditing profession. These comprise the Libyan accounting education system, the Accountants academics, global companies, the worldwide accounting corporations and, to a certain extent, the rapid alterations of the Libyan social, economic, political and legal milieu. There are influential factors that have driven the Libyan accounting profession to take the same route as its equivalents in the UK and the USA (Buzied, 1998). With the discovery of Libyan oil and natural gas, the exploration activities in the last years of the 1950s continued. Foreign oil producing companies started to make huge investments in Libya. Most of them were British and American. Each of these companies introduced their own business practices and accounting philosophies and founded similar systems in Libya. These systems were exclusively British and American in their nature. In fact, the US and UK Generally Accepted Accounting Principles (GAAP) were enforced, but they were subject to the Libyan laws and regulations such as the Petroleum Law and Petroleum Regulations. Furthermore, the accounting philosophies of the original companies continued to be followed by the nationalised companies even after the nationalisation of these companies took place: these philosophies have in reality continued to be used until the present day (Bait-El-Mal et al., 1973; Kilani, 1988; Mahmud, 1997).

However, no regulation or rule was established for the accounting and auditing profession in Libya during the 1950s. Thus, the auditors continued their work without any official approval or recognition, which resulted in several discrepancies and disparities in drafting the financial reports or the certificates and audit reports (Kilani, 1988).

The economy expanded rapidly in the early 1960s because of the discovery of oil, which provided the national economy with a broad financial increase that was utilised for building up businesses and infrastructure. Consequently, the call for financial expertise and for urgently needed accounting services constantly grew; this comprises shareholders, creditors, company executives and governmental spending experts. However, the accounting principles and auditing standards that were adopted by the UK after the Second World War notably influenced those employed in Libya (Mahmud & Russell, 2003).

Early in the 1970's the American influence on the Libyan accounting profession became conspicuous as American corporations, particularly the petroleum ones, began to increase their investments in Libya after the discovery of oil reserves. These corporations imported their own accounting systems, combined with the American Accepted Accounting Principles. They employed Libyans in both accounting and managerial posts; who; were then exposed to these accounting systems and principles. Afterwards, the Faculty of Economics and Commerce at the University of Libya adopted the American accounting system and began teaching its syllabus in compliance with the American system. Both foreign companies operating inside Libya and the accounting education system are obviously the most vital factors influencing the accounting profession in Libya (Khorwatt, 2006).

After its revolution, Libya departed from the UK and US accounting systems and followed a vigorously diverse university education system together with certain other requirements to educate and qualify accountants (Ahmad & Gao, 2004). Various Libyan corporations established themselves, employing a large number of accountants who graduated from the Universities of Libya and universities abroad.

In conclusion, as pointed out earlier, no precise or official code of ethics, accounting principles, auditing standards or procedures noticeably exists among accountants. Furthermore, neither a uniform audit report requirement nor a professional test requirement was specified which determined the accountants' own educational system and/or background. Both the accounting education system and its background are imported from the USA and the UK; this makes the Libyan accounting profession along with its objectives similar to ones present in those countries (Saleh, 2001). Till now, the economic, political and social factors of Libya's milieu are different from those of the UK or the US.

Some limitations relevant to the Libyan accounting and auditing profession emerge when assessing the commercial law with the accounting profession law in Libya. Owing to the absence of Libyan auditing standards or regulations and codes of ethics, the auditing reports written by Libyan auditors considerably depend on their own educational and professional backgrounds and skills; the result was a large variance in the reports themselves (Buzied, 1998). To address this problem the Libyan government in 2005 enacted the Banking Law No. 1, and issued decision No. 134 to establish the Libyan stock market which required all banks and all companies, public and private, having one million LD capital or more to be listed on the LSM and follow IASs. Also, the LAAA in 2006 announced the first draft of Libyan Accounting Standards (LASs) including 29 accounting standards. These accounting standards are based on IASs.

Thus, a new formal code of ethics must be produced to meet Libyan needs; what is more, a comprehensive assessment and review of all the present laws that deal with the auditing profession management are required to facilitate the integration of updated developments in the auditing profession. For more regulation of the private sector see appendix D.

2.7.1 The Audit Report

The Auditing process depends greatly upon the auditor's mental representation of objectivity and experience in his opinions. The auditor's viewpoint on the fiscal statements is communicated via his/her audit report. According to Higson (2003, p. 136) the audit report is the mode whereby an auditor communicates the outcomes of the audit to the users of the fiscal statements, "it is the public face of the external audit". The audit reports are standardised in almost all countries within a well-organized accounting profession. However, Libya lacks any standard set-up for the auditor's report (Khorwatt, 2006). This has resulted in many breaches of the reporting standards by auditors in Libya. Furthermore, less attention is accorded to the normally accepted and agreed upon standards. Evidently, the auditing reports that are issued by many Libyan auditors do not comply with the standards of reporting (Salehi, Mansoury, & Azary, 2009). The LAAA has not yet supplied its members with a standard audit report format. This has made the auditors' education and experience the only determinant of report format and content. Consequently, these reports were enormously different and varied causing bewilderment to both the auditors and their customers. The reason for this dissimilarity and diversity is that the educational and professional background of the auditors is different and varied, as stated above in this chapter.

A number of attempts have been made to control the accounting profession in Libya, yet, these attempts faced a number of barriers; as a result, they failed like other previous attempts and efforts exerted to develop the Libyan accounting profession. The period from 1980 to 2000 was characterised by economic downturn. This was brought about by the total control of the public sector over economic activities, combined with a long period of economic and political sanctions, forced by the United States and the United Nations and the non-appearance of the Libyan stock market (Larbsh, 2010). The present market was only founded about five years ago. Therefore, new regulations required Libyan external auditors to adopt the international audit report, with some amendment in line with the Libyan environment.

2.8 History of Accounting Education in Libya

The presence of a good educational system definitely helps to preserve a professional accounting practice. Like other developing countries, Libya is capable of developing a sturdy accounting professional base via an appropriate accounting educational system that produces more efficient and well-trained accountants who have solid knowledge about the accounting profession (Mashat, 2005). The educational organisations in Libya have made significant contributions towards creating and developing accounting practices, with academics having the upper hand (Mahmud & Russell, 2003). In 1952, the date when Libya got its independence, there were few Libyans who had graduated from universities, trained, or qualified as professionals in accountancy. Libya, like other developing nations, relied profoundly on British, American and United Nations experts to found an accounting educational system at the university level; in this vein, Kilani, (1988) argued that accounting education in the Libyan universities was imported from England for the period from 1957 to 1976 and that the accounting textbooks in Libya were mostly British, or they were Arabic books either translated directly from English or written by Arab authors who graduated from British universities (Libyan University, 1973). Likewise, Mahmud (1997, p. 267) observed that the examination of the accounting educational system in Libya demonstrates that the old system (1957–1976) was a British one in all its manifestations (the curriculum, textbooks and faculty members). He came to the conclusion that the UK system had a great impact on the old Libyan accounting educational system. Parker & Roffey (1997) noted that at the commencement of the academic year of 1977 the accounting department substituted the British educational system with the American one. Ritchie & Khorwatt (2007) came to the conclusion that since most university instructors graduated from American universities, the accounting system is changed from being oriented towards British textbooks into being oriented towards American textbooks or replaced by Arabic textbooks either translated directly from American books or written by Arab authors who graduated from American universities.

Historically, after the breaking out of the revolution in 1969, much more attention was accorded to higher education. As a result of the growing demand for accounting services in the early 1980s, several universities and higher education institutes were founded to fulfil the increasing need; thus, quite a lot of accounting faculties were founded in various cities in Libya during the 1980s and 1990s. On the other hand, the number of properly trained accounting academics in the new universities did not increase adequately and the growth in accounting educational programmes was hampered. This shortage became worse under the UN sanctions. It became almost impossible to employ efficient people from overseas; it also became difficult for foreign experts to visit and/or teach in Libya (Ahmad & Gao, 2004).

The Accounting Department in the Faculty of Economics and Commerce at the University of Garyounis has offered a Master's programme in accountancy since 1988. In the mid-1990s other institutions, such as Al-Fath University, Al-Jabal Al-Gharbi University (Faculty of Accounting in Gahrian) and the Higher Academy for Economic Studies, have offered similar accounting educational programmes, with more Libyan universities doing the same at the beginning of 2000s. Concerning PhD programmes, neither the Accounting Department at Garyounis University[3] nor any other university or institution has offered a doctoral programme despite the increasing number of accounting academic staff who hold PhDs (Ahmad & Gao, 2004). The lack of a PhD programme in Libyan universities is viewed as one of the key factors that contribute to the slow growth of the accounting profession and research in Libya (Ahmad & Gao, 2004).Therefore, there is a high probability that a student will graduate without accounting experience in the performance audit, in addition to the lack of accounting and auditing standards to judge the performance audit.

Recently, certain concerted efforts have been made to develop accounting education in Libya by concentrating on establishing sturdy university education and training to educate more professional accountants, as indicated by a study conducted by (Ahmad & Gao, 2004). The newly founded accounting practices in Libya were considerably and positively affected domestically by universities in Libya which did not provide students with the proper knowledge and education (Mahmud & Russell, 2003). On the other hand, Libya has encountered a number of difficulties which have had a negative effect on the expansion of accounting education, training and practices in Libya. Ahmad & Gao (2004) and Mahmud & Russell (2003) both made some useful suggestions and recommendations. Furthermore, they pinpointed the following drawbacks: the

[3] The University of Libya was established in 1957 in Benghazi city, with a branch in Tripoli, in 1973. The two entities were divorced, becoming the University of Benghazi and the University of Tripoli: in 1976, the two universities were renamed as the University of Garyounis and the University of Al-Fatah respectively.

inappropriateness of the curriculum to the needs of the Libyan economy, the shortage of competent accounting academics, the discomfited intermarriage of academic teaching with professional training in the accounting curriculum, the insufficiency of modern textbooks (Larbsh, 2010), journals, periodicals and references in Arabic, insufficient public knowledge of the role accounting plays in society and in our modern life, and insufficient accounting research and publications. These are the major problems that have hindered the improvement of accounting education, accounting modernising process and accounting practices and education in Libya (Mahmud & Russell, 2003).

2.9 Summary

This chapter has offered an overview of Libya's historical, economic and political background and development, where auditors and users of audited financial statements operate. The legal requirements enforced by the Libyan authorities concerning fiscal reporting were also clarified. The status of the accounting profession in Libya was summarised and related to the nature of, and the current developments in, accounting education in Libya. The examination, investigation and analysis have illuminated a number of important aspects. First, the accounting profession in Libya can be considered as a young one compared with those of other countries (it is about thirty-eight years old). Second, the need for auditing services in Libya has appeared in response to the economic development the country has witnessed since the 1970s. Third, the accounting professional organisations have a partial role to play in developing the accounting profession in Libya. Fourth, the fundamental requirements for the development and enhancement of the profession, for example auditing standards, ethical codes and licensing rules, should be made available. Thus, the focus of this chapter as pointed out previously is on examining the role and nature of auditing and the quality and nature of the present audit report by tackling the presence of the audit expectation gap between the auditors and the users of the financial statement. There is a prevalent concern for a gap that exists between the auditors' understanding of their role and the public expectations of the audit process, a gap which is recognised universally.

In conclusion, the examination, investigation and analysis have illuminated a number of important factors that have affected the development of auditing in Libya. This chapter shows that commercial code and tax law continue to be undeveloped. Even though the LAAA has adopted international standards, these sometimes conflict with local rules and laws in the code of commerce or in tax law. This sometimes puts audit offices or firms in a quandary as to what rules to follow. Accordingly, the main drive for most companies is the tax implications of their decisions and the absence of a code of professional ethics. The stock market is still in its infancy and has been suffering from very slow growth. Furthermore, accounting education has not kept pace with the economic development witnessed by the country and has not accounted for the influence of Libyan culture on the development of auditing locally. The next chapter is a review of the literature; it provides empirical evidence for the presence of such a gap globally by reviewing the academic research studies conducted worldwide.

Chapter 3: Audit Expectation Gap Literature Review

3.1 Introduction

The previous chapter gave a short overview of the Libyan environment and background information in terms of its social and political environment, the economy and social development, the accounting and auditing profession, and the Libyan Stock Market.

To understand the audit expectation gap issues that are addressed by this thesis the objective of this chapter is to introduce an extensive literature review on those concepts connected with the 'audit expectation gap'. This review will primarily examine the development of the audit expectation gap. Within this framework, the chapter begins with the definition of Audit; the auditor's role and purpose will be investigated; the term, 'expectation gap' will be defined and elaborated together with the main vital areas contributing to it. The chapter will be rounded off with a scrutiny of the previous studies and a summary of the audit expectation gap. These studies contribute to the formulation of research methodology that can be utilised to explore the present situation of the possibility of an audit expectation gap in Libya.

3.2 Definition of Audit

Inspection of prior literature suggests that more than one definition of an audit have been proposed; for instance, Littleton (1933) was of the view that early auditing was designed to verify the honesty of persons charged with fiscal, rather than managerial responsibilities. He identified two types of early audits; firstly, public hearings of the results of government official and, secondly, the scrutiny of the charge-and-discharge accounts. Both types of audit were designed to afford a check upon 'accountability' and nothing more. It was in effect a case of examining and testing an account of stewardship; in the nineteenth century, the role of auditors was directly linked to management's stewardship function (Flint, 1971), with stewardship being regarded in the narrow sense of honesty and integrity. But the verifying function was on a sampling basis because of the burgeoning volume of business activity. This functional shift in auditing from 'a true and correct view' to 'a true and fair view' caused a paradigm shift in the audit process (Porter et al., 2009). This also caused a change in audit opinion from 'complete assurance' to 'reasonable assurance'. As observed by Chow (1982), controlling the conflict of interests among firm managers, shareholders and bondholders is a major reason for engaging auditors. In recent years, according to Salehi, Mansouri, & Azary (2009), the concept of audit has enlarged to include Inquiry, Exploration, Inquisition, Research, Study, Probe, Review, and Report on.

The American Accounting Association (AAA, 1973, p. 2), defines auditing as "*a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users*". This definition is quite broad in order to cover different purposes of audit which include attestation services and probably even other assurance services.

Many authors have agreed with the definition of AAA. (for example Willingham & Carmichael, 1971; Mautz & Sharaf, 1986; Carmichael et al., 1996).

Mautz & Sharaf (1986) define auditing as being *"…concerned with the verification of accounting data, with determining the accuracy and reliability of accounting statements and reports.*" "A systematic process" connotes "a logical and organizing series of procedures".

An audit is defined by Gray & Manson (2008, p. 21) as "*an investigation or a search for evidence to enable an opinion to be formed on the truth and fairness of financial and other information by person or persons independent of the preparer and persons likely to gain directly from the use of the information, and the issue of a report on that information with the intention of increasing its credibility and therefore its usefulness*".

A comparison of the definitions above revealed that from the definition of AAA and Mautz and Sharaf, it seems to be clear that audit is viewed as a system which is a set of logically structured and organised series of procedures, comprising of inputs, processing and outputs, to ensure that all critical elements are addressed. Gray & Manson use the very practical term "an investigation", referring to the work of the auditor as a search for evidence.

The auditor must be qualified to understand the criteria used, which implied generally accepted accounting principles or national accounting principles. Gill and Cosserat (1996) in (Salehi, 2011) point out that "*criteria should be specific rules prescribed by a legislative body, budgets and other measures of performance set by management or an identified financial reporting framework established.*"

The auditors must know the types and amounts of evidence to accumulate for the examination to reach proper conclusions. Also, the auditor needs to possess an independent attitude to objectively obtain and evaluate results without bias, as maintained in the definition of by Gray and Manson "person or persons independent".

The audit process is to inform readers of the degree of correspondence between quantifiable information and established criteria. "Communicating the results to interested users", in AAA's definition "the final stage in the audit process is the audit report- the communication of the findings to users", in the definition by Gray & Manson (2008) imply that the results with the audit opinion should reach those who use the auditors' report. Include shareholders, management, creditors, government agencies and the public. Lastly, both definitions focus on the subject of audit opinion from the viewpoint of "quantifiable information" and "economic actions and events to ascertain the degree of correspondence between those assertions and established criteria". In other words, the second definition refers to the real usefulness of audit, that is, a form of communication to users and therein lies a problem for auditing and financial report in developing an economy such as Libya, where corporate reporting and audit regulation are still developing.

3.3 The Role and Purpose of Audit

The audit function emerged; it is first and foremost concerned with the detection of fraud through the authentication of assets. In Britain, this process was further elaborated during the early stages of the Industrial Revolution when auditing became a recognised methodology (Eshteiwi, 2008; Porter et al., 2009). While being separated from the regular management of their capital, the owners of the manufacturing and production companies acknowledged the significance of securing that those accountable for management were truthful and responsible. Thus, the separation of ownership and stewardship functions was realised; it has, more than anything else, enabled the company audit system to develop. Within this perspective, the control of resources is assumed by the principle of the ‘management’ on behalf of the shareholders or the owners. Moreover, such obligations have directly created the role of responsibility. Bird (1973) observed that the management’s commitment of responsibility is released by principally supplying financial information and exposing such data to an external auditor.

With the growth of business corporations, the control over resources tends to increase as they gain significant economic, social and political power. However, Changes in liability guarantee that business managers cannot remain inactive. Sherer & Kent (1983, p. 6), equate the objectives of the organisation with predictions which a variety of participants have in mind about the overall behavioural patterns of an organisation. Thus, the change of corporate audit aims after 1940, from the discovery of fraud to the verification of accounting records and the proficient and efficient use of the corporation resources, is mirrored in expanding accountability from merely shareholders to a partnership or interest group (Porter et al., 2009). An auditor is an independent individual who can provide a neutral judgment regarding the financial statements of the corporation. To boost both the reliability and social function of these statements, the judgment the auditor delivers may serve those who make use of the financial statements (e.g. investors, creditors, taxation authorities and clients) and who may depend on the data provided to arrive at their business decisions. Accordingly, the auditor makes his/her valuable contribution via autonomous and proficient inspection of the management's depiction of its performance and stewardship.

The Accounting Standards Steering Committee (1975, p. 16) maintains that all participants (shareholders, managers, creditors, customers, investors and governmental authorities, etc) are essential components for the survival and richness of a limited company and that none of them alone is satisfactory by itself. Chen (1975) claim that the prime accountability of the corporate management is towards society; only when this obligation is released, the shareholders' concerns accounted for in the audit. The company reports have become the principal means whereby the management of the company can meet its reporting accountability and the management's commitments to the concerned groups are only completely released by the autonomous assessment of the business report by the independent auditors. Normanton (1966) observed that accountability does not subsist without the audit; so the society's ethics, prospects and standards must be constantly incorporated into the auditor's tasks. This concept needs to be entirely integrated into the audit. Society's expectations of the desired guarantees from the auditor have not been accepted by the auditing authority which is not willing to shoulder additional responsibilities in the early stage.

However, today the audit purpose is seen more broadly and more structured. The American Accounting Association's (AAA) Committee on Basic Auditing Concepts (1973) summarised the criteria that create the demand for auditing:

- The potential or actual conflict of interest. This conflict may exist between the user and the preparer of the information.
- Consequence. The user may require information for decision-making purposes. Therefore the user needs to be confident of the quality of accounting information.

- Complexity. The accounting information production process is so complex that the user has to rely on someone else to examine its quality.
- Remoteness. Even if the user had the ability to analyse the quality of accounting information, it is unlikely that the user would have access.

Recently the auditing authority has responded positively in its willingness to take on additional duties to “add value” to the audit by, for example, a clearer communication of auditors’ opinions by an expanded audit report, reporting on internal control systems, carrying out specifically designed fraud audits, and providing management with business advice as well as reporting on interim financial statements (Porter et al., 2009).

3.3.1 Theories of Expectation Gap

The demand for audit arises from the potential conflict of interest that exists between stakeholders and managers. The contractual arrangement between these parties normally requires that management issue a set of financial information that purports to show the financial position and results of operations of the entity.

In order to decrease these potential conflicts, it is necessary to identify a set of tasks that conform to the public’s expectation of the auditor. Such endeavour involves an assessment of both the professional role of an auditor, in a theoretical context, and the realistic and achievable goals within legal and professional limitations.

Many of the traditional theories that explain the role of the auditor are normally fixed by identifying such a role from the observations of widespread audit practices. By demonstrating such theories, it has become apparent that these individual observations illustrate the auditor’s role as being more than a definite objective, but rather an energetic process. A brief analysis of the theories advocating the need for auditing gives rise to contractual arrangement under: (a) Inspired confidence; (b) Added Credibility; (c) Agency Theory; (d) Accountability.

However, a review of auditing literature revealed no extant theory which provided a satisfactory explanation of the role of external auditors in society. However, some useful ideas, advanced primarily by Flint (1971, 1988), and Tricker (1982), were found, and these provided the foundation for study based on a model of the auditor as an instrument of social control within the corporate accountability process. Based on this model, the auditor's social position is postulated to be that of a member of a recognised profession acting as an instrument of social control within the accountability process required of economic entities.

3.3.1.1 Inspired Confidence (Theory of Rational Expectations)

Soltani (2007) observed that this theory was developed in the late 1920s by the Dutch professor Theodore Limperg; it touched upon both the demand and the supply of audit services. Limperg, argued that the demand for audit services comes as a direct consequence of the involvement of the outside stakeholders in a company's affairs (the interested parties of a company). These stakeholders asked for accountability from the management, in return for their participation in the company's affairs. Since the information delivered by the management might be partial, a likely discrepancy between the interests of the management and the outside stakeholders, auditing this information is a necessity. He noted that the auditor draws his general function in society from the need for an expert and independent opinion that is based on that examination (the supply side).

The audit function is derived from the confidence society puts in the efficiency of the audit and in the opinion of the accountant. This confidence is, thus, a requirement for the presence of that function; if this confidence disappears, the function, in turn, is demolished, since it is rendered useless. Limperg identified two circumstances whereby the confidence could be lost. These are: if society's expectation is exaggerated (that is, it exceeds the limits of the auditor's performing capability); equally, it can be lost if the auditor under-performs his functions. The auditor acknowledges the fact that society's needs are not fixed. They are self-motivated and are thus affected by changes in perceptions and the environment.

Limperg's work is related to the social accountability of the autonomous auditor and the potential mechanisms for safeguarding the fact that the audits meet society's needs. His work sheds light on the significance of the social aspects of auditing and the repercussions for the audit performance. Limperg (1932a), focuses on the role the auditor plays in his relationship to the financial statements' users in the sense that the autonomous auditor behaves as a trustworthy agent for society. Limperg (1932b) pointed out that the auditor should always endeavour to fulfil sensible public expectations.

3.3.1.2 Added Credibility

This theory considers the principal function of auditing as an addition of credibility to the financial statements. The audited financial statements are utilised by the management (agent) to boost the owner's faith in the agent's stewardship and to decrease the information unevenness. Moreover, the audit financial statements have elements that enhance the financial statement users' confidence in the figures obtained by the management team in the financial statement.

It has been extensively documented during the last forty years that the task of an auditor, and thus the auditor's role, is proving the credibility of financial statements. The auditor provides reassurances to possible investors and other interested parties that the financial statements are reliable for the purposes decision-making (Porter, Simon, & Hatherly, 2003). Lee (1970, p. 292), supported this view; he argued that "*the auditor attests to the credibility of a company's annual accounts on behalf of the shareholders who rely upon this formal substantiation taking place, prior to making use of the information in their investment management activities*". Likewise, Mautz (1975) observes that "*the role of auditing in an advanced economic society can be and has been stated in very simple terms -to add credibility to financial statements*" cited from (Flint, 1988, p. 6). Such viewpoints are consistent with that of the professional accounting bodies' understanding of the auditor's role as a taking a perspective regarding the corporation's financial statements.

Empirical studies conducted by researchers like (Lee & Tweedie, 1975; Estes, 1982; Craswell, 1985; Steen, 1990) frequently criticise the hypothesis that sensible individuals make investment decisions on the basis of audited financial accounts. Such research studies have revealed that the individual shareholders regard the audit report as the least central part of the annual report and they usually have little information on its contents. Similarly, Porter (1989) infers that "audited information does not form the primary basis for investors' investment decisions". However, it is often stressed that the financial statements have a purpose which is to endorse the message that was initially identified (Soltani, 2007).

3.3.1.3 Agency Theory

Agency theory examines the relationship between the two parties: investors and managers. Agent (i.e. managers) agrees to perform certain tasks for the principal (i.e. investors) and is committed to do to reward agent. The Agency Theory is more concerned with the relationship between shareholders (the principal) on the one hand and the corporation directors and managers (the agent) on the other hand than with providing an account of the particular role of an auditor in society. The theory is rooted in the stewardship function of the audit, whereby an individual is handed over the property of another. In this regard Watts & Zimmerman (1986b, 1986a), suggests that the auditor is appointed in the interests of both the third parties as well as the management.

Wallace (1980, p. 12) defined this relationship as "*a contract under which principals engage another person as their steward to perform some service on their behalf, the performance of which requires the delegation of some decision making authority to the steward*". Such a relationship makes one believe that the agent (the company manager) does not necessarily act for the benefit of the shareholders; this definitely requires an independent test. It is Wallace's conviction that the company managers initiated this demand since the shareholders control the prices paid for their services; furthermore, this price will be modified with respect to the relation to the self-interest displayed by the corporation managers (Watts & Zimmerman, 1986a).

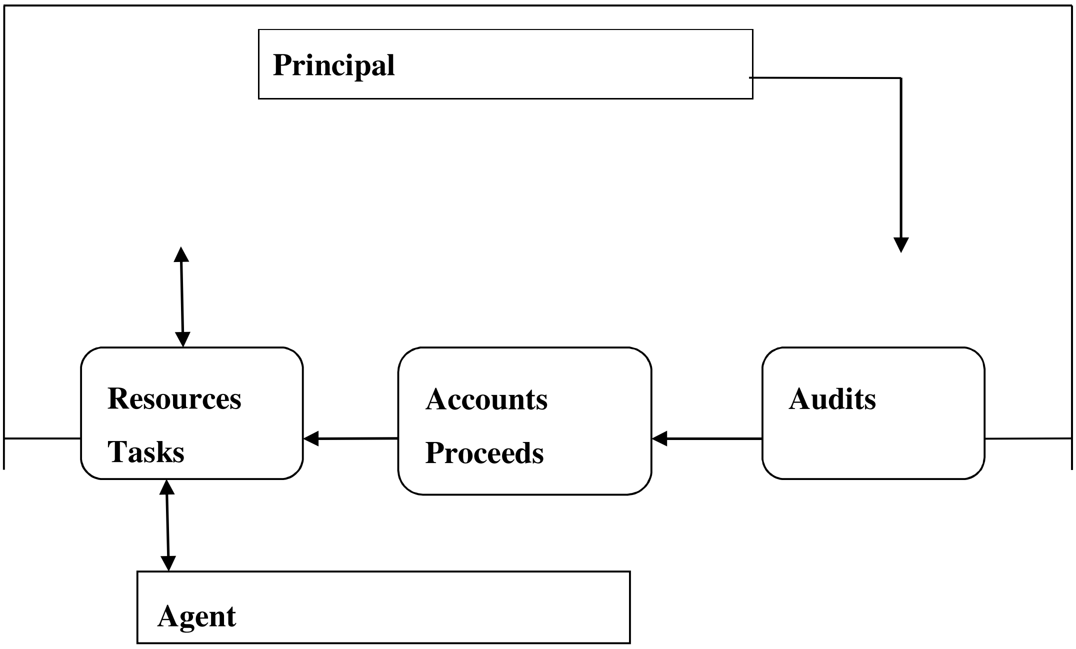
This representation is theoretical and it is based on the postulation that the deviation of self-interest can be calculated financially by the shareholders. As a result, management requires evidence that figures provided are free of unintended error and fraud. This is an essential process that secures credibility to the financial information provided. An expectation gap exists when the distribution of responsibility is not well defined. The responsibility of each party is defined in the regulations. The manager and owners must realise that the auditor has no responsibility for the accounting, but the responsibility of external auditors observes that the auditing had been done correctly.

Criticism directed towards the agency theory centres largely on the supposed relationship between shareholders and managers. Porter (1993,1997) views this relationship as one that involves shareholders in modern corporations who are more interested in the profits on their investment than in supervising the performance of management; the market forces normally control the managers' and directors' fees. Furthermore, commentators like Benston (1982) propose that the company managers do not always consider their own self-interests as they tend to perform actions that are socially accountable and are required by shareholders.

The 'agency theory' may have little advantage since it does not acknowledge some of the practical aspects of the relationship between shareholders and corporation managers. Additionally, it does not completely account for the role of the auditor, as it only deals with the demand for auditors, and do not take into account the presence of other interested third parties such as investors, employees, creditors and the government. Flint

(1988) observes that ignoring other representative bodies neglects the widespread force of responsibility and the social function of the audit.

Figure 3:1 Diagram illustration of Agency theory



Source: from Jensen & Meckling, (1976, p. 166),

3.3.1.4 Accountability

Inspection of prior literature suggests that there is more than one definition for accountability see for example Benston (1982); Roberts & Scapens (1985); Gray et al. (1988); Gray et al.(1991); (1991); Munro & Hatherly (1993); Degeling et al.(1996); Gray et al.(1996).

Accountability can have different meanings for different people depending on the context of concern. Sinclar (1995, p. 221) argued that: "how we define accountability is dependent on the ideologies, motifs and language of our times".

Gray et al. (1996, p. 38), defined accountability as "the duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible". The focus of responsibility is principally on the measurement of 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). However, this complexity leads to difficulty in defining accountability. Munro & Hatherly (1993), recommend that responsibility is being pressed into all aspect of our life. Therefore, different forms of accountability are permeating into our relationships.

The concept of accountability shows the relationship between two parties in which one party is directly or indirectly accountable to another. Gibbins & Newton (1994, p. 166) 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". 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 (Gray et al., 1996).

1. There is a link between the accountability and the responsibility where the former is established to ensure the latter.
2. There is an emphasis on information as a link between the relevant parties.
3. The content of information depends upon the accountability relationship.

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 & Gould, 1999). In this context, accountability rather than responsibility will be used to mean holding others to provide an account.

Flint (1988, p. 6) developed a theory of accountability and social control based on the principle that the audit function is constantly changing. The development is a process that starts from a simple inspection of truthfulness and regularity and moves to a much more complicated examination of economy, effectiveness and efficiency. Certainly, the audit is only valuable when the need emerges for individuals or groups to get reassurances from the financial data that they cannot achieve themselves. Gilling (1978) argues for the existence of binding legal and professional "norms" that define the auditor's role and accountability related to society. This specified role has been further changed into an agent of social control as a result of transformations that have rendered auditing a matter of status rather than that of contract.

Legal decisions define the auditor's tasks; these decisions are normally the result of society's norms and outlooks. Society establishes the norms of conduct, and in the current study, both the law and the auditor's role are determined by society's expectations.

The dynamism of accountability theory could be observed in the numerous competing "meanings" attributed to the audit function by diverse users. According to Flint (1988, p. 153) "the audits function….. must…. be sensitive to and react to changes in the public concept of what accountability is" though the concept of an audit may remain steady. The auditing profession is incapable of responding to such expectations; the financial press, politicians, government bodies and the general public have publicised this aspect via professionally supported explorations, principally by the American Institute of Certified Public Accountants (AICPA, 1978) and the MacDonald Commission (CICA, 1988), who recommended that auditing practices be guided by public expectations. It is the MacDonald Commission feeling that public expectations of the auditor's tasks are both sensible and attainable, and that the auditors must be perceptive to changeable expectations; they must by no means go beyond what is possible. Flint (1988, p. 17) draws the following conclusion: "*the onus is on auditors and audit policy makers constantly to find out what is the societal need and expectation for independent audits, and to endeavour to fulfil that need within the limit of practical and economic constraints, remembering at all times that the function is a dynamic, and not a static one*".

3.4 The Historical Background of Development of the Audit Expectations Gap

From the historical point of view, the literature on the audit expectation gap supports the belief that there is widespread recognition within the profession of the disparity between users expectations and the perceived performance of auditors, (American Institute of Certified Public Accountants AICPA, 1978; Institute of Chartered Accountants in England & Wales ICAEW, 1986; Canadian Institute of Chartered Accountant CICA, 1988; Guy & Sullivan, 1988; Porter, 1991; Humphrey et al., 1993; Institute of Chartered Accountants of Scotland ICAS, 1993). Turner (2000) reported 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"*.

Lee (1970), observed that the intricacy of auditing could be based both on the objective of auditing and the role auditors play, when viewed as dynamic rather than static. Thus, any change in these contextual factors can initiate a change in the auditing function along with the role of auditors; it then increases the conflict between the users' predictions and the auditors' tasks, referred to as the audit expectation gap. The studies conducted by Lee (1970), Amhowitz (1987), Singleton-Green (1990), and Porter (1991) indicated that the gap might be caused by a lack of knowledge or an education deficiency on the part of audit beneficiaries. Tricker (1982) and Humphrey, Moizer, & Turley (1992) pointed out that the gap has widened because of the "time lag" that the auditing profession suffers from while recognising and reacting to frequently changing and growing societal expectations. Likewise, the Cohen Commission (AICPA, 1978) has more commonly accepted the gap resulting from the difference between the public's expectations that have narrow definitions of the gap as documented above but disregard the sources of misunderstanding that lie beyond the limited areas of sensible public expectations and adequate auditor performance. The Canadian Institute of Chartered Accountant (CICA, 1988) and Porter, for instance, do not present a satisfactory performance gap demonstrated by the difference that appears between the tasks expected of auditors and both their actual performance and standards which they should comply with. Furthermore, Hatherly, Innes, & Brown (1991) demonstrate that the gaps exist between the auditors and audit users at three discrete levels: (i), the required audit responsibilities, (ii), the current audit responsibilities and (iii), the means of carrying out audit responsibilities competently.

The study of the role theory found that auditors are unable to efficiently specify their own roles in society because parameters have changed in the course of time, and the audit expectation gap will to a certain degree not be bridged till the profession shoulders responsibilities for satisfying the achievable roles that society expects out of them (Porter & Gowthorpe, 2004).

According to Sikka & Cooper (1992), the expectation gap will not be bridged, though it has been in existence for fifteen years, while auditors form an effective monopoly, along with the reduced official obligations and responsibilities. The concern they expressed clarifies the basic difficulty of realistic solutions to the audit expectation gap. The anticipated solutions must either be accepted as responsibilities or imposed by the government, but neither solution can ensure the unanimous approval of the constantly changing and competing expectations of audit users.

However, realistic restrictions on the role of the auditor such as those related to time, cost and the intricacies of modern companies must be considered while formulating practical responsibilities for the auditors. For instance, a rigid obligation to spot any instance of fraud within a corporation will commonly be considered unfeasible. It may require considering more transactions than the present audit sampling techniques recommend. The result is greatly increased audit fees. An alternative, practical approach might entail expanding the terms of the Financial Service Act 1986 that deal with the internal control of all the public corporations, so that audit users are made conscious of situations where financial data are not appropriately controlled.

According to Humphrey (1991, p. 7) the expectation gap is "*a representation of the feeling that auditors are performing in a manner at variance with the beliefs and desires of those for whose benefit the audit is being carried out*". Attempting to propose realistic measures to narrow the gap by merely suggesting that the auditor accept and perform all the obligations the society might expect him to assume is not adequate. Achievable responsibilities of the external auditors must be compared with society's changing expectations of his/her role for the gap to be effectively bridged.

The existence of the expectation gap has been apparent for over a century; in many instances, the academic and professional viewpoints expressed in the 1880s differ from those articulated in the 1970s.

The difference of opinion between auditors and shareholders or society is further highlighted by other publicised cases, for instance, the Leeds Estate Building and Investment Co. (1887) London and General Bank (No. 2) (1895) and re Kingston Cotton Mill Co. (1896). They illustrate the auditor's role regarding fraud. Fraud detection was the major purpose of an audit in the late 19th century; however, it is increasingly viewed as the responsibility of the management in the 1980s. Nonetheless, the result of the current financial failures that covered Barlow Clowes, Polly Peck and BCCI was a renewed endeavour to boost the responsibilities of the auditor. Dicksee's statements to many academics and professional commentators sound as pertinent today as they were in 1915: "I am convinced that it is only by voluntarily accepting, and even increasing, the responsibilities of our position that we can hope to maintain and to increase the large measure of public confidence.” Cited in (Brief, 1975, p. 288).

Though some commentators consider the audit report as a sign of a corporation’s investment potential and future feasibility, Montgomery (1912) observes “it may be permissible, or even desirable, to modify the past results so that they may more usefully serve the purpose for which they are primarily intended namely, provide a reliable index of future profits’. The professional outlook was more down-to-earth. ‘The Accountant’ in 1888 noted that “in most cases an accountant is no better able than other people to forecast the business prospects of an undertaking which, however sound at the outset, may ultimately fail through mismanagement, change of fashion, invalidity of patents, or numberless unforeseen courses” Cited in (Brief, 1975, p. 292).

3.4.1 Expectation Gap in the 1970s

From the early 1970s, the audit profession in many countries came under serious criticism. This resulted from the loss of user confidence in the reports and in the autonomy of auditors. This era saw an increase in bankruptcy cases and witnessed the financial failure of many corporations with no warning from the auditors. There was more pressure from regulatory bodies in various capacities. The profession gave rise to new expectations. The detection of fraud was no longer the principal objective. Instead there was a desperate need for a socially usable system that required advance information in the event the corporation fail to provide information about the future.

The gap exists between the expectations and practices of profession. The phrase ‘expectation gap’ first appeared in the 1970s. A variety of professional commissions in America and Canada such as the Commission on auditors' responsibilities and the Adams Committee shouldered the responsibility of considering whether a gap might exist between the expectations of the public from an audit and the expectations of the auditors concerning what rationally could be accomplished. The general public was concerned with the growing level of company failures as a result of the existence of the audit expectation gap. The objective of the commissions was to address the public concern. Similar criticism was directed at the UK accountancy profession in the 1970s. The American report's foremost recommendation was aimed at the improvement of the auditor's performance and the perceptions of audit beneficiaries.

Acknowledgment of the presence of a gap between the expectations and the needs of financial statement users on one hand, and the profession's awareness of the auditors' role on the other, resulted in the formation in 1974 of the Cohen Commission (AICPA, 1978). In March 1977, a 'Report of Tentative Conclusions' was prepared and released; its recommendations were based on an assessment of both the public expectations of auditors and the quality of audit performance.

The commission evaluated both the theoretical and empirical evidence, including studies of the audit practices, case studies of audit failures, and assessment of user expectations. All through the examination and the consideration period, the AICPA was keen to emphasise the Commission's independence. The commission made several suggestions and recommendations to narrow the gap; these were related to:

- Promoting the role of the autonomy of the auditors in their society.
- Expressing opinions on financial statements, and reporting noteworthy uncertainties.
- Illuminating the responsibility for the detection of fraud.
- Defining the boundaries of the auditor's role and its limitations.
- Getting acquainted with the auditor's communication with the users.
- Preserving the independence of auditors and the quality of auditing practices.

Other major commissions were formed in the USA during the 1970s aside from the Cohen Commission. One was the Metcalf Committee (1978), the Subcommittee on Reports, Accounting and Management of the Committee on Government Affairs. It attempted to clarify how cost accounting practices could be made better to benefit the public. The report paid special attention to the responsibilities transferred to the accounting associations. The main concern of the Moss Committee (1976) was the standards of company accountability. The Committee was in doubt concerning the profession's self-regulation programme and the legislation approved to control the accounting profession.

A concern similar to that of the audit practices and the auditor's role led the Canadian Institute of Chartered Accountants (CICA) to set up the Special Committee to Examine the Role of the Auditor (Adams Committee) in 1977. The Committee report in 1978 (CICA) accepted the essential need for the auditor's responsibilities to become accustomed to changing economic conditions and audit user expectations. The Committee attempted to take on board the recommendations made by the Cohen Commission, Metcalf Committee and Moss Sub-Committee that deserved further attention from a Canadian viewpoint, and reported the significance of many issues connected with auditing (Canadian Institute of Chartered Accountant CICA, 1978) such as:

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

In 1975, the accountancy bodies delivered their response by issuing the Accounting Standards Steering Committee's (ASSC) Corporate Report. Whereas the report attended to the mounting concern regarding the role and accountability of auditors, a selfregulating committee headed by Rt. Hon. Lord Cross of Chelsea was delegated to set up "to what extent, if any, the investigator and disciplinary organizations and powers of the accountancy bodies may require to be changed to enable then to deal both effectively and justly with allegations of unsatisfactory professional work by any member". The Cross Report as published in 'Accountancy' December (1977, p. 80). It is pertinent to point out that the recommendations of the Grenside Report (1979), were made to take into consideration those made by the Cross Report; they were helpful in the succeeding arrangement of the joint disciplinary system and the Auditing Practices Committee (APC) in (1980). The assigned bodies wanted to increase public confidence by examining cases of public interest regarding the auditor by setting up the first set of auditing standards, but their efficiency can only be assessed in the light of the increasing public dissatisfaction with the auditor in the 1980s.

3.4.2 The Expectations Gap in the 1980s and 1990s

Many of the committees in America in the 1970s came to the conclusion that the users' expectations of the auditor were both rational and attainable, and that the profession must accept the requirement to change. Benston (1982, p. 63) criticised the American and Canadian reports for not establishing "their concern on a review or analysis of evidence", especially Moss and Metcalf for being "completely devoid of empirical or logical support", the contribution they made was considerable in knowing that the constant presence of an audit expectation gap was not merely caused by the audit users' misinterpretation of the auditor's role.

America and Canadian commissions and committees went on emphasising the concern over the financial reporting standards in the 1980s. Though the Brooks Committee (the Legislation and National Security Sub-Committee of the House Committee on Government Operation (1985) scrutinised the repeated idiosyncrasy of audit standards. The reports mentioned instances of inaccurate charging of expenditure to the federal government, purposeful false accounting, and company collapses, soon after the selfgoverning accountant's clean bill of health (the unqualified audit report). Though it is prompted by the government, the committee concluded that for the profession to take direct action to stiffen financial exposure requirements and to constrict the expectation gap would be favourable to direct government intervention.

In October 1987, the Treadway Commission Report (American Institute of Certified Public Accountants AICPA, 1987) was published. Initiatives were recommended to restrict the reporting requirements with the aim of reducing the occurrence of deceitful financial statements. Deceitful financial reporting, as stated by the Commission, most frequently results from "certain environmental, institutional, or individual forces and opportunities" (AICPA, 1987, p. 6) and while defining the corporation management's principal responsibility for fraud detection, it stressed that the auditor plays a central role in the fraud detection process. The conclusions of the MacDonald Commission, Report of the Commission to Study the Public's Expectation of Audits (CICA, 1988) intensified the acknowledgment of extra professional responsibilities. The Commission findings were that the public still hold mistaken beliefs concerning the auditors' responsibilities, but in general the public expectations are rational and realisable.

In the UK, the report of the Working Party on the Future of the Audit (Institute of Chartered Accountants in England & Wales ICAEW, 1986), was founded to gain access to the role of the auditor and to directly handle the constant presence of the expectation gap. The report encouraged the auditor to "develop in response to changes in the business environment" (ICAEW, 1986, p. 6); it emphasised the significance of preserving confidence in the quality of the audit function. The professional response was clarified by the consequent development of the APC's Emerging Issue Task Force in 1987 and the APC's substitution by the more energetic Auditing Practice Board (APB) in 1991. The specified bodies attempted to assume a more active role in fighting the audit expectation gap by acknowledging and directly handling controversial and misinterpreted areas of the audit function.

3.4.3 The Definition of the Audit Expectation Gap

An audit expectation gap is not a new phenomenon, as shown earlier the term ‘audit expectation gap’ was first introduced in the audit literature in the early of 1970s by Liggio. However, the issues relating to an ‘expectation gap’ has become the subject of a substantial analysis since the end of the nineteenth century, while the history of the audit expectation gap phenomenon probably dates back much further (Al-Duneibat, 1998). There has been a variety of definitions for the term identified in the auditing literature. As the researcher has already seen, one of the first to use this term over some twenty years ago was Liggio, 1974, in a paper entitled The Expectation Gap: “the Accountant’s legal Waterloo”; he proposed that:

“The audit expectations gap occurs when both the quality and standard of the auditor’s performance differs from what financial users groups deliver” (Liggio, 1974, p. 27). Responding to the extensive criticism that politicians directed towards the quality of auditors’ performance, and the threat of government interference in the profession’s dealings, the AICPA (1974) formed an autonomous commission, chaired by Cohen, “Commission on Auditor’s Responsibilities” that consequently is known as the (Cohen Commission). From that time on, the expression “the expectation gap” has been extensively used in the academic literature. The role of the commission was to draw conclusions and recommendations concerning the proper responsibilities of the autonomous auditor. They should regard whether or not a gap may exist between the expectations of the public or their needs on one hand, and the expectations of the auditors concerning what can and should be rationally realised on the other hand. In case a gap of this sort does exist, it needs to be investigated to decide how the differences can be resolved (American Institute of Certified Public Accountants AICPA, 1978, p. xi).

A series of research projects and consultations were later conducted by the commission with a “variety of interested parties”; they argued for the existence of a gap between the expectations of the financial statement user groups and the auditors’ performance. As the

Cohen Commission reported, the major reason for the gap's existence was the inability of the profession to follow the changing conditions in business, and in their viewpoints; the responsibility lies with the auditing process, not with the users. As can be noticed, the Cohen Commission defined the gap as:

"…the difference between what the public expects or needs and what auditors can and should reasonably be expected to accomplish" (American Institute of Certified Public Accountants AICPA, 1978, p. xi)

In order to further develop the assumption stated above, a more detailed clarification of key issues was required; this involved:

- Expanding the scope of the expectation gap to cover expectations of financial statement user groups and expectations and auditors' performances
- Addressing several issues, for example the term responsibility, i.e. the responsibility of external auditors regarding a variety of issues such as fraud detection, continuing concerns and the delivery of useful information on the nature and results of audit.

Even with this more developed analysis in place, these definitions seemed to fail to address (1) the quality of the audit in terms of the actual auditors' performance, (2) professional understandings relating to their responsibilities, (3) the level of expected performance and (4) what factors may actually enable reasonable client expectations of auditor performance. All of the above issues can be interpreted as a performance-based standard and ignorance of such 'performance standards' will inevitably lead to a performance gap. Other researchers such as Porter (1993) claim that the definition of audit expectation gap provided by Liggio (1974) and the Cohen Commission (1978) is too narrow, as they fail to recognize that auditors may not accomplish "expected performance" (Liggio, 1974) or what they "can and reasonably should" be achieved, AICPA (1978). These definitions simply do not allow for sub-standard performance.

"*…this still leaves the gap too narrowly defined, as it does not recognize that auditor may not accomplish what they can and reasonably should. It is therefore, proposed that the gap, more appropriately entitled the audit expectation-performance gap, be defined as the gap between the public's expectations of auditors and auditors' perceived performance*" (Porter, 1993, p. 50).

Moreover, the fact that many definitions have been presented in the auditing literature regarding the audit expectation gap in general terms confirms this phenomenon to be widespread. For example, Guy & Sullivan (1988, p. 36) state 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*".

Even though the literature is full of clarifying statements, the expectation gap remains a source of much research amongst academics. Monroe & Woodliff (1994) defined the expectation gap as the difference between what the auditors believe in and the public believe in concerning the auditors' responsibilities and duties. Jennings, Reckers, & Kneer (1993) observed that the expectation gap stands for the difference between what the public expect about the responsibilities and tasks of the auditing profession and what the auditing profession actually presents. Ojo (2006, p. 1) defined the audit expectations gap as "*the difference between what the users of financial statements believe and what the general public perceive an audit to be and what the audit profession claim it to be with respect to the audit*". On the other hand, Humphrey (1997, p. 9) defines it as "a representation of the feeling that auditors are performing in a manner at variance with the beliefs and desires of those for whose benefit the audit is carried out". As Humphrey (1997) observed, this definition can be expanded to comprise issues related to the sufficiency of the auditing standards and the quality of the audit delivery. Further definitions of the audit expectations gap are provided by McEnroe & Martens (2001), who defined the gap as one that indicates the difference between what financial statement users identify as being part of the auditor's responsibilities and what auditors believe their responsibilities involve. Despite those minor differences in the researchers' definition of the expectation gap, they all concede that it exists and think that the audit expectation gap represents the differences in understanding concerning what the public and the auditors believe the auditors' responsibilities are (Porter (1991); Monroe & Woodliff (1994); Humphrey (1997); McEnroe & Martens (2001); Sikka, Puxty, Willmott, & Cooper (1998); Dixon & Woodhead (2006).

3.5 The Structure of the Audit Expectation Gap

As the existing literature pointed out, the gap is identified as one that consists of two components: the CICA (1988), Porter (1991), Porter (1993), (see Figure 1). Porter argued that it is more proper to rephrase the expectation gap as "the audit expectation-performance gap"; the two main components are: (1) The auditing standards gap and (2) the auditor performance gap MacDonald Report, Para 1.20-1.22 and Porter, (1993).

Standards Gap (line between A to C): represented the gap between "the duties which can reasonably be expected by the auditors and the auditors existing duties as defined by the law and professional promulgation". The argument underlying the gap is that the existing auditing standards and laws are not sufficient to ensure auditors perform such reasonable duties.

This component may be further subdivided into:

Unreasonable Expectations: a gap between what can irrationally be expected of auditors and the auditors' current responsibilities as defined by the professional pronouncements and law.

Standards Shortage: a gap between what can be rationally expected of auditors and the auditors' present responsibilities as defined by the professional pronouncements and law.

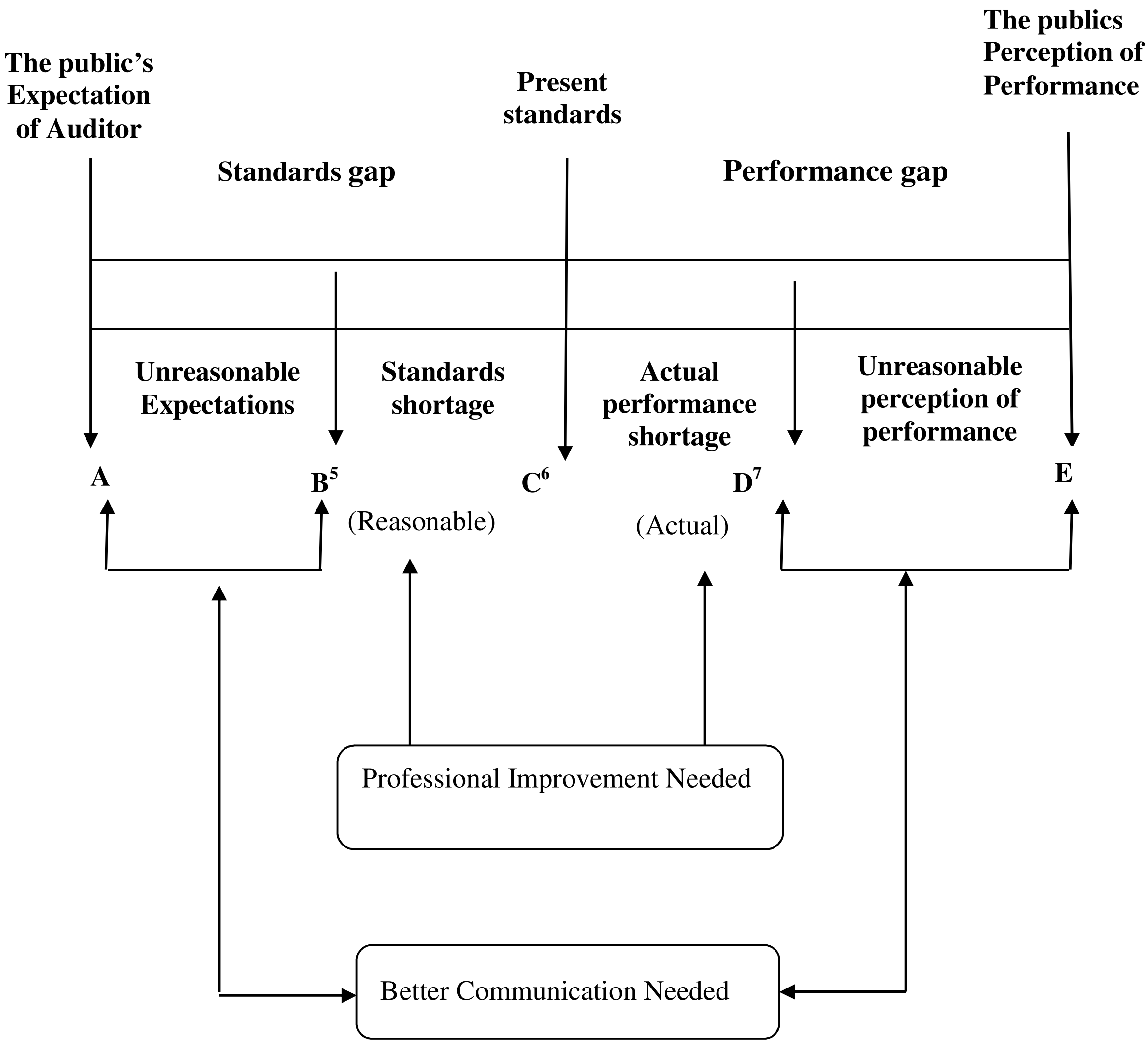
Performance Gap: (line between C to E): represented a gap between the anticipated standard of the performance of the auditors' existing duties and the auditors' perceived performance as expected by society. Poor performance is said to take place when the auditors did not conform to all the laws and to the auditing standards while performing their audit. This component may be further subdivided into:

Unreasonable Perception of Performance: a gap between the anticipated standard of performance of the auditors' present responsibilities and their perceived performance, as anticipated irrationally or incorrectly by the public.

Auditor Performance Shortage: a gap between the anticipated standard of performance of the auditors' present responsibilities and their perceived performance as rationally perceived and anticipated by the public.

The structure of the audit expectation gap sketched above demonstrates that those expectations may not be rational, and perceptions may not be sensible either. An irrational anticipation or an awkward perception of the performance can be harmful to the public's confidence in the auditors and the audited financial data. In cases where the public have rational anticipation that is not met by the existing auditing standards, or where the auditors' performance did not meet the auditing standards, then measures must be put into effect to improve the standards or the performance. However, in case the problem under investigation is that the public's anticipations are irrational, or the perceptions of performance are irrational or incorrect, then the rational procedure is to endeavour to improve public awareness. Moreover, if the responsibilities are rationally anticipated by the auditors, they must not be different from the auditors' role in society and they must be cost-beneficial for the auditors to perform (Porter, 1993). The existence of the expectation gap is due to the shortage of regulations, and to the auditing and accounting standards being founded by the profession; i.e., where users rationally anticipate the auditors to call the users' attention to a special issue, but the profession does not want this since an inadequate standards gap exists.

Figure 3:2 Components of Audit expectations gap[4]



Hatherly, Innes, & Brown (1992) presented another structure of the audit expectation gap. They suggest that the gap consists of three levels:

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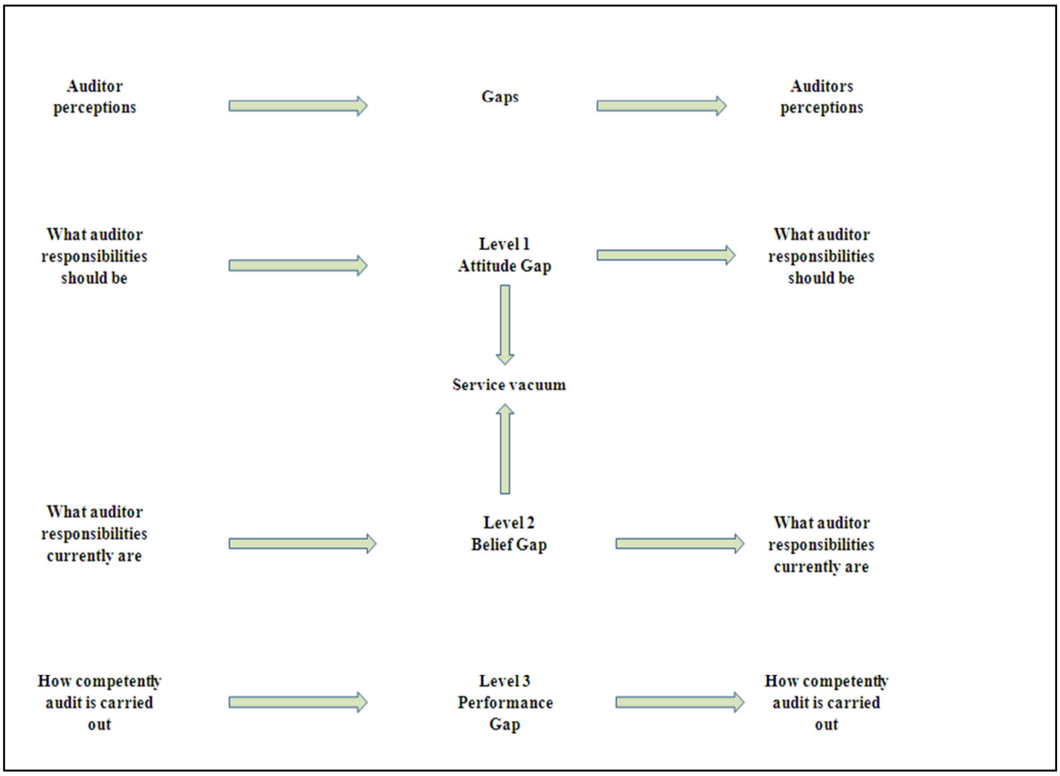
[4] Source: Canadian Institute of Chartered Accountants, Toronto, Canada, June 1988, p.6.
[5] Duties Reasonably Expected of Auditors.
[6] Auditors existing responsibility
[7] Auditor perceived performance.

- **Level One** represents what the role and responsibilities of the external auditor ideally should be.
- **Level Two** represents what the duties and responsibilities of the external auditor currently are as determined by the laws of profession bodies and legislation.
- **Level Three** represents how the responsibilities of the external auditor are implemented; those determined by the law are currently carried out.

Figure (3) below illustrates the distinction between level one and level two; a "service vacuum" represents the irrational anticipation of the users and the incomplete standard; both components have something to offer to the existing service vacuum.

Level three operates when the external auditor fails to perform to professional standards; this will contribute to the increase in the performance gap.

Figure 3:3 Framework of the Audit expectations Gap



Porter & Gowthorpe (2004) demonstrated that these components changed over time, though feelings of distrust as to the audit expectation gap have not been eradicated.

However, practical restrictions on the role of the auditor such as time, cost and the intricacies of modern corporations must be considered in founding a set of practical responsibilities for the auditors. For instance, a rigid commitment to spot any instance of fraud within a corporation will normally be unfeasible. The process may involve investigating more business dealings than the present audit sampling techniques recommend, resulting in greatly increased audit fees. A more practical approach might entail expanding the provisions of the Financial Service Act 1986 for reporting on inner controls to all public corporations, so that the audit users are made aware of situations where financial information is not appropriately controlled.

With regard to the Libyan context, the financial statement user groups may have two types of expectation gap as defined above by (CICA, 1988; Porter, 1991). The first concerns the deficient performance gap, which resulted from the condition that the Libyan Accountants and Auditors Association (LAAA) did not conduct any training for its listed auditors. With such an institutional deficiency, auditors are not being updated with the most recent developments and challenges facing auditing and the audit profession. This situation has developed mainly due to the socialist philosophy which, since the early 1980s, has been adopted by the Libyan government. Within this system the responsibility for the Libyan economy planning and control rests with the government, which appears reluctant to improve the Libyan accounting and auditing regulations. Moreover, a second gap may also be found in the Libyan context concerning deficient standards. Issues here have arisen due the fact that Libya lacks its own accounting principles, auditing standards, and code of professional ethics. The accounting and auditing standards applied in Libya are simply adopted from those standards that presently operate in the UK and US. Such standards tend to be flexible so that foreign companies have a greater opportunity to manipulate their financial statement reports so as to increase their expenditure and decrease the profit to escape the Libyan tax system.

It has been suggested that the Libyan government is seeking rapid economic growth and has, therefore, been inclined to shift its economic focus from the public to the private sector. However, the prime issue frustrating this shift appears to be associated with a lack of the basic mechanisms that are necessary for achieving such an improvement. The key mechanisms have been identified as the lack of (i) sufficient data and documentation systems, (ii) qualified accountants and auditors, (iii) education systems for accountants, and (iv) an authoritative set of accounting and auditing standards. Such deficiencies must be addressed in Libya to aid the development of the whole accounting regime, including local accounting and auditing standards, in line with current international development requirements. However, simply adopting those international accounting and auditing standards which are not appropriate within the Libyan environment is unlikely to be successful. More recently, the Libyan audit system has faced considerable criticism on both the domestic and international fronts. Questions have been raised which challenge the notion whether a clean audit report is even possible without knowing which accounting standards were used to prepare its financial statements. This stresses the needs to set up national accounting and auditing standards to ensure governance over accounting and auditing practices in Libya.

3.6 Factors Contributing to the Existence of an Expectation gap

The auditing literature review affirms the differences in perceptions between the financial statement user groups and the auditors regarding the particular role of the external auditor, (Lee, 1970; American Institute of Certified Public Accountants AICPA, 1978; Holt & Moizer, 1990; Porter, 1991; Fadzly & Ahmad, 2004; Dixon et al., 2006). The recommendations made by major professional and governmental investigations clarify that misunderstandings are caused by various crucial factors. The following four principal areas are viewed as relevant:

3.6.1 Auditor Independence

Auditor independence, one of the most central aspects in the expectation gap, is often considered as the foundation stone to the audit function. In reality, professional autonomy is a primary concept underlying the accountancy profession. The code of professional behaviour of AICPA suggests two kinds of auditor autonomy: independence-in-fact, and independence-in-appearance. Auditor independence is defined by the Institute of Chartered Accountants in Australia (ICAA, 2004) as follows:

- *Independence of mind – the state of mind that permits the provision of an opinion without being affected by compromised professional judgment, allowing an individual to act with integrity and exercise objectivity and professional scepticism*
- *Independence in appearance – the avoidance of facts and circumstances that are so significant for a reasonable and informed third party, having knowledge of all the relevant information, including any safeguards applied, that would reasonably conclude a firm's or members of the firm's integrity, objectivity or compromised professional scepticism.*

Independence-in-fact is also referred to as actual independence; it defines the auditors' capacity to make impartial and objective decisions. This sort of independence is contrasted with independence-in-appearance with respect to the fact that financial statement users believe that the auditor is autonomous. Robertson & Louwers (1999, p. 96) observe that "people cannot see inside auditors' heads to detect their mental attitude". Additional problems have emerged due to the fact that it is not always possible for an auditor to preserve an impression of independence when he is effectively nominated and paid by someone influenced by the type of work he performs.

Compromising auditor's independence is discussed by both the Cohen Commission (AICPA, 1978) and the Metcalf Commission (1978), who emphasized the significance of preserving autonomy under important competitive pressure. Whereas the Cohen commission advocated audit committees to be concerned with nominating and specifying fees for the auditors, the Metcalf Commission proposed that a reduction in non-audit services to audit customers would function to reinforce audit independence. The Canadian outlook as sounded by The MacDonald Commission (CICA, 1988) viewed autonomy as one of the auditor's most vital attributes; and by clarifying autonomy to the public, the auditor's professionalism is enhanced. Institute of Chartered Accountants in England & Wales (ICAEW, 1986, p. 69) stressed the nature of 'perceived independence' as "perception rather than reality that will influence the extent to which reliance and value be placed on the work of the auditor".

Certainly, the rational cause for the appointment of an autonomous auditor is to avoid the powerful conflict of interest between the corporation directors, who are in charge of issuing financial reports, and other users of audited financial statements. The audit within this context is expected to attach credibility to financial statements; thus, an auditor must be viewed as autonomous with respect to those in charge of their preparation. Professional independence in the UK, for instance, is kept in order by the profession's ethical guiding principles and the Corporations Acts of 1985 and 1989.

Rockness, et al. (2001) observed that for the accounting firms, the primary area of concern is expanding the scope of their services to other managerial roles, and as CPA firms have rendered non-audit services for audit customers over the past 50 to 100 years, the recent development in this area has been remarkable. The fees for the Management Advisory Services (MAS) representing non-audit services with the exclusion of tax services, accounted to $15 billion of the 'Big Five' returns in 1999. During the period from 1981 to 1999, MAS revenues soared from 13% to 50% of the whole returns, with the MAS fees from present audit customers standing for 10% of the total firm revenues, though only 25% of audit customers received MAS from their auditors. By 1999, 4.6% of the Big Five customers' MAS fees were bigger than their audit fees, whereas this was so of only 1.5% of customers in 1997. This shows 200% increase within two years.

Concerns relating to auditor autonomy within the UK have been expressed by researchers who increasingly make reference to the 'audit professions' as the 'audit industry'. Thus, they emphasize the increased commercial value on the audit process. Mitchell & Sikka (1993) also shed light on concerns with the audit profession's obligation to the 'public interest' issues. The emphasis here comprises factors that relate to the audit process as being too loosely built, ritualistic by its nature, and the role of economic pressures in affecting such practice from behind the shielding veil of claims to professional autonomy and judgment, (Humphrey and Moizer 1990; Pentland 1993; Power 1995).

Auditor independence is once more emphasised when a need arises to add trustworthiness to the financial statements. In cases such as these, the auditor must be viewed as independent of those accountable for preparing the financial statements. As shown within the UK, autonomy is regulated by the Companies Acts 1985, 1989, and 2006, and by the auditor's own moral guiding principles. Practically, it is difficult for an auditor to preserve total autonomy when he is effectively nominated and paid by those for whom s/he is asked to work.

3.6.2 Fraud Detection

Humphrey (1997, p. 11) proposes that *"the controversial nature of audit expectations is perhaps best illustrated by considering the changing nature of the auditor's responsibility to fraud detection"*. Earlier than 1940, fraud detection was usually regarded the principal objective of the company audit. Since then, this vision has been exceeded by the need for the auditor to prove the general credibility of the financial statements. Woolf (1987), asserts that the auditing profession endeavoured to detach itself from shouldering any real responsibility for the discovery of fraud. The empirical studies that were conducted in the 1970s and 1980s: (Lee, 1970; Beck, 1973; Arthur

Andersen & Co, 1974; Steen, 1990; Porter, 1991; Porter & Gowthorpe, 2004) demonstrated that the public still perceive the detection of fraud as the auditor's major concern; they still have inadequate knowledge of the depth of inspection necessary for an auditor to detect all instances of fraud and unlawful acts.

The 1970s and 1980s reports of America, Canada and the UK acknowledged that the auditors should play a vital role concerning fraud, but they should not have the prime responsibility for its detection. The American Institute of Certified Public Accountants-Cohen Commission (1978) proposed that the profession should arrange methods for publicizing all new techniques that relate to the prevention and discovery of fraud, while the MacDonald Commission (1988) emphasized the significance of good inner controls. The ICAEW (1986, p. 31) stated that "changes may be required of both auditors' attitudes and society's expectations", but the changes in the auditor's outlook as the report views it appear to extend little beyond evidently defining and communicating his responsibility. The pressure exerted on the audit profession to initiate changes in their approach to fraud discovery is omnipresent in the auditing literature (Kaplan, 1987; Porter, 1993; Innes et al., 1997; Porter, Sherer, & Turle, 1997; Sikka et al., 1998), but as Hopwood (1991, p. 14) argues, "if auditors only focus on new ways of talking about auditing rather than new and better ways of doing it, the expectations gap is likely to remain or even grow".

In response to extensive criticism, the accounting profession has taken the necessary action to improve the dissemination of audit professionalism, which recognizes that when carrying out an audit, auditors have a responsibility to make themselves aware that fraud may be present and that if it is material, it may influence their attitude towards the financial statements. The accounting profession today in the USA or in the UK stress that the responsibility for preventing and discovering fraud settles with management. It is best achieved through the preservation of a sufficient internal control system for the corporation, yet it also recognizes that auditors have some responsibility to discover fraud. Especially, it demands that the auditors plan their audits with due care in order that they have a sensible expectation of discovering material mishandling in the financial statements resulting from fraud. However, the guiding principle also warns that, owing to the intrinsic limitations of an audit, there is the likelihood that material misrepresentation of the financial statements that result from fraud may not be discovered (ICAEW SAS 110. ASB SAS 99).

It is argued that the existing auditing standards also did not meet what the public can rationally expect, but in this respect, there are signals that the accounting profession is surrendering to public pressure; thus, it has taken the necessary steps to narrow the gap. For instance, in the USA in SAS No. 99, "Considerations of Fraud in a Financial Statement Audit", the AICPA has assumed a more optimistic approach in identifying the auditors' tasks as related to fraud than it did in its previous standards, replacing its former insistence that an audit cannot be trusted in disclosing irregularities. Nonetheless, opposite to the public's expectations, the standards point out that the auditors cannot accept it as its duty to identify material fraud during an audit or to unveil it through a competent audit outlook. Therefore, a portion of the expectation gap that relates to fraud detection is expected to stem from poor standards.

3.6.3 Auditors Giving Early Warning of Company Failure

Besides fraud uncovering, the literature also notes that the users of financial statements expect the auditors to provide early warnings of corporate failure, (Institute of Chartered Accountants in England & Wales ICAEW, 1986; Mendick, 1986; Cohen, 1987; Tweedie, 1991; Dewing & Russel, 2001).

Mendick (1986, p. 72) notes:

"*There seems to be a growing public expectation that the auditor will give an 'early warning' that a client is making poor financial or product decisions or may be nearing the brink of financial collapse*". Lately, the high profile business failures showed that auditors do not meet this expectation. The Enron/Andersen case has clearly demonstrated that Andersen failed to raise the alert that Enron had any ‘going concern’ difficulties. Actually such auditing failures are at a distance from the new occurrences as Low (2002, p. 9) has illustrated:

“*Auditing firms failed to warn in advance of financial problems at nearly half of the companies that sought bankruptcy-court protection during the past 18 months*”.

In addition, Low (2002) has shed light on the following fact:

KPMG had the worst track record, since it failed to send a warning in the form of what is called going-concern warnings on half or more than half (sixteen of the twenty-eight) corporations it studied. The fact that these corporations subsequently filed for bankruptcy protection came as no surprise, (p. 9). Once more responsibility issues are viewed to be playing an essential role as evident by the following episode. The bankruptcy of WorldCom is believed to be the biggest bankruptcy ever reported in the US history, (Chaffin & Larsen, 2002). Parker (2002) stated that the global chairman of KPMG observed that the accounting fraud at WorldCom took place before KPMG assumed the responsibility as an auditor from Andersen. Though the public acceptance of responsibility has not been admitted by either KPMG or Andersen, the fact remains that there was warning issued beforehand by the firm that WorldCom had financial problems, (Parker, 2002).

Concerning auditors issuing early warnings of corporate failure, the literature continues to point out that the performance of many practising auditors does not equal the public’s expectations. The current auditor’s duties, as specified by the modern global auditing standards, are not far from what the public anticipate so while assessing the predicaments encountered by auditors, it seems that this question can be traced back to inadequate professional performance and public readings of the audit expectation gap.

3.6.4 Audit Report

The final product of any audit process is the auditors' report; it is designed to forward the auditors' opinions to concerned users. Though the auditors' reports may differ in arrangement, in all cases they must notify users of the degree of coherence between data included in the financial statements and the recognised criteria in their audit procedures.

As Cook & Winkle (1988) put it, the report is the only facet of an auditor's work that the public observe. One can likely judge the public accountant's competence relying on this report. On the other hand, legal responsibilities may be decided by referring to it. The auditor cautiously and systematically scrutinises accounting data and procedures so that he can develop a judgement as reliable as the information obtained. The judgement made by auditors can be biased on the basis of the personal viewpoints of the management of a corporation. The result is a commitment of professionalism through the accomplishment and completion of the auditing report (Lee, 1986).

From the inspection of independence and fraud detection, it has become apparent that the audit report does not operate as the profession would like it to. The existing empirical evidence implies that the report is frequently not read, (Steen, 1990). Unfortunately, the technical terms and terminologies are extensively misinterpreted (Craswell, 1985; Holt & Moizer, 1990) and the auditor's opinion is habitually misunderstood (Estes 1982) by the public. Thus, further research studies must be carried out to explore the existing methods of audit report preparation, as that directly influences the research problem under investigation, the "audit expectation gap".

Research studies conducted by the AICPA, Cohen Commission (1978), Metcalf Committee (1978), CICA, Adams Committee (1978), AICPA, Treadway Commission (1987), MacDonald Commission (1988) and ICAI, (1992) pointed out that much of the misunderstanding related to the audits and auditors could be clarified by a more enlightening audit report. Regarding changes to the current audit report, certain recommendations are made; they highlight the call for more flexibility and for an extended audit report in order to communicate an account of both management and the auditor's responsibilities clearly and concisely. In fact, this report format was approved by the USA in 1988 and by the UK in 1993. Steen (1990, p. 19) recommended such essential changes to auditing practices by noting that "the auditor should have the right and obligation to report serious matters to regulators if management do not do so".

Tweedie (1991) specifies two areas of audit guarantee whereby a central gap in perception is evident. The first is that auditors are expected to identify early warnings of future collapse, and the second is that an audit should give reassurances of the continued well-being of the corporation. Mautz & Sharaf (1961) consider this reassurance of the future feasibility of a corporation as one of the fundamental assumptions of auditing. Anyhow, Lee (1986, p. 142) maintains that "assessing the company as ongoing concern is arguably one of the most serious problems facing the auditor". Under the current UK guiding principle, the auditors are expected to qualify the accounts of any corporation where they think there are material factors which could menace its continued financial function. Citron & Taffler (1992) found out that the auditors are generally not satisfied with this expected role due to the fear that the company might collapse. Nevertheless, Sikka et al (1992) contends that the auditors are not obliged to directly look for proof that the corporation will not be on the verge of collapsing and the argument that a corporate failure need not be considered as an audit failure is dismissed, since the auditor can rationally claim that the accounts provide a true and fair perspective. Considering the Canadian Institute of Chartered Accountants CICA (MacDonald Commission), (1988) recommendation that extra assistance should be given on certain revelations, the Institute of Chartered Accountants in England & Wales (ICAEW, 1986) had the feeling that the auditors should also report on a statement of the corporation's future prospects presented by the director provisions such as these were meant to boost the credibility of audit reporting by encouraging the auditor to plainly communicate the objectives and constraints of his work.

As demonstrated earlier, the audit reporting gap does not simply consist of communication inadequacy. To satisfactorily meet the expectations of a growing class of audit beneficiaries, the profession must search for means to communicate the assurances that an audit supplies while it simultaneously knows and responds to meeting the requirements of the audit beneficiaries for more details of the development of audit report see section 3.7.1.1.

3.7 Empirical Studies on the Audit Expectation Gap

An audit expectation gap is the gap between stakeholders' expectations from auditors, and auditors' objectives in presenting a completed audit. The audit expectation gap has been examined mostly in developed countries with established accounting practices and knowledge. However, the extent, or even existence of such a gap, is still vague and has not been investigated in many Arab countries (Sidani & Olayan, 2007).

However, review of the empirical literature below; identify the gap in previous studies, and current research aimed to bridge the gap, as follows,

- Most studies have been done earlier in the advanced economies and a few studies have been conducted in emerging economies,
- Most of the studies of the audit expectation gap and development of audit reporting have used questionnaires to collect the data, while a small number of them have used other methods such as interviews. In addition, only a few studies have obtained their data through a triangulation of data collection methods such as of a questionnaire and interviews
- Most of the studies of the audit expectation gap and development of audit reporting suffer from a comparatively small sample, which limits the overgeneralization power of the results to different users.
- Most of the study considered the gaps in general and did not consider the elements within.

One of the main objectives of the current study is to summarize these studies in developed economies and emerging economies, as shown in the following diagram.

Figure 3:4 the audit expectations gap empirical studies

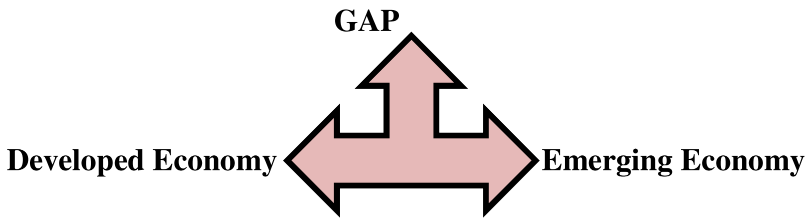


Table 3:1 Current Studies Review of Audit Expectations Gap Literature in Developed Economy

Author & Date	Country	Aims	Method	Populations	Finding indicate that:
Humphrey, Moizer, & Turley (1993)	The UK	To explore the presence of the audit expectation gap in the UK.	The study applied the questionnaire technique to collect data.	Accountants in public practice, Corporate finance directors, Investment analysis, Bank leading officers, and Financial journalists.	AEG identified in the United Kingdom. The study considered the gaps in general (without looking at specific elements).
Porter (1993)	New Zealand	To investigate the audit expectation-performance gap	The study applied the questionnaire technique to collect data.	1698 questionnaires were sent to randomly selected members of interested groups, that is, those who are affected in some way by the work of external auditor.	The duties which constitute the reasonableness, deficient standards and deficient performance components of the gap to be identified. It also provides the means to estimate the relative contribution of the duties to their respective components. And of the components to the overall gap between society's expectations of auditors and auditors' perceived performance. The research provides new insights into the structure, composition and extent of the audit expectation-performance.
Gay et al. (1997)	Australia	Investigated the existence of the audit expectation gap in Australia	The study used the questionnaire technique to collect data.	581 Australian auditors, 304 company secretaries/ accountants, and 495 shareholders.	AEG identified in Australia. It shows that users may have "unreasonable" expectations of auditors' responsibilities for irregularities. Also, a "deficient standards" gap may exist in relation to immaterial fraud.
Gowthorpe & and Porter (1999)	The UK	To investigate the presence of AEG-performance gap in New Zealand contrasting it with the auditing expectation-performance gap in the United Kingdom in 1999.	The study applied questionnaires to collect data.	1610 selected members of four groups; auditors, auditees, and audit beneficiaries from inside, and from outside, the financial community in the UK, and 1534 members of the same groups in New Zealand.	AEG identified in the United Kingdom and New Zealand. It shows the existence of performance gap and reasonableness gap in the UK and in New Zealand. The study also suggested various solutions to bridge this gap without investigating the possibility of experimenting with any of these solutions.

Table 3:2 Current Study's Review of Audit Expectations Gap Literature in Emerging Economy

Author & Date	Country	Aims	Method	Populations	Finding indicate that:
McEnroe & Martens (2001)	The United States of America	To explore the presence of the auditing expectation gap in the US	The questionnaire was employed to collect data.	500 audit Partners from the 66 largest public accounting firms in revenue, and 500 investors from the American Association of Individual Investors.	AEG recognised mostly in the area of assurances of the audit. Furthermore, the findings suggest that the accounting profession should engage in appropriate measures to reduce this expectation gap. In other words the study examined the broad expectations gap and did not consider the elements within.
Hussain, (2003)	Oman	To examine the existence of AEG in Oman. The study looks at education as a way of reducing this gap.	Questionnaire method was used in this study to collect data.	The auditing class at Sultan Qaboos University.	The existence of AEG. The study looks at education as a way of reducing this gap and suggests that discussion in the introductory accounting textbook would decrease this gap.
Lin & Chen (2004)	China	To examine the existence of AEG in China with respect to Audit objectives, and commitment to the references for the detection and reporting fraud, auditor independence, and third party liability of auditors.	Questionnaire method was used in this study to collect data.	300 external user-groups of financial analysis, 300 business management subjects (SOEs) and (PLCs), 120 Public accountants, and 80 educators.	The existence of the auditing expectation gap in China. However, the study considered the gaps in general and did not consider the elements within.
Siddiqui & Nasreen (2004)	Bangladesh	To examine the existence of auditing expectation gap in Bangladesh by concentrating on three independent variables: audit responsibility, audit reliability, decision usefulness of audited financial statements.	The study is applied using the questionnaire approach.	100 undergraduate students in the department of Accounting & Information Systems, University of Dhaka; and 115 former students of the same department who qualified as chartered accountants.	The existence of wide auditing expectation gap in Bangladesh in terms of the tested three independent variables. However, the study considered the gaps in general and did not consider the elements within.

Table 3:3 Continued: Current Study's Review of Audit Expectations Gap Literature in Emerging Economy

Author & Date	Country	Aims	Method	Populations	Finding indicate that:
Desira & Baldacchino (2005)	Malta	Examined the existence of the audit expectation gap in Malta	The questionnaire technique was used to examine the existent of the audit expectation gap in Malta.	100 potential jurors and 100 questionnaires were distributed over warranted Maltese auditors	The existence of AEG in Malta, particularly in the areas of auditors' responsibility, and actual work performed by an auditor. However, the study considered the gaps in general and did not consider the elements within.
Al-Qarni (2004)	Saudi Arabia	To extend and update the limited research on the audit expectation gap in Saudi Arabia which including recent developments such as the quality review programme, and recent corporate scandals.	Semi structured interviews; and a large-scale questionnaire survey were employed to collect the data.	348 Auditors, preparers and users of the financial statements.	There are a number of areas where AEG exists between auditors, financial statements preparers, financial statements expert users and private investors. The results from the interviews indicated that gaps existed between the above groups, mainly between the external auditors and financial statement user groups, over several auditing issues such as: the objective of audit; the independence of external auditors in Saudi Arabia and the role of auditors with respect to -Fraud; guaranteeing the financial statements; -Giving early warning signals about the possibility of business failure; and -The auditors' role with respect to the number of business transactions.

Table 3:4 Continued: Current Study's Review of Audit Expectations Gap Literature in Emerging Economy

Author & Date	Country	Aims	Method	Populations	Finding indicate that:
Dixon, Woodhead, & Sohliman (2006)	Egypt	To investigate the existence of the audit expectation gap	The questionnaire method was used.	300 questionnaires distributed equally to the three categories of auditors, bankers, and investors.	The existence of a wide AEG in Egypt in the area of auditors' responsibility and reliability of audit statements. However, the study considered the gaps in general and did not consider the elements within.
Haniffa & Hudaib (2007)	Saudi Arabia	To investigates if the business and social environment affects the perceptions of audit performance of users and auditors.	The questionnaire and interview methods were used to collect the data.	350 respondents from eight categories (large and small), financial directors, credit managers, investment analysts/funds managers, shareholders and representatives from government bodies.	The existence of performance gap that arise from licensing policy, recruitment process, the political and legal structure, and dominant societal values. Institutional and cultural settings important influence expectation gap.
Sidani & Olayan (2007)	Lebanon	To assess the possible existence of an expectation gap between accountants and non-accountants.	The questionnaire method was used to collect the data.	700 accounting and non-accounting professionals, including auditors and non auditors.	A significant "reasonableness gap" exists in Lebanon.
Lee & Ali (2008)	Malaysia	– To ascertain the knowledge of the auditors and corporate managers of the auditors' duties as required by the Malaysian Companies Act 1965 and the Malaysian Approved Standards on Auditing. – To elicit the perceived performance of auditors in relation to these required duties.	The questionnaire was employed to collect the data	200 questionnaires were handed to auditors and corporate managers in Malaysia.	The existence of "knowledge gap" and "deficient performance gap" between auditors and corporate managers.

Table 3:5 Continued: Current Study's Review of Audit Expectations Gap Literature in Emerging Economy

Author & Date	Country	Aims	Method	Populations	Finding indicate that:
Mahadevaswamy & Salehi (2008)	India and Iran	To investigate the existence of AEG and to find similarities and differences in responsibilities of audit expectation gap among auditors and investors between two countries, and the extent of the auditor responsibility.	The questionnaire method was used to collect the data.	In India sample respondents chosen for the study were 300 auditors and 650 investors. In Iran sample respondents chosen for the study were 600 auditors, and 600 investors.	Wide audit expectation gaps in both the countries in the area of auditors' responsibilities exist. There was not much difference between the opinion of auditors as well as investors in both the countries. However, the study considered the gaps in general and did not consider the elements within.
Lee et al. (2010)	Thailand	To examine the audit expectation gap in Thailand. The study also analyzes the nature of the audit expectation gap in Thailand.	The questionnaire method was used to collect the data.	A questionnaire was administered to 1,000 respondents the respondents comprised auditors (200), auditees (400) and audit beneficiaries (400). Also financial analysts (200), and brokers (200), management of companies (200) and accountants (200).	The existence of the performance gap (Deficient performance) and responsibilities gap ('reasonable' and 'unreasonable' expectations of auditors) uncovered
Chukwudumebi, Ifurueze, & Rachael (2012)	Nigeria	To investigate the perceptions of external auditors and beneficiaries on the statutory role of auditors. Whether the responsibility, reliability, and independence factors cause the expectation gap problem in Nigeria	The questionnaire method was used to collect the data.	A questionnaire was administered to 200 respondents; the respondents comprised 50 persons from each of auditors, accountants, bankers and investors/shareholders.	The existence of an audit expectations gap in Nigeria. They found some factors contributing to this gap such as the responsibilities of external auditors, the extent to which audit reports are used in making investment decisions, and the massage of audit reports and the independence of external auditors.

3.8 Brief History of the Development of the Audit Report

3.8.1 The Development of the Audit Report in the 1980s and 1990s

It is worth pointing out that the user's opinions concerning the form and content of the audit report have changed since the nineteenth century, as a result of scandal in western countries, (Chandler & Edwards, 1996). During that period, there was considerable concern in the developed countries that the users of the audit report might not accurately understand the auditor's intended message. Al Otaibi (2003) reported that since 1948, the audit report has undergone numerous significant changes in both form and content. These changes aimed largely at tackling misinterpretations of the message contained in the audit report to the financial statement users group. In the extended audit report, the auditor and the management roles have been extended and illustrated. Responding to the criticism, several countries have suggested and later on adopted expanded audit report wording to bridge the expectation gap. There are several studies conducted in developed economy such as Gay and Schelluch (1993), Monroe and Woodliff (1994) and Manson & Zaman (2001) they suggested that the auditor, in providing more information about the audit work, will add more value to the audit report; they; thus meets the users' expectation revealed the strong effect wording in the documents of extended audit reports, has on user group's perceptions regarding the statements and information communicated to them. This information incorporate, the auditor's role and function, the general purpose of the financial reports nature and restrictions, the audit process nature and the basic duties of auditors and management.

Several changes have been initiated in the audit report by professional bodies and organisations all over the world. The Cohen Commission was established in 1976 by AICPA with a duty to assess the audit report. The Commission noticed several deficient areas in the short audit report. This led to a conflict of opinion between the external auditors and the users of the audit report with respect to the character of the audit and the auditor accountability. The audit report in use in the USA did not adequately define the responsibility of the management for the financial statements. The Commission proposed that the use of the standardised report may boost the likelihood of the audit report user really reading it. The Commission also affirmed that the main audit finding should be evidently described in the audit report. It was further proposed that the audit report should be less standardised to increase its readership (AICPA, 1978).

The Cohen Commission, while recommending an expanded report, highlighted the significance of stating the management's accountability for the representation of the financial statements, the responsibility for an account of the audit procedures, and the significance of referring directly to the customer definite particular areas such as the provisional financial data, the interior accounting controls and the auditing committees.

Campbell & Michenzi (1987) reported that the recommendations of the Cohen Commission in the report concerning the financial statements involve initiating the following changes in the short form of the audit report:

- The use of the word "audit" instead of "examined",
- Removing the phrase "and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstance."
- By making reference to the study evaluating the internal controls, the transaction testing and the use of analytical review methods to assemble evidence.
- Eradicating the phrase "applied on a consistent basis".

In 1980, the US Auditing Practice Board issued an introductory draft aimed at overcoming the apparent limitations of the short form audit report, together with the responses to the recommendation of the Cohen Commission and the pressure exerted by Moss and Metcalf. The Cohen Commission recommendations were included in the

Auditing Standard Board (ASB) in the US. The introductory draft comprises seven proposed changes to the present auditor's report. These are the following:

- Adding the word "independent" to the heading
- Adding a sentence to affirm that the financial statements represent the management
- Adding a statement to inform the reader that the goal of the audit is to supply rational, but not total, assurance as to whether the financial statements in general are not related to material misstatement.
- Utilizing the phrase "audit" instead of "examined"
- Stating in the scope paragraph that the application of commonly accepted auditing standards needs judgment in deciding the nature, timing, and extent of tests and other methods adopted and in assessing the findings of these procedures
- Eliminating the word "fairly"
- The reference made to "consistent application of generally accepted accounting principles" should be deleted.

In the light of the criticisms levelled in the early 1980s, the Auditing Standard Board (ASB) affirmed that the report was presented to meet the concerns of the stockholders, the creditors and potential investors who use the financial information but did not communicate adequate information.

Boyd, & Boyd (2001) reported that on January 1st 1989, a new audit report was issued; the traditional two paragraph report was extended to a three paragraph report that illustrates the nature of the audit; the differences between the new report and the old one are mainly in the title, the introductory section, the scope, and the opinion paragraphs. Furthermore, the new report is named "the Independent Auditor's Report". After 1989, there was an introductory paragraph that was removed from the scope paragraph of the old report. This introductory paragraph of the new report comprises parameters such as:

entity auditing, the financial statements and the time period required for making the financial statements. Moreover, the word ‘examined’ was substituted by the word ‘audited’ in the audit report; two sentences were also added to the introductory paragraph defining the responsibilities of both the management and the auditor.

Other modifications to the scope paragraph of the report were made. These comprise conducting the examination in accordance with the GAAS. The auditor should also perform the essential tests under the specified circumstances. This requirement was removed from the new report and a new paragraph was added. It includes new phrases attached to the auditor’s standard report. In the new audit report the phrase “presents fairly” was used with the phrase “in all materials respects”. What’s more, the American Institute of Certified Public Accountants AICPA SAS No. 58, (1988) reviewed the reporting standards of GAAS, demanding the addition of a separate explanatory paragraph to the audit report where accounting principles have not been applied consistently. At last, with reference to the SAS No. 95, the “changes in financial position” was substituted by the phrase “cash flows”.

Manson & Zaman (2001) in their study reported that the Auditing Practices Board (APB) of the UK issued a standard in May 1993: the Auditors’ Report on the Financial Statements SAS. This new standard is akin to the US standards SAS 58 in that it moves from a short form audit report to an expanded one. (Hatherly, 1997, p. 183) suggest that the new standards audit report should include for instance:

- A title specifying the person or persons to whom the report is forwarded.
- An introductory paragraph determining the financial statements audited.
- Separate sections, with appropriate headings, dealing with the respective responsibility of the directors and auditors.
- The basis of the auditors’ opinion; the auditors’ opinion on financial statements.
- The manuscript or the printed signature of auditors.
- The date the auditors’ report is issued.

3.8.2 The Development of the Audit Report in the Twentieth First Century.

There is more development made to audit report in the developed economies (Higson, 2003), such as in January 2001, the UK APB issued a Bulletin (2001/1) and the Bulletin (2001/2) proposed stem from an implicit desire to improve communication and comprehension. But yet more criticism of the audit report especially in response to the dilemma of audit expectation gap by allowing the user group information about general auditing instead of information about the audit process Humphrey et al., (1992). In addition, the UK regulatory body proposed narrowing the gap by reducing the length of the audit report and recommended the free format of the audit report. More recently, the empirical study by the ICAEW (2007, p.12) showed that shareholders desire auditors to include in his report information related to uncertainty and future risks affecting the company; important issues and auditor's resolutions; alternative accounting treatment recommended and its reasons; and problems or difficulty encountered in making audit judgments.

Also, the Institute of Chartered Accountants in England & Wales (ICAEW, 2007, p. 6) in their reports, criticised the current audit report on the basis that has a 'boilerplate and standardised wording' and it is too long. Therefore, the current audit report is seen as the same from corporation to another, and rarely understood by several shareholders because of the technical audit terms used. This study recommended that, there is a need for less unified, more distinct format of the audit report. In the same report the ICAEW recommended that the format is amended, tailored to the circumstances of the corporation and avoid the use of standardised and technical wording. According to this report, these amendments would improve the users' perceptions of the audit process and of the audit report in terms of its ability to communicate the purpose. At the same time, expansion of the report also serves to enhance users' views of the value of the audit without any additional audit activity run. This is likely to lead to an enhanced reputation and status for the auditing profession. However, more recent research such as Gray, Turner, Coram, &

Mock (2009), has shown that more often than not, financial statement user groups have difficulty understanding the concept of audit risk and materiality.

3.8.2.1 Empirical Studies on the Development of Audit Report Communication

This section reviews and analyses the key studies that relate to the phenomenon of audit expectation gap literature in the development of the audit report within developed economies and emerged economies. The literature review is summarised in table 3.6 to 3.12, which shows the aim of each study in column one and the finding of each study in column six. The place of each study was indicated in column two, and the method which was applied in each study was showed in column four. However, the sample of the study was put in column five. This review reports evidence of the existence of an audit expectation gap with respect to the audit report. It also reveals that the bulk of research concerning the issue of the audit expectation gap and its components is conducted within developed countries. In other words, this review highlights a gap in the literature about the existence of an audit expectation gap in developing countries (see tables 3.6 - 3.12). Therefore, there is scope for more research to be conducted in this area.

Therefore, while this gap continues to exist between the audit profession and the financial statement users, it is wise to consider the research studies that have been carried out on the audit report gap and to determine whether or not the findings support one view or another.

Table 3:6 Current Studies' Review of Development of Audit Report Literature in Developed Economy

Author & Date	Country	Aims	Method	Populations	Finding indicate that:
Libby (1979)	United States	The study aims to report on a comparison of bankers' and auditors' perceptions and rating of the message content in ten types of audit reports in the United States.	Three individual differences scaling (INDSCAL) models were used.	Bankers and auditors.	No large difference in perception implied that fears of miscommunication between auditors and more sophisticated users were perhaps unjustified. However, Libby suggested that extending this generalization even to lower levels of sophisticated users would be precarious since the subjects had been chosen specifically for their sophistication in the evolution of financial statements.
Nair & Rittenberg (1987)	United States	To investigate differences in perception between bankers and auditors regarding communication in audit report.	A laboratory setting: subjects were presented with background data.	40 bankers came from "large" banks while 20 came from "small" banks and 40 CPAs from large and small organizations.	There are substantial differences between auditors and bankers concerning the messages communicated in compilation and review reports. They suggest that additional descriptions of procedures performed and degree of responsibility assumed might be useful in improving the consistency of messages communicated in audit reports; and that the education process could improve communication by familiarizing users with various audit reports.
Kelly & Mohrweis (1989)	United States	To investigate the influence of SAS No. 58 on bankers and on the investors' perceptions' of the auditor's role in reporting on the financial statement.	The questionnaire method was used to collect the data.	One hundred financial statement users, 50 bankers and 50 investors (MBA students who took part in the study)	Accountability was shouldered for both groups of users, those who received the new reports agreed more powerfully that the management was responsible for the financial statements, that the aim of the audit was clearly communicated and that the audit process was obviously delineated.

Table 3:7 Continued: Current Studies' Review of Development of Audit Report Literature in Developed Economy

Author & Date	Country	Aims	Method	Populations	Finding indicate that:
Holt & Moizer (1990)	UK	To test the disparity in the deduced meaning of the audit report wording on 13 dimensions of the unprofessional and the different types of qualified audit reports applied in the UK.	The questionnaire method was used to collect the data.	Accountants, stockbrokers and employees of insurance companies, investment trusts, pension funds and banks.	An expectation gap is still present regarding what the auditor has really achieved in the audit and the denotation of those achievements.
Hatherly et al. (1991, 1992)	UK	To test whether a UK derivative of SAS 58 compared favourably to the current short form report used in the UK, to help rational readers to better appreciate the nature of an audit and the auditor's role.	The questionnaire survey.	140 part-time MBA students were separated into two groups.	The UK derivative has the capability to modify reader perceptions. Moreover significant changes are not limited to matters directly addressed in the expansion of the audit report. A 'halo' effect is observed whereby the expanded wording appears to generate a feeling of well-being which spills over into matters not directly addressed in the UK derivative.
Miller, Reed, & Strawser (1993)	UK	To examine the influence of the wording changes of SAS 58 on bank loan officers' perceptions of the messages conveyed via the audit reports.	The questionnaire method was used to collect the data.	In the first phase of the survey, 120 bankers; in the second phase, four groups of 200 bankers.	The new report promoted certain aspects of the audit report's responsibility to communicate adequately between the auditors and the financial statement users. The loan officers conceived the recent report wording as indicating that the management had more responsibility for the precision of the financial statements. Nonetheless, auditors were observed to have reduced responsibility only for the GAAP qualification.

Table 3:8 Continued: Current Studies' Review of Development of Audit Report Literature in Developed Economy

Author & Date	Country	Aims	Method	Populations	Finding indicate that:
Monroe & Woodliff (1993)	UK	To explore the influence education has on the beliefs about messages communicated in the audit reports.	The questionnaire method was used to collect the data.	141 auditing students and 43 marketing students at the beginning of the same semester; 74 auditors and 114 auditing students at the end of the semester and 30 marketing students at the end of the same semester.	Their educational background considerably affected the students' beliefs, and they confirmed the existence of AEG in the area of auditors' accountability for financial statement preparation and fraud, the level of assurance granted and the prognostic worth of the financial statements. New audit report reduced the gap.
Innes et al. (1997)	UK	To investigate the gap between what auditors perceive they are doing and what users perceive auditors are doing.	The questionnaire survey.	500 auditor were chosen randomly from Scottish Chartered Accountants with a practicing audit Certificate. The "users" were two matched groups of 70 part-time MBA students at the University of Edinburgh.	Strong evidence that, with the UK short audit report, a gap exists between auditors and users.
Chung (1995)	Australia	To measure the perception of two groups of auditors in regarding the audit report communication.	An experiment study	Two auditor groups from the big six public accounting companies and six smaller corporations in the USA: in the first case, 32 auditors and the second case, 26 auditors.	The first group of auditors exhibited a blend of under-confidence and good calibration, whereas the second group displayed a mix of good calibration and excessive confidence. The combination of the two findings demonstrates an inclination towards under-confidence.

Table 3:9: Continued: Current Studies' Review of Development of Audit Report Literature in Developed Economy

Author & Date	Country	Aims	Method	Populations	Finding indicate that:
Chandler & Edwards (1996)	UK	To assess the messages transmitted through the audit reports (level 2) with the long form audit report AU700 in Australia.	A questionnaire survey was used as a semantic differential instrument.	Auditors, company secretaries and shareholders	AEG recognised generally in the area of (1) accountability, (2) dependability, (3) decision efficacy.
Hatherly (1997)	UK	To examine the presence of the auditing expectation gap in the UK, along with the influence of the long form audit report on the awareness of the MBA students at the University of Edinburgh.	A questionnaire survey was used to collect the data.	500 auditors and 140 MBA students.	A significant difference between the two groups of MBA students. This significant difference results from the different audit report forms that were distributed to each group. Therefore, the audit report form affects the perception of the readers and could be used to reduce the existing audit expectation gap that exists between the auditors and the users in the United Kingdom.
Gay, Schelluch, & Baine (1998)	Australia	To examined the presence of AEG in Australia.	A questionnaire survey was used to collect the data.	581 Australian auditors, 304 company secretaries/accountants from Australian business: the monthly top 500 business bodies together with the top 110 finance corporations/bodies, and 495 shareholders.	The expanded report now required for reviews and audits may have eliminated some expectation gaps revealed in prior studies based on short form audit/review reports. However, it has not prevented additional gaps occurring in relation to the financial report reliability and the level of assurance provided, and has failed to alleviate the skepticism of shareholders and preparers.
Manson & Zaman (2001)	UK	To decide to which degree the participants are contented with the new form, how it is useful to incorporate diverse issues such as corporate governance in the auditor's report, and whether or not there are any variations in the awareness of the three sets of subjects.	A questionnaire survey was used to collect the data.	400 auditors in the big 5, top 40 (excluding big 5), 400 preparers (finance directors) of 200 UK chosen companies, and 200 users together with investment analysts and corporate bankers.	The usefulness of the extended audit report form presented by SAS 600 in comprehending the audit functions and in satisfying the users' needs towards the annual reports backed by the extended report form.

Table 3:10 Continued: Current Studies' Review of Development of Audit Report Literature in Developed Economy

Author & Date	Country	Aims	Method	Populations	Finding indicate that:
McEnroe & Martens (2001)	USA	To review the existence of AEG after the discharge of the expectation gap SASs, and after SAS No. 82 (AICPA 1997).	A questionnaire survey method was used in this study to collect evidence.	500 audit partners, users' subjects consisting of 500 investors from the American Association of Individual Investors	The existence of an expectation gap along several dimensions.
Higson (2003)	UK	To identify the message which the external auditor was trying to communicate in an unqualified audit report.	Semi-structured interviews method was used in this study to collect evidence.	25 semi-structured interviews were conducted with senior practitioners – predominantly audit technical partners of the "top thirty" accountancy firms in the UK.	The auditors did not say that the information in the financial statements was 'verified', but they seemed to envision their role as being to inspect the sensibleness of the management's justifications for their depiction. Also, the interviews have shed light on major uncertainties concerning the phrase 'a true and fair view'.
Schelluch & Gay (2006)	Australia	To investigate the significant differences in beliefs about messages communicated by both negative and positive assurance audit reports between different subjects.	A questionnaire survey was used in this study to collect evidence.	580 auditors, 301 company secretaries/chief accountants, and 496 shareholders.	The change of the wording of the audit report may cause significant differences between the respondents concerning the different reports, as well as, change the beliefs of the users and reduce the audit expectation gap.

Table 3:11 Current Studies' Review of Development of Audit report Literature in Emergence Economy

Author & Date	Country	Aims	Method	Populations	Finding indicate that:
Gloeck, Dejager, & Mclnnes (1994)	Republic of South Africa	To examine the existence of an audit expectation gap	The questionnaire method was used.	Users, auditors and sophisticated users.	AEG identified mostly in the area of fraud and auditor's going-concern opinion.
Best et al.(2001)	Singapore	To investigate the impact of the long-form audit report on bridging the audit expectation gap in Singapore.	A questionnaire survey was used to collect the data.	The sample is 300 subjects consisting of 100 auditors, 100 bankers, and 100 investors.	The existence of AEG in Singapore identified mainly in the area of responsibility of the auditors and reliability of audited statements. Also, the usefulness of long-form audit report.
Al Otaibi (2003)	Saudi Arabia	To examine communication through the unqualified audit report in Saudi Arabia and the usefulness of modifying the wording to the audit report.	The questionnaire method was used to collect the data.	90 auditors group, 58 the financial statement preparers of the Saudi corporations and financial statement user groups consisting of 60 individual investors, 20 financial analysts, 20 credit managers, and 20 institutional investors.	AEG was found – mainly in relation to the responsibility and purpose audit factors, the extent of assurance given by auditors, the term present 'fairly' and the extent of performed of auditors, in relation to the future viability factor, over the question of whether the unqualified audit report communicates management efficiency and whether the audited financial statements are useful in monitoring the performance of the entity. In addition, AEG exist regarding to disclose of additional information.
Javed, Taslima, & Aklema (2009)	Bangladesh	To examine the influence of audit education in reducing the audit expectation gap in a developing economy.	A questionnaire survey was used in this study to collect evidence.	115 professional accountants, 100 bank loan officers, 300 undergraduate students majoring in accounting at the University of Dhaka.	Audit education considerably reduces the audit expectation gap especially in the area of audit reliability in an emerging economy environment.

Table 3:12 Continued: Current Studies' Review of Development of Audit Report Literature in Emergence Economy

Author & Date	Country	Aims	Method	Populations	Finding indicate that:
Adeyemi & KolawoleOlo wookere (2011)	Nigeria	(i) To identify users' perceptions of external auditors' role in Nigeria; and (ii) To assess users' perceptions of audit expectation–performance gap in Nigeria.	A questionnaire survey study to collect evidence.	250 respondents consist of bankers, investors, stockbrokers, students and accountants.	AEG identified mostly in the area of responsibility of the auditors for fraud prevention and detection. Audit scandals had negative impact on auditor's credibility. The users should be enlightened more on the responsibilities of auditors; the role of the auditor should be clarified.
Adeyemi & Uadial (2011)	Nigeria	i. investigate respondents' perceptions on the existence of AEG ii. examine the perceptions of respondent groups on the existing duties and responsibilities of auditors; iii. investigate the extent of reliance on audit reports by the respondent groups for investment decision; iv. Highlight ways to reduce the expectation gap.	A questionnaire survey was used in this study to collect evidence.	All auditors, auditees (private accountants and management) and audit beneficiaries (stockbrokers and investors) in Nigeria.	AEG exists in Nigeria, particularly on issues concerning auditor's responsibility. Therefore, the study suggests educating the public about the objectives of an audit, and the auditors' role and responsibilities to narrow the audit expectation gap.
Kangarlouei, Motavassel et al. (2012)	Sri Lanka	The study examines the expectation gap among auditors and financial statement user groups in terms of auditor responsibility, reliability of audit function and usefulness of audit.	A questionnaire survey study to collect evidence	Auditors, business managers and investors selected randomly and a convenient sample of management undergraduates	The results indicate significant perceptual differences in the areas of: responsibility for fraud detection and prevention; preparation and presentation of financial statements; assurance on financial statements; objectivity of auditors; and auditor independence. The reliability is not affected by the size of the auditor organization. Accounting education significantly reduces the expectation gap.

3.9 Summary and Conclusions

In conclusion, an analysis of the relevant research relating to the audit expectation gap clearly demonstrates not only that such a gap exists; rather, it is present in a wide variety of different cultural settings. Indeed, it is because of these entrenched cultural variables that a great deal of current study is unable to replicate any research that clearly identifies the 'causal dynamics' that contribute to the gap development in a variety of different geographic and political systems. It also appears that ambiguities that exist in both textual semantics (involving report wording) and education/training factors involving both report generators (auditors) and users significantly impact the perceptions of the afore-mentioned groups. With such considerations in mind, simply changing the format of audit reporting may not dissipate the expectation gap, although it may well heighten the variability of perception that exists in divergent cultural, social and educational populations from which both auditor and users are drawn. The analyses of the audit expectations gap confirm that the gap existed years ago; furthermore, the study sheds light on the fact that almost all the expectation gap studies were conducted in developed countries. Moreover, most of the findings and recommendations of these research studies focused on publishing extra accounting and auditing standards and guiding principles. However, such recommendations may not fit the developing countries that have diverse cultural, social and economic backgrounds. 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.

In this study, elements of the expectation gap and its reasons were discussed. The findings point out that these elements largely focused on several matters, among which are: auditor independence, fraud uncovering, auditors giving early warning of corporate failure, and finally the audit report. Since there is no proof of differences in perceptions between the auditors and users in Libya with respect to the role and nature of auditing and the duties and responsibilities shouldered to the auditors and the messages communicated by the audit reports. This thesis addresses these and other shortcomings. The next chapter presents the methodology of the study and progress of the research instrument; it also provides further information on the participants of this study and their demographical background.

Chapter 4: The Research Methodology and Approach

4.1 Introduction

The objectives of the current chapter are to explain the assumptions underlying the paradigms suggested by Burrell & Morgan, (1979), and discusses the criteria for selecting a paradigm in general, and for this study in particular, and to illustrate the methods and procedures followed by the researcher to gather the relevant data. The chapter falls into several sections. It starts with a review of the research aims, followed by investigation of philosophical perspectives (section 4.3), as well as regulation–radical change dimension (section 4.4), research approach are identified (section 4.5), overview of research methodology (section 4.6), research types are discussed in (section 4.7), the data collection methods are highlighted (section 4.8), questionnaire construction and pre-testing are discussed in (section 4.9), semi-structured interviews (section 4.10), reliability and validity evaluation (section 4.11), this chapter also discusses the summary of fieldwork process (section 4.12), describes the statistical method that will be applied in data analysis and highlights difficulties in conducting the fieldwork (section 4.13).

4.2 Research Objectives

The main aim of carrying out this research study is to explore and examine the development and current state of auditing in Libya, and the possible existence of an audit expectation gap, in economic transition conditions in one of the emergent economies, namely Libya. To achieve this aim, the following objectives were set for this research study.

1. To investigate the role and the purpose of auditing from the perspective of external auditors' and financial statement preparers, together with the prospective users, comprising investors and lenders, by investigating the following aspects:
    - The auditor's role with respect to audited financial statements and audit clients;

- Recent and potential prohibitions and other regulations in the audit environment and
- The groups to whom auditors should be responsible.

2. To investigate the perception of the external auditors and that of the stakeholders of the information communicated by the Libyan audit report.

4.3 Overview of the Philosophical Assumption

The research methodology is defined by Saunders & Thornhill (2007, p. 481) as the process of undertaking research; including the theoretical and philosophical presuppositions upon which research is founded "and the implications of these for the method or methods adopted". It involves the general research process, from the theoretical foundation to the massing and analysis of the data (Collis & Hussey, 2003). Therefore, the researcher should be cautious when he selects the method that is proper for the researcher's objectives and identified problems. The research objectives and the identified problems are closely related to the research philosophy and design. Kuhn (1962) defines the paradigm as the philosophy or the advance "of scientific practice based on people's philosophies and assumptions about the world and nature of knowledge". He added that the paradigms are generally recognized as "scientific achievements that provide model problems and solutions to a community of practitioners" quoted from (Collis & Hussey, 2003, pp. 46-47). According to (Collis & Hussey (2003), the definitions of both philosophy and paradigm stated above clearly indicate that a research paradigm plays a crucial role by supplying an underlying base for the research inquiry. It is necessary for the researcher to comprehend the philosophical principles of the research, applying a number of statements that tackle issues such as the means whereby the research for the truth is realized and how it is reflected in the achievement of the research aims and objectives. Easterby-Smith, Richard, & Lowe (2002, p. 17) point out that:

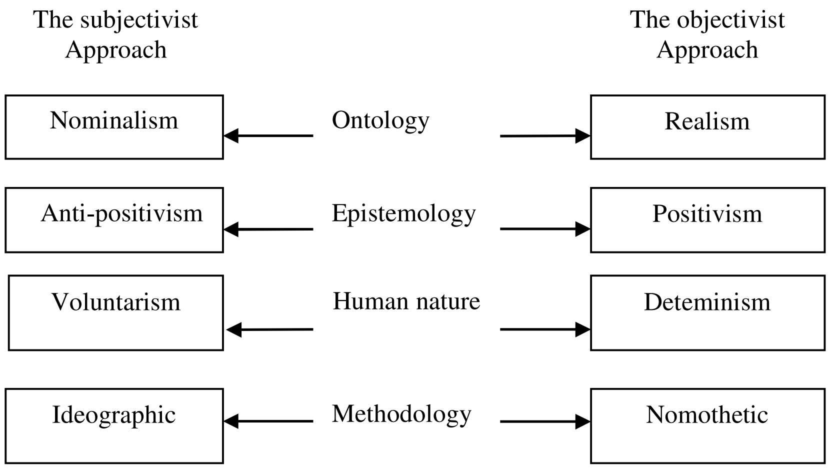
"There are at least three reasons why an understanding of philosophical issues is very useful. First, because it can help to clarify research designs; Second, knowledge of

philosophy can help the researcher to recognise which designs will work and which will not. It should enable a researcher to avoid going up too many blind alleys and should indicate the limitations of particular approaches. Third, knowledge of philosophy can help the researcher identify, and even create, designs that may be outside his or her past experience. And it may also suggest how to adapt research designs according to the constraints of different subject of knowledge structures".

Neuman (2000) stressed the importance of the paradigm use since it plays a prime role in research methodology. Burrell & Morgan (1985) argue that understanding how and why events take place in the nature of the world research should prove certain implicit. (Burrell & Morgan, 1979) are in full agreement with Chua (1986) view that certain assumptions can be proved with regard to the nature of the social science and the nature of society. Many researchers of social science, together with accounting researchers, come within reach of their research utilising explicit or implicit assumptions and applying methods of investigation into the nature of the social world (Burrell & Morgan, 1979; Chua, 1986). Assumptions such as those are related to human nature and methodology, ontology and epistemology. Furthermore, these assumptions reflect different aspects of the subjective and objective parameters. Burrell & Morgan (1979) presents a diagram for analysing assumptions concerning the nature of social science as demonstrated in Figure 4.1:

Figure 4:1 Assumptions about the nature of social science

The subjective-objective dimension



Source: Burrell and Morgan (1998:3)

4.3.1 Ontology:

Crotty (1998, p. 10) defined the ontology assumption as “the study of being”. It is associated with the nature of the reality to be examined; it investigates the connection between the researcher and the topic to be investigated (Hopper & Powell, 1985). As Burrell and Morgan put it, the basic ontological issue that the social scientist encounters is whether the ‘reality’ to be searched is exterior to the individual (i.e. imposed on the individual perception from outside), or is the result of the individual awareness; whether ‘reality’ is of an objective nature, or the outcome of individual cognitive powers; whether ‘reality’ is present in the world, or is the making of one’s mind. The argument on ontology orbits around the make-up of reality and the issues whether it consists of rigid, concrete and moderately irreversible structures (realism) or whether it is the result of individual realization (nominalism) (Burrell & Morgan, 1998; Crotty, 1998). However, one can perceive reality as a projection of one’s imagination (Morgan & Smircich, 1980). Thus, one can infer that the social world which is external to the individual cognitive capabilities is composed of nothing more than concepts, labels and names used to structure reality (Burrell & Morgan, 1985). Nonetheless, accepting the notion that reality exists autonomously of any perception does not imply that meanings are encoded independently of awareness; it is maintained that “the existence of a world without a mind is conceivable; meaning without a mind is not” (Burrell & Morgan, 1979; Crotty, 1998).

4.3.2 Epistemology

“Epistemology” is originally derived from two Greek words: ‘episteme’ meaning ‘knowledge’ or ‘science’; and ‘logos’ meaning ‘theory’, ‘study’, ‘account’, or ‘information’, (Johnson & Duberley, 2000, p. 2). Crotty, (1998, p. 3) defines epistemology as “the theory of knowledge embedded in the theoretical perspective and thereby in the methodology”. Epistemological assumptions are related to the nature of knowledge and the means human beings apply to realize the world and to communicate the acquired knowledge to their fellow human beings, Furthermore, they demonstrate how the acquired knowledge can be sorted as “true” or “false”. Thus, epistemology is related to the assumptions concerning the nature and bases of knowledge and the modes whereby social scientists realize the social world (Burrell & Morgan, 1979).

Diverse epistemological aspects are identified in the literature on social science which incorporates positivism and anti-positivism (Burrell & Morgan, 1979), functionalism, insight and positivism, (Otley & Berry, 1994) and subjectivism, objectivism, and constructionism (Crotty, 1998). Objectivism to Bryman (2004) entails that the social phenomena and their meanings exist independently of other social actors. It further entails that the social phenomena and the categories employed by the people in everyday language use exist independently or separately from the actors. In other words, objectivist epistemology is founded on the concept that knowledge has an existence independent of any awareness (Crotty, 1998; Mark, Philip, & Adrian, 2007). In contrast, subjectivism is founded on the notion that knowledge is enforced on the object by the subject (Crotty, 1998). On the other hand, constructionism documents that social phenomena and their implied meanings are constantly being attained by the social actors. “It implies that social phenomena and categories are not only produced through social interaction but that they are in a constant state of revision.” (Bryman, 2004, p. 17). Constructionist epistemology entails that there is no objective truth to be exposed. The meaning of truth exists when one engages with the realities in one's world.

Objectivist epistemology is founded on the notion that the existence of knowledge is independent of any other cognitive condition. On the other hand, subjectivism is grounded on the notion that the subject enforces knowledge on the object (Crotty, 1998). Constructionist epistemology throws out the viewpoint that knowledge exists objectively or that it is subjectively imposed. Its rationale is that knowledge is created (Crotty, 1998). Within these and other epistemological standpoints, there are diverse approaches for conducting research and obtaining knowledge.

4.3.3 Human Nature

The Human Nature concept deals mainly with the connection between human beings and their environment (Burrell & Morgan, 1979). The two principles underlying this notion are determinism and voluntarism. The determinist view is founded on viewing human beings' behaviour and experiences as the result of their own environment. However, a voluntarism perspective replicates the notion that human beings are sovereign and free-willed, and views individuals as the constructors and organizers of their environment (Burrell & Morgan, 1979).

4.4 The Regulation–Radical Change Dimension

The so-called regulation–radical change parameter is related to two different societal perspectives, termed "regulation" and "radical change". The regulation approach stresses the need for providing explanations in order to regulate human dealings that will permit society to keep on as a meaningful construct. The radical change approach emphasizes the exploration of explanations for radical change; it stresses the separation and distribution of interests, conflict structures, and unfair share of power, parameters that provide the prospective for a radical change (Burrell & Morgan, 1979).

4.4.1 The Burrell and Morgan Paradigms

Burrell and Morgan (1979) proposed a framework for investigating social sciences, which has been applied by many researchers such as (Bakar, 1997; Al-Qarni, 2004; Kribat, 2009). Burrell & Morgan (1979) propounded their assumptions concerning social sciences, which can be viewed with respect to what they called the subjective–objective dimension, among other suppositions related to the nature of society with respect to the regulation–radical change dimension. They have categorised the assumptions about society into two classes: those that are typical of society as an orderly entity and those that view it as subject to basic instability. The two principal groups of assumptions related to the nature of social science and to the nature of society generate four diverse paradigms. On the bases of these two sets of assumptions a matrix one is formed; it is in common use and it is often referred to in literature. It has two detached parameters: the subjective–objective dimension and the regulation–radical change. Each square of the matrix stands for one of four paradigms.

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

They observed that these four paradigms could be applied to the analysis of a wide range of social theories. Figure 4.2 represents the four paradigms of the framework developed by Burrell and Morgan:

Figure 4:2 the four paradigms as applied to the analysis of a social theory (Burrell and Morgan)

Radical change

	Radical humanist	Radical structuralist	
Subjective view	Interpretive	Functionalist	Objective view

Regulation

Source: Burrell and Morgan, 1979: 22

The functionalist paradigm occupies the bottom right hand position in the Burrell & Morgan (1979) framework. It occupies an objective position with respect to the suppositions prevalent in the social science and the regulation dimension with regard to the assumptions related to the nature of society. The functionalists are interested in examining the social structure from the point of view of the positivist, the realist determinist and the nomothetic. The paradigm utilizes natural science methods to validate or forge theories and to pinpoint causal relations.

As Burrell & Morgan (1979, pp. 25-26) put it, the functionalist paradigm demonstrates a standpoint steadily embedded in the sociology of regulation. “It is characterized by a concern for providing an explanation of the status quo, social order, consensus, social interaction, and solidarity, need satisfaction and actuality”. Viewed in a broader perspective, the orientation of functionalism is realist-objective, whereby rules, regulations and concrete facts are available. This paradigm attends to the social science from an objectivist perspective (determinist, positivist, realist, and nomothetic). The functionalists view accounting phenomena as concrete real-world relations having regularities and cause-effect relationships that could be converted to scientific explanation and anticipation (Belkaoui, 1997). Theories that are formulated under this paradigm are thought to be free of value; they are used to comprehend and predict behaviour.

The interpretive paradigm in the Burrell and Morgan framework is located in the bottom left-hand side. Since it occupies this position, it presumes a subjective dimension with respect to the supposition of social science, and adopts the regulation position concerning presuppositions about the nature of society. The emphasis within the interpretive paradigm is switched from the natural sciences, with their focus on the search for the exterior process in a physical world, to the cultural sciences, with their stress on the search for the interior process of the human psyche. Parker & Roffey (1997, p. 216), point out that the interpretive knowledge seeks to define what the participants in any body, group or exchange are engaged in when they perform their activities and communicate in their usual course of interaction. Burrell & Morgan (1979, p. 28) noted that the interpretive paradigm is enriched by a desire to comprehend the world as it is, to realize the primary nature of the social world at the level of subjective experience. It looks for explanations within the domain of individual awareness and subjectivity and within the framework of reference of the participants themselves rather than the observer of the action.

The interpretive paradigm searches for an explanation within the range of individual cognition and subjectivity. In simple terms, the interpretive paradigm is the one whereby implied rules and regulations influencing relations in society can be anticipated, but where a subjective aspect is taken into consideration when viewing how people understand the same rules and regulations. This seems to be a behavioural aspect; thus, it depends on many factors that may influence each person's awareness of those same facts.

Burrell & Morgan (1979, p. 31) defined interpretive research as " intends to understand individual subjective experience involved in the preparation, communication, verification and use of accounting information", and the role and nature of auditing and the audit report is accounting information. Therefore, the objective of interpretive research is to improve understanding of the implicit meanings and intentions of people's actions. As a result, joint communication and impact are needed for the process of comprehension.

As stated earlier, Burrell & Morgan (1979) contended that social science could be interpreted within the above four paradigms. The two authors are resolute that these paradigms are mutually exclusive and disproportionate. That is to say, one cannot work with more than one paradigm at any specific point in time. Nevertheless, Burrell and Morgan position has met with harsh criticism from several authors (e.g. Chua, 1986; Willmott, 1993). For instance, Chua, (1986) did not agreed with Burrell and Morgan's standpoint; they identified the difficulties involved in their framework as follows: (a) using mutually exclusive dichotomies (determinism v. voluntarism); (b) misreading Kuhn as advocating irrational paradigm choices; (c) encouraging the dormant relativism of truth and reason in their framework; and (d) the differences between the radical structuralist and the humanist paradigms are dubious in their nature. If such criticism of the Burrell and Morgan framework is accepted, researchers will be able to benefit from the related features of more than one paradigm. Therefore, these two methods were used by Al-Qarni (2004). In other words, for the purpose of this research study, both the functionalist and the interpretive paradigms are selected, whereas the radical humanist and the radical structuralist paradigms are discarded. The latter two paradigms were discarded because the researcher accepted the status quo of Libyan society (conflicts are considered as a provisional abnormality that is necessary to uphold a basic equilibrium) whereas these two paradigms throw out the concept of the existence a roughly acceptable status quo in society, approving radical change. As Burrell and Morgan view it, a radical change is mainly concerned with the quest for man's liberation from the existing structures, which bind and inhibit the potential for development.

The rationale for selecting the functionalist and interpretive paradigms for this research study can be explained as follows. First, the researcher did not accept the assumption underlying the sociology of radical change. Such rejection has led to accepting the other assumptions concerning the sociology of regulation. Gohonson & Duherley (2000, p. 79) noted that "by accepting the assumption that underpins the sociology of regulation, that assumption that constitutes the sociology of radical change is denied – and vice versa". Second, other technical parameters of auditing can be established, analysed and assessed in a comparatively quantitative and objective manner; however, there are other parameters such as audit judgments of notions like "going concern", "material", and perceptions concerning auditors and their functions and anticipations that are both qualitative and subjective in nature. Third, the nucleus of the study tackles numerous facts and rules: (a) commercial law; (b) general accounting standards use in Libya; (c) general auditing standards; and (d) the Certified Public Accountants Regulation in Libya. The specified rules and the concern for their operation comply with the functionalist viewpoint quadrant of the Burrell and Morgan paradigms. Nonetheless, the interpretation and assessment of those rules that brings about diverse perceptions, and the audit expectations gap that is the centre of this research, suit the Burrell and Morgan interpretive paradigm. The research methodology viewed as a framework of the means for accessing knowledge (Bryman & Bell, 2007) could then be applied as a general guideline or an overall approach. Moreover, it could be portrayed as the means which can be utilized to investigate and "obtain knowledge about the social world" (Burrell & Morgan, 1979, p. 2). Determining the research methodology inevitably depends on what the researcher perceives as the nature of reality; it cannot be separated from the "ontological assumption" (Creswell, 1998, p. 75) adopted by the researcher.

4.5 The Research Methodology

Collis & Hussey (2003, p. 55) defined methodology as a procedure that relates to the general approach the researcher takes to come up with certain findings; the method proceeds from the theoretical groundwork to gathering and analysing of the data. For the research to be trustworthy, it is vital that there is transparency in how the work proceeds and in the obvious clarification of the methodology. A faulty methodology can produce unacceptable conclusions. Therefore, one of the most critical judgments based on comprehending the relevant philosophical aspects and assuming a specific research paradigm, is to agree on the proper research methodology. Many different factors affect the selection of a given research methodology; they differ with respect to the research objectives and paradigms. Since one cannot judge whether a methodology can be true or false, one cannot claim that there is a right or wrong methodology which can be applied to carry out a research project (Silverman, 2010). Some methodologies meet the aims and objectives of a certain research project more appropriately than others (Oppenheim, 1992; Punch, 2000; Easterby-Smith et al., 2002; Creswell, 2003).

Creswell (2003) identifies three approaches that the research methodology can be based on: the quantitative, qualitative, and eclectic methods. He further established a link between them on the one hand, and the paradigms, methods of data gathering and analysis on the other hand, to help researchers select a proper approach for their research. The application of any one of these methods relies greatly on the nature of the research and the selection of certain epistemological and/or ontological suppositions. The quantitative research methodology was first developed for studying phenomena in the natural sciences; it deals with data that can be counted, frequently making use of statistical manipulation of numbers to summarise and interrogate the information. The quantitative researchers tend to envisage qualitative research as an investigative means of carrying out a social research. They view it as a determined tool to be utilised at the introductory stage of a research project Bryman (1993). Quantitative researchers tend to envisage qualitative research as an investigative means of carrying out a social research. They view it as a determining tool to be utilised at the introductory stage of a research project (Bryman, 1993). Denzin & Lincoln (1994, p. 2) define qualitative research as a multi-method that involves an interpretive, naturalistic approach. In other words, qualitative researchers study objects in their natural contexts and endeavour to make sense of them and to interpret the phenomena in terms of the meanings people assign to them.

Stake (1995) classified the diversity between qualitative and quantitative methodologies into three distinctive areas:

1. There is a dichotomy between the explanation and interpretation of the purpose of the research. Qualitative research deals principally with comprehending the complicated

types of interrelationship between the diverse variables, whereas quantitative researchers focus on explanation and control.

2. There is difference between discovered knowledge and constructed knowledge. Qualitative researchers deem that knowledge is constructed not discovered Stake (1995), whereas qualitative researchers view it as an efficient tool to reveal the actors' meanings and interpretations.

3. There is distinction between the personal and impersonal role. The role of the researcher varies with respect to quantitative and qualitative research. The influence researchers exert on the research context is limited in quantitative research, whereas it is more individualised in qualitative research.

Creswell (1998, p. 15) pointed out that "quantitative researchers work with a few variables and many cases, whereas qualitative researchers rely on a few cases and many variables".

Therefore, this study will adopt a triangulation method by combining a survey and interviews. The data related to the role and nature of auditing and the effectiveness of audit report communications currently used in the Libyan audit market were collected by questionnaire, after which some interviews were carried out to understand the research issues and the reasons behind the existence of the audit expectation gap; Bryman & Bell (2007) noted that the interview can be useful in terms of validating the findings from the questionnaire.

4.6 The Research Type

The selection of a given research paradigm leads researchers to execute a specific research design involving a series of reasonable decision-making alternatives, issues that relate to the objective of the study, the sort of investigation, the study context, the unit of analysis, and the time required (Sekaran, 2003). Nonetheless, a number of diverse categorisations of research formats exist, in the absence of a simple classification system that defines all the distinctions considered (Cooper & Schindler, 2006). A standard categorisation format based on the research objective is extensively expressed in the literature, whereby the research can be categorised on the bases of its purpose: exploratory, descriptive, explanatory or analytical. Exploratory research examines patterns, concepts or hypotheses, instead of testing or verifying hypotheses. It is carried out at a time when there are few or no earlier studies. Descriptive research studies portray the features of a particular problem or issue. The collected data are frequently quantitative and they are analysed statistically to extract the information. Analytical or explanatory research, since it is a continuation of descriptive research, goes beyond descriptive characteristics, extending to the analysis and clarification of why or how it is conducted (Collis & Hussey, 2003).

On the bases of the specified aims and objectives, the current research can be characterised as descriptive, explanatory and exploratory. Concerning the section of the research related to objective one, which describes the present state of auditing quality in the Libyan environment, it can be considered as descriptive. Furthermore, on the bases of the research objectives two and three, which attempt to examine the perceptions of the stakeholders about the character and the function of the external auditor in Libya, this requires an assessment of the degree to which the auditors, preparers and users of the financial statements seem to be pleased that the audit report effectively communicates certain important issues. On the other hand, the major consideration here is whether or not there are differences in the awareness of the five groups; this section can be considered as exploratory and explanatory or analytical. Similarly, Sekaran (2003) together with Cooper & Schindler (2006) note that with respect to the time parameter the research can be characterised as cross-sectional or longitudinal. Cross-sectional is the study of a special phenomenon (or phenomena) at a certain time, whereas a longitudinal study requires a panel, a fixed sample that is frequently measured. The selection of the type of research to be embarked on is influenced by three aspects: practicality for organisational research (Lee & Azham, 2008), the research strategy (Bryman & Bell, 2007), and the time available for the researcher (Remenyi, Williams, Money, & Swartz, 1998; Saunders, Lewis, & Thornhill, 2003). Therefore, a cross-sectional study was selected for this research.

4.7 The Data Collection Methods

According to Oppenheim (1992), the research methods are those applied for the collection and generation of data. The two methods of data collection applied by business researchers are: primary and secondary. Primary data collection includes two major methods: questionnaires and interviews. Silverman (2001), observed that these two methods must be comprehended in both approaches: quantitative and qualitative. Researchers following the quantitative approach gather their data by employing prearranged instruments, such as questionnaires, that produce statistical data, whereas others that apply a qualitative approach can gather data by selecting key words and drawing observations. Saunders et al. (2007); Easterby-Smith et al. (2002) and Creswell, (2003) observe that business research hardly ever falls under one definite research approach: quantitative or qualitative. Similarly, Saunders et al. (2003, p. 88) noted that "not only is it perfectly possible to combine approaches within the same piece of research, but in our experience it is often advantageous to do so". Therefore, to investigate the perceptions of stakeholder groups regarding of the existence of the audit expectation gap will contribute to understanding the components of the gap as described by Porter, and the reasons behind the existence of the audit expectation gap. The researcher utilises both approaches in the current study. The reasons for selecting a triangulation approach to research are given below:

1. Different methods can be employed for diverse purposes in a research study, Hair, Babin, Money, & Samouel (2003). Consequently, multi-method data collection is related to research objectives that are consistent with the research approach. The description of the current audit expectation gap in Libya and the practices of auditing by the Libyan audit profession (LAAA) necessitate a questionnaire, while comprehending the objectives behind the presence of such gap demands conducting flexible personal interviews with some respondents; in this regard Leung & Chau (2001) recommended adopting a

triangulation approach, highlighting that surveys can identify the differences in expectations while in-depth interviews can be employed to reveal a better understanding of the phenomena.

2. The selection of multi-method data collection helps develop triangulation (Leedy & Ormrod, 2005). According Saunders et al. (2003), triangulation is defined as "the use of two or more independent sources of data or data collection methods within one study in order to help ensure that data are telling you what you think they are telling you". Creswell (2003), observes that such triangulation has three advantages: it supplies a convergence of findings; it furnishes complementary facts; and it adds depth and breadth to a study.

3. Semi-structured interviews serve as a valuable means of triangulating data gathered by other means, such as a questionnaire (Saunders et al., 2007).

4. Questionnaire survey-based empirical studies will not achieve deeper analysis of the reasons behind the expectation gap. The researcher utilises a qualitative approach to support the quantitative survey, to facilitate comprehension of the causes of the expectation gap, and propose ways to narrow it.

4.7.1 The Questionnaire

A questionnaire is a list of carefully structured questions (Collis & Hussey, 2003). Likewise, Sekaran (2003, p. 236) defined the questionnaire as a "formulated written set of questions to which respondents record their answers, usually within rather closely defined alternatives". Sekaran (2003) shared with Saunders et al. (2007) the view that questionnaires are the most common method of data collection in business studies. Moreover, as Bryman (2004) puts it, the questionnaire method is probably the most suitable form for collecting information from managers. However, a questionnaire is frequently not appropriate for exploratory research and cannot be applied to descriptive or explanatory research (Saunders et al., 2007).

Saunders et al. (2003) categorised a questionnaire in accordance with the manner of administration. The different formats are: on-line questionnaire, telephone questionnaire, post/mail questionnaire and individual distribution/self-administered questionnaire. Taking into account the merits and demerits of the questionnaire and the nature of the research subjects, i.e. financial statement introducer, the external auditor, and the audit report user groups, the researcher chose a self-administered questionnaire since it was regarded as the most appropriate to meet the objectives of this research. Oppenheim (1992), pointed out that in a self-administered questionnaire, the researcher himself, or another acting on his behalf, frequently hands out the questionnaire to the respondents, plainly clarifying the research objectives; the respondents are then asked to complete the questionnaire. The benefits of a self-administered questionnaire are that it secures the high response rate, targets accurately the most suitable sample, and conquers the sample bias problem that may arise (Oppenheim, 1992; Collis & Hussey, 2003). Furthermore, it enables the researcher to present the research topic and to stimulate the respondents to produce their answers 'honestly' (Sekaran, 2003). In addition, self-administered questionnaires make it possible for the respondents to finish the questionnaire at their own pace; and it allows the researcher to check at collection time anyone who has not answered the questions in the questionnaire (Saunders et al., 2003). Moreover, a self-administered questionnaire complies with the requirements of several previous business PhD theses conducted in the Libyan environment such as that of (Khorwatt, 2006; Almalhuf, 2009; El-Firjani, 2010; Faraj & Akbar, 2010). Compared with other research types, this type was selected in this study for the following reasons:

- The untrustworthiness of Libyan postal services, that could bring about a low response rate and be time consuming, making it not desirable to use a postal questionnaire.
- The difficulties involved in finding the right personal details (e.g. email, telephone number) for the target respondents in the Libyan firms, external auditors, investors, making it impossible to use email or telephone questionnaire.
- The research questionnaire is thorough and rather long; thus, if it was sent by post or emailed to the respondents, it would have sometimes been abandoned and the response rate would be reduced.

Therefore, the findings of this method would enable the researcher to identify the existence of the audit expectation gap and how it contributes to the components of the performance gap as suggested by Porter from the questionnaire, and their causes and interpretation from the interviews.

Saunders et al. (2007) pointed out that the response rate, the validity and the reliability could be increased through the careful design of each question, good questionnaire layout, the lucid explanation of the questionnaire's aims, pre-testing, and carefully designed administration. These issues are discussed below.

4.8 Developing the Questionnaire

A considerable amount of attention was paid to the questionnaire construction and many drafts and a thorough assessment and pre-testing were performed before getting the final version of the questionnaire. Oppenheim (1992) pointed out that the questionnaire should be constructed diligently and worded transparently, eliminating slang terms and employing a rating system that specifies the uses and objectives; it should elicit the required information, moreover: (Rea & Parker, 1995) concluded that the findings of a questionnaire can be notably influenced by the order of the questions or statements. Thus the researcher should construct the questionnaire in such a manner as to help him/her achieve the objectives of the research and respond to the questions. As Sekaran (2003) noted, the questionnaire format should emphasise three areas:

- The formatting of the questions,
- The measurement principles,
- The questionnaire layout.

4.8.1 Questionnaire Wording

Another vital aspect that needs to be considered when constructing a questionnaire is the question wording. On the bases of guidelines proposed by Oppenheim (1992); Aaker, Kumar, & Day (2001), Easterby-Smith et al. (2002), and Sekaran (2003) the following three aspects must be considered when wording the questions: (1) using simple, direct and recognizable language in wording the questions whereby slang, abbreviations and technical terms should be avoided as much as possible; (2) keeping each question as short as possible in a manner that would not influence the content and the implied meaning of the question; (3) avoiding double-barrelled questions and double-negative questions.

However, Dillman (1978) specified two types of questions that can be utilized in constructing a questionnaire: open-ended (unstructured) and closed-ended (structured) questions. The closed-ended questions were chosen for this study owing to the nature of the study and advantages of the questions, as clarified in the following subsection.

Closed-ended questions: closed-ended questions or structured questions expose the question (a statement) and give the participants alternative responses. It has been demonstrated that the use of a closed-ended question improves the response rate since it decreases the time required from that of an open-ended questionnaire. Therefore, most researchers favour closed-ended format questions (Dillman, 1978). Table 4.3 shows the merits and demerits of the closed-ended questions (Oppenheim & Naftali, 2000; Saunders et al., 2007).

Open-ended questions: open-ended questions or unstructured questions do not rely on the pre-selection of responses and the participants create their own forms (Saunders et al., 2007). The merits and demerits of the open-ended questions are outlined in Table 4.3 below.

Table 4:1 Merits and demerits of open-ended and closed-ended questions

Merits	Demerits
Open-ended questions	
Option to answer freely and opportunity to Probe responses.	Time-consuming, and demand more effort from Respondents.
Closed-ended questions	
Require little time. Responses are easier to compare as responses Have been predetermined.	Do not allow probing responses.

Source: Outlined from Oppenheim (2000) and Saunders et al. (2007).

Considering the merits and demerits of the closed- and open-ended questions, the researcher adopted the closed questions in constructing the questionnaire. Some open-ended questions in the format of ‘others (please specify)’ were also used. The reasons for using closed-ended questions in the research questionnaire are twofold:

- Some respondents are general auditing bureau and external auditors, credit and financial statements managers who are very busy, so the use of many open-ended questions would decrease the response rate to the questionnaire;
- Handing out the questionnaire is followed by a number of interviews, which would relate to the aims and support the main findings of the questionnaire.

4.8.2 Measurement Scales

Sekaran (2003, p. 185) defines a scale as a “tool or mechanism by which individuals are distinguished as to how they differ from one another on the variables of interest to our study”. On the basis of the Cooper & Schindler (2006) research study, three types of scales are utilized in business and management research; these are categorisation, ranking, and ordering. Selecting the most appropriate scale depends on the kind of information required. The researcher selects the proper scale for his/her study (Sekaran, 2003). To realize the research goals, three types of scales were employed. The nominal scale was employed in the first part of the questionnaire to gather data concerning the background of the respondents. They were asked to mark a special category or characteristic like years of experience, level of education, and professional qualification. A five point Likert ordinal scale was employed in the second part of the questionnaire in order to reveal the degree of agreement or disagreement to each statement incorporated in the questionnaire. The participants were asked to mark or circle one of the five options on a descending scale of agreement from (1) ‘strongly disagree’ to (5) ‘strongly agree’. An extra scale ‘Yes’, ‘No’ and ‘Do not know’ was introduced in part three to examine the participants’ comprehension of audit report communication used in the Libyan setting. The reasons behind the selection of the five-point Likert scale within this study are:

- It helps participants to make good judgements and to supply them with a certain degree of flexibility of choice that mirrors the strength of the respondents’ views.

- It does not puzzle the participants with having numerous alternatives on its continuum scale. Hussey & Hussey (1997) pointed out that it makes the participants at ease with an extensive range of alternatives on its continuum scale; that makes it easy for the participants to complete.
- It allows the researcher to use numerous statistical techniques and to carry out a potent statistical analysis; the five-point Likert scale aids the researcher in encoding and analysing the data (Hussey & Hussey, 1997).
- Many research studies conducted in the area of the audit expectation gap used five-point Likert scale, such as McEnroe and Martens (2001), Haniffa & Hudaib (2003) and Dixon & Woodhead (2006).

4.8.3 The Questionnaire Layout

Another vital aspect that needs to be considered when constructing a questionnaire is the layout (Saunders et al., 2003). It must be designed in a way that makes it interesting to read and complete. To encourage the participants to fill out and return the questionnaire, the layout has to be good-looking and brief. The self-administered questionnaire needs to be between four and eight A4 pages in length (Saunders et al., 2007). Furthermore, the introduction must be lucid and it should clarify the research purposes and provide a means for answering each part easily. In compliance with the guidelines proposed by Oppenheim & Naftali (2000) and Sekaran (2003), the following aspects were considered in the ordering and the layout decisions phase.

- The sequence of the questions was organised in a format that leads the participants from general questions to specific ones. This sequence, in turn, can secure the participants' cooperation and make the questionnaire manageable for her/ him.
- The layout was designed to be suitable for the participants and for the researcher who analysed the data.
- The covering letter is important since it provides the participants with complete details about the research (see Appendix A1, A2 and A3). What is more is that

special attention should be accorded to confidentiality; the data provided by the participants should not be revealed to a third party under any circumstances.

- A covering letter accompanied the questionnaire (see Appendix A); the letter is provided by the Scholarship Directorate requesting the private firms and individuals to cooperate with the researcher.

4.8.4 Pre-Testing and Correction of Problems

Malhotra & Birks (2007) strongly recommended that before applying a questionnaire to gather data, it needs to be pilot tested. Saunders et al. (2007, p. 386) stated that:

"The purpose of the pilot test is to refine the questionnaire so that respondents will have no problems in answering the questions and there will be no problems in recording the data. In addition, it will enable you to obtain some assessment of the questions' validity and likely reliability of the data that will be collected".

According to Oppenheim (1992), the questionnaire has to be designed, experimented with, improved and then tried out again, often more than once, until it is confirmed that it can act in the anticipated manner. A pilot project such as this one is regarded as useful in elaborating the wording, organization, layout and filtering and in monitoring the questionnaire length.

Furthermore, the questionnaire is pre-tested: an expert or group of experts are asked to comment on the questionnaire; that will establish the content validity and possibly the reliability of the data (Saunders et al., 2007). Pre-testing may involve colleagues, friends, and people with different opinions, to attain diverse insights and concepts. It may comprise small group similar to the research sample (Oppenheim, 1992; De Vaus, 2001; Collis & Hussey, 2003; Sekaran, 2003; Saunders et al., 2007).

The pilot study was carried out in three stages, as proposed by Aaker et al. (2001): pre-testing the design of the questionnaire covers the course of the questionnaire, its length, its questions, and the participants' interests and preferences. During the first stage, the draft questionnaire was handed out to five PhD students doing their doctoral projects in diverse subjects linked to business at the Huddersfield Business School. Attaining their feedback resulted in some helpful suggestions concerning the wording of the questions, their clarity, presentation, and the formatting of the questionnaire. Close attention was paid to the comments and feedback of the colleagues and a few modifications were made to produce the second draft.

During the second stage, the pilot questionnaire was handed out to four PhD students studying auditing at Liverpool John Moores University. All the participants validated the questionnaire and supplied the researcher with useful feedback, which led her to introduce some minor changes.

During the third stage, the questionnaire was administered in five public companies and five external auditors in Libya; the questionnaire was distributed by the researcher herself, who clarified the objectives of the research and all other related issues. Afterwards, when a completed questionnaire was gathered, a discussion was carried out with each respondent to attain feedback about vague instructions, confusing questions, unclear wording, the ability of the participants to answer the questions, and questionnaire length. Seven completed questionnaires were returned, producing a response rate of 70%. Useful feedback was obtained from the respondents, who observed that the questionnaire was unambiguous, comprehensible and easy to complete. Furthermore, they pointed out that the length of the questionnaire was appropriate and not tedious.

4.8.5 The Translation of the Questionnaire

This study explores the audit expectation gap in Libya, where Arabic is the official language, and English is not extensively utilised in the business sectors; therefore, the questionnaire needed translation to make it accessible to the respondents.

Malhotra & Birks (2007), specify three alternative techniques that can be applied to questionnaire translation. First, direct translation whereby a bilingual translator directly translates the questionnaire from the original language to the target language; Usuier (1998) noted that direct translation has many shortcomings, especially when it comes to transferring meaning from the source to the target language (cited in Saunders et al., 2007, p. 378). Second, back translation: transferring source questionnaire to target questionnaire and then back to source questionnaire, comparing the two new source questionnaires and then creating the final version. Third, parallel translation: converting the source questionnaire to target questionnaire by independent translators, comparing the two target questionnaires and then creating a final version. The third option was considered the most appropriate technique for rendering the present research questionnaire.

To avoid possible problems relating to the translation process, numerous steps were considered when designing the Arabic version, i.e., reviewing earlier questionnaires related to accounting and auditing in Arab countries, initially written in English and rendered to Arabic. This review supplied useful information concerning the most suitable translation of given accounting and auditing words and expressions used in the questionnaires.

- The first attempt to render the questionnaire employed in the study was dealt with in detail: item by item, question by question and sentence by sentence with many experienced postgraduate students in the University of Huddersfield and other PhD students from different UK universities who are Arabic native speakers. These people were then offered the Arabic version of the questionnaire and were asked to assess the quality of the translation.
- Both versions of the questionnaire (English and Arabic) were handed in to some private translation bureaus situated in Tripoli, the capital of Libya, to review them in order to avoid any prejudice that might be faced if the researcher assumed the translation herself.
- One of the major aims of pilot testing (see above) was to ensure that the translation process would not yield any misinterpretation of the questionnaire itself; this danger is observed by (Oppenheim, 1992). The pilot study offered the possibility of discussing translation issues with the participants who were

acquainted with both languages (for instance, professional external auditors and academics). Consequently, many changes and modifications were introduced in the questionnaire before it was finally handed out.

4.8.6 The Content of the Questionnaire

After the pilot study was tested, the feedback and recommendations obtained from the study were applied to produce the final version of the questionnaire (see Appendix A). The final version comprised nine A4 pages, incorporating the front covering letter page, and the last page left blank for the participants' responses as additional comments. Two covering letters accompanied the questionnaire (see Appendix A1, A2 and A3). As demonstrated in Appendix A, section A of the questionnaire was designed to get a profile for the respondent groups. For the auditors, preparers and user groups, the necessary personal data included the nationality, the organisation or the sector they worked in, the position they occupy in the companies, the number of years of experience, their education level, their professional training, other professional qualifications, and the average number of companies they audit every fiscal year. For the private investors, the necessary personal data incorporated nationality, level of education, years of experience, place of study, type of user group and professional qualifications. This group was not asked about their organisation, sector or their position, since they were private individuals.

Part two of the questionnaire was designed in a statement format followed by a five-point Likert scale; it is designed to discover the participants' perceptions regarding the role and nature of auditing. This part was divided into four sections; each section had a different purpose. These objectives were to examine the perception of the respondents concerning the following:

- Auditors and the auditing process;
- The auditors' role regarding auditing fiscal statements and the audited company;
- Regulation embedding prevention of certain activities in the audit environment; and
- The auditors' legal accountability.

Part three of the questionnaire was also designed in a statement format followed by a Yes, No and Do Not Know option: it was constructed to reveal the participants' perceptions concerning the message transmitted in the unqualified audit report. The last section of the questionnaire provided the respondents with the opportunity to:

- Incorporate any further comment concerning any subject covered in the questionnaire; and
- Receive a copy of the findings of the survey.

The questions incorporated in the questionnaire were drawn from the following major sources of information, the bulk of the questions contained in the questionnaire were drawn from the international accounting and auditing literature. Nevertheless, the questionnaire survey developed and employed by Humphrey, Moizer, & Turley (1993) and Hatherly, Innes, & Brown (1991) were the major source of the questions contained in the questionnaire. For the purpose of the study, altering the questions was essential to be consistent with the professional environment in Libya, incorporating the Commercial Act and the international auditing and accounting standards followed in Libya most recently.

The review of the professional and academic literature in chapter Three resulted in dividing the questionnaire into two parts. Part one includes forty eight factors measuring the role and nature of auditing. These forty eight scales were originally developed from the work of (Humphrey, Moizer, & Turley, 1991; Humphrey et al., 1992) . Furthermore, reviewing the professional and academic literature in chapter Three resulted in twenty-four major scales that measured the message(s) that may (or may not) be conceived to be conveyed in the audit report. The twenty four scales were evolved from the work of, Monroe & Woodliff (1993, 1994) , Gay et al., (1998), Hatherly et al. (1998), Hatherly et al.,(1991, 1992), and Innes, Brown, & Hatherly (1997). The use of such existing scales or attributes is justified since, as revealed in chapter Two and, as Buzied (1998), Bakar (1997) and Ritchie & Khorwatt (2007) asserted, an analysis of the auditing standards in Libya has demonstrated that the standards are similar to those of the UK and the USA. As Buzied (1998), puts it, the recent survey of the development of accounting in Libya shows that there is no major disparity between national (Libyan) accounting and the auditing standards and US standards. Likewise, Ahmad & Gao (2004), reported that Libya's accounting practice is oriented towards accounting and auditing practice in both the UK and the USA. Therefore, the researcher uses the research evidence from the UK for design the questionnaire. In addition, Libyan company legislation (Decree 171, GPC 2006) and Law 116/197342 have also been considered. More specifically the attributes from Humphrey, Turley, & Moizer (1991), Hatherly et al. (1991, 1992) and Lee (1986) were used as initial guides to identify attributes of issues on audit expectations gap within the Libya audit market.

Thus, the research for this thesis contained a copy of the model unqualified audit report in use in Libya. Because of the lack of a unified audit report, the researcher has used the audit report which was adopted most recently by the stock market and the Accountants and Auditors Association, which is a copy of the international audit report with some modifications as appropriate to the Libyan environment. A similar approach was successfully adopted by Schelluch (1996), Manson & Zaman (2001), Best, Buckby, & Tan (2001). A copy of the audit report provided with the research instrument in appendix A1.

4.8.7 Semi-Structured Interviews

The interviews in this research were the second method of data collection. Sekaran (2003) observed that one method of data collecting is to interview the participants to attain information on issues of interest. Hussey & Hussey (1997) noted that an interview is a means of gathering data whereby the respondents are asked some questions to find out what they do, think or feel. Similarly, Robson (2002, p. 371) argues that "multiple methods can be used in a complementary fashion to enhance interpretability. For example, in a primarily quantitative study, the interpretation of statistical analyses may be enhanced by a qualitative narrative account."

Interviews fall into two categories: highly formalised and structured, and informal and unstructured. Saunders et al. (2007) classified the interviews into three categories: structured, semi-structured and unstructured. Furthermore, they are used in different contexts: structured interviews are used in descriptive studies to attain quantitative data whereby the researcher uses questionnaires based on a set of questions that is prearranged and standardised or equal. The researcher starts by reading out each question; then he records the response on a standardised schedule, frequently with pre-coded answers. Semi-structured interviews are non-standardised ones and they are used in the explanatory study types, whereby the researcher has a list of themes and questions to be covered, though these interviews may differ from one interview to another. Unstructured interviews (also called in-depth interviews) are frequently used in exploratory studies to examine in depth a general and/or novel area the researcher is interested in. The use of the interview as a means of gathering data has many advantages, among which are the following:

- The interview use increases the certainty. Owing to the direct contact between the interviewer and interviewee, the interview permits the researcher to illustrate the objective of the study more openly and to account for any misgiving or to evade any misunderstanding of the questions or the notions (Oppenheim, 1992)
- It permits the researcher to ask more complex questions as well as follow-up questions not possible in the questionnaire. Furthermore, it takes into consideration non-verbal means of communication, such as the use of senses, behaviour, attitudes and the facial expression of the interviewee. Therefore, it may permit a higher degree of confidence in the respondents' replies than in the questionnaire responses (Hussey & Hussey, 1997).
- "Qualitative data can put flesh on the bones of quantitative results, bringing the results to life through in-depth case elaboration", (Patton, 1990)
- Among the primary reasons for using the qualitative approach is the fact that the phenomenon of the audit expectation gap is related to the intricacy of social reality (Irvine & Gaffikin, 2006).

Leedy & Ormrod (2005) pointed out that the use of a given type of interview as a method for collecting data depends on the research aims. For the current research, semi-structured interviews were conducted. According to Saunders et al. (2007), semi-structured interviews can be used to discover and account for themes emerging from the use of a questionnaire. They noted that “semi structure interviews are used not only to reveal and understand what and the how but, also, to place more emphasis on exploring the why”.

In the present research, interviews are more flexible than other qualitative methods and are able to influence the respondent managers more efficiently than the survey approach (Leedy & Ormrod, 2005). Moreover; semi-structured interviews are recommended as more robust for validating outcomes than the questionnaire (Wass & Wells, 1994). Furthermore, many Libyan researchers advocated the use of face-to-face semi-structured interviews as a means of gathering data, together with the survey questionnaire, to carry out their research studies (Khorwatt, 2006; Eldarragi, 2008; Larbsh, 2010). Since the questionnaires were conducted before the interviews, initial outcomes of former method were available when the latter method began. Thus, semi-structured interviews were used to come to a better understanding of the entire problem, since the questions put forward by the questionnaire could be more fully investigated in personal interviews.

Interviews were conducted with fifteen interviewees, seven of whom were from the audit company surveyed, three from the lenders, two from the investors, and three from the financial statement preparers. These interviewees were selected in accordance with two criteria. First, the participants were asked in the questionnaire whether or not they were interested in the interview. Second, judgement was used to choose various participants on the bases of experience and level of education, to secure that the interviews include all types of respondents.

The process of undertaking interviews recommended by numerous researchers (Oppenheim, 1992; Sekaran, 2003; Malhotra & Birks, 2007), and adopted in this study is illustrated below:

- Each interviewee was contacted by telephone to set up a meeting at a time and place suitable to him/her for an interview.

- The type of question employed in the interview was open-ended ‘why/how/when/tell me’ type questions to extract as much information as possible concerning the audit expectation gap and the reason behind its existence in Libya. Whenever it was needed, the survey questionnaire was referred to, to develop the discussion.
- Initially, the interviewee was thanked for participating in the interview and was assured of the confidentiality of the proceedings.
- Each interviewee was asked if s/he would grant the researcher permission to record the interview. Only twelve of the interviewees gave such permission. Where permission to record was not granted, notes were taken during the interview.
- An interview begins by asking the interviewee a general question concerning the research subject in order to lead him/her to the more detailed questions at which the interview aimed. Every effort was exerted to get interviewees to express their own ideas immediately in their own words.

During the interview, the interviewees were investigated for meaningful responses, and asked for explanation and amplification on certain questions whenever this was thought necessary.

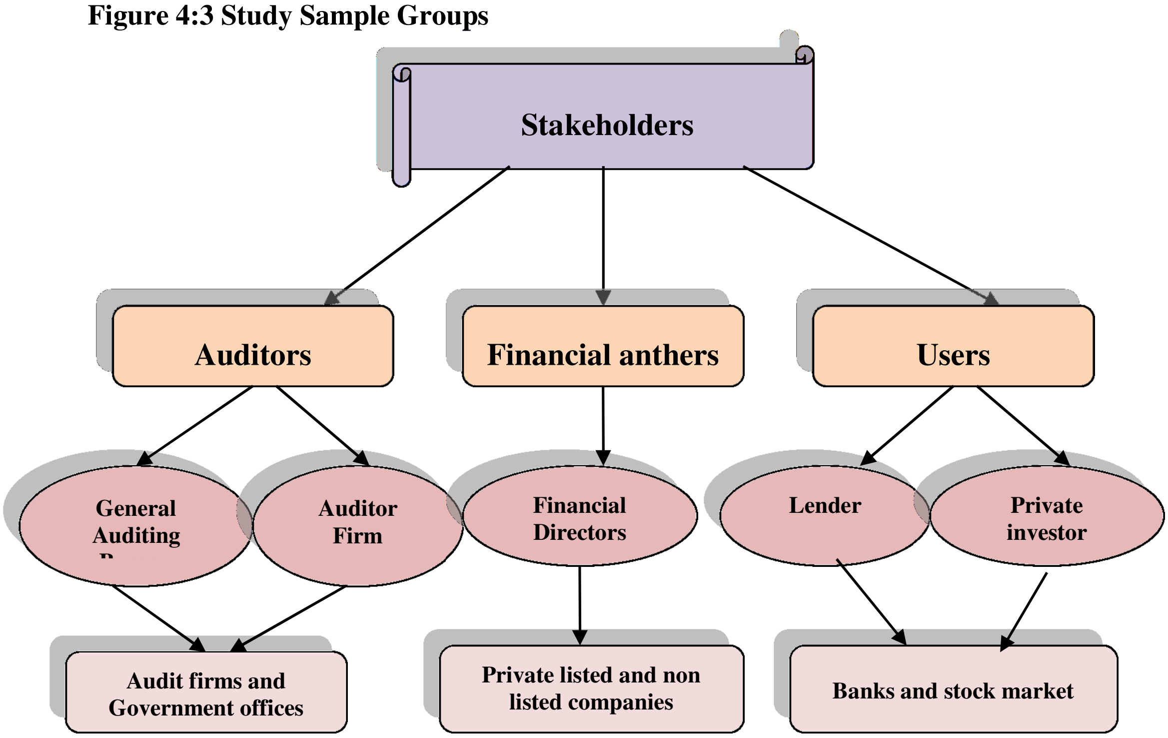
The interviewees were asked toward the end of the interview to state whether or not they wished to add anything or raise any questions related to the issues researched. Finally, the interviewer thanked the interviewee and expressed appreciation for his/her time, effort and co-operation.

After finishing the interview and leaving the building, the interview was written down to ensure that the information was collected in notes and was not lost orally, and to eliminate the possibility of misinterpreting the information later on.

4.8.8 The Population and Sample of the Present Study

Sekaran (2003, p. 266), defines a population as a “the entire groups, events or things of interest that the researcher wishes to investigate”. In a research survey, researchers are normally keen on applying the study results to a specific population; thus participants are chosen from the sampling frames that characterise that sector (Fowler, 2002). The sum population of the present study is specified; it comprises a variety of groups from the Libyan social and economic environment. The researcher's target group incorporates five sub-groups, namely: the directors of financial departments working in private companies, investors, lenders, general auditing bureau and Private Auditors, to gather the data required by the questionnaire. Figure 4.3 illustrates the Sample Groups: the sampling plan represents the different stakeholder groups, each characterizing the special Libyan stakeholder population.

Figure 4:3 Study Sample Groups



The Auditors Group: the external auditors[8] were surveyed to find out the belief of those who are in charge of validating the financial statements of Libyan private companies. The target group was the external auditors working in several accounting and auditing offices, corporations and government agencies situated in Tripoli and Benghazi[9]. Furthermore, the auditors group comprises all the four Libyan auditors who stand for the Big Four auditors and representatives in Libya. Despite the fact that law 116/1973, the only legislation that controls the audit profession in Libya, forbids non-Libyans from supplying statutory auditing in the country, the Big Four auditors became involved in partnerships in order that Libyan auditors might become representatives and partners. In fact, Libyan auditors are employed by the Big Four auditors. Besides, Ernst & Young founded their own branch under the name of Ernst & Young and Partners. A personal visit was necessary to the Libyan Accountants' and Auditors' Association (LAAA) to get the addresses of the external auditor offices licensed. Nevertheless, some auditors, though registered as chartered accountants, had not started practicing as professional auditors. Moreover, some auditors no longer practised the profession or had got new addresses; others had not yet notified the LAAA of their status. Furthermore, the LAAA list incorporated some names with no mention to the addresses or telephone numbers. This meant that about 30% of the population was not in contact. Thus, the population of this study was confined to Libyan auditors registering with the LAAA and practicing the profession through their offices or companies, and accessible. The questionnaires were handed out to a sample of 150 auditors in all; questionnaires were handed out to a sample of private auditors. A total of 80 questionnaires were received back from this group.

Regarding the Libyan general auditing bureau, a personal visit was required to the head office in Tripoli. A list was provided by the Libyan general auditing bureau from the

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[8] In Libya, most of practitioners practice the auditing profession through accounting and auditing offices. Mostly, those offices are owned by one registered auditor who may employ other auditors with him. We may refer to those offices as firms when two or more registered auditors practice their profession under one name and through one office.

[9] Tripoli and Benghazi were again targeted because the majority of external auditors working in accounting and auditing offices are located there.

main department in the capital city of Libya. A total of 110 questionnaires were handed out in person to government employees working for the Libyan General Auditing Bureau. A total of 73 questionnaires were received from this group.

The Preparers: are represented by the financial directors of the sample of the Libyan private corporations both listed and non-listed[10] in the stock market. The General Managers are lawfully and theoretically in charge of preparing Libyan companies' annual reports. The reasons for choosing this sample are based on the fact that these corporations should conform to the tax law and the monetary directors; their nominees may have the practical accountability for the preparation of the company fiscal statements. A visit in person was made to the Chamber of Commerce in Tripoli to acquire the addresses of licensed and listed organisations. 110 questionnaires were handed out to the group in this sample during the month of February 2010. 95 questionnaires were gathered from the financial managers.

The Individual Investors (Shareholders): shareholders were chosen from one of the main groups that will benefit from audited financial statements. One of the main difficulties encountered by the researcher in this study was where to find contact information concerning individual investors in Libya. Nevertheless, the viewpoints of this special user group are essential to this topic. The largest part of the literature on the subject is related to individual investors presenting their views about different aspects of the auditors' function regarding audit reporting. The investor group represents the investors who own no more than 10 percent of privately owned limited companies. The minimum capital of these companies should be at least 100,000 Libyan Dinar (GPC/ Initiative no. 171, 2006). The Chambers of Commerce Directory (2009) showed 128 contactable investors under this category. Several phone calls were made with the target participants who were willing to participate in this study. The researcher attempted to

[10] Owners of privately owned companies (with unlimited liability). According to Libyan law the minimum capital of such companies should be not less than 15.000 Libyan pounds (GPC/ Initiative No. 171, 2006).

hand out eighty questionnaires to individual investors/shareholders who accepted that they used and read the companies' annual reports together with the audit report when making their investment decision. Finally, the researcher managed to gather fifty-seven questionnaires.

Credit Managers: the current credit directors of the twelve Libyan commercial banks comprise another user group of the audited fiscal statements. The audited statements help them evaluate the capability of the borrowers to pay back their loans along with servicing their interest charges. Thus, they have to rely on auditors extensively to supply them with plausible and dependable data that will help them in their lending decisions. Bank credit directors in Libya tend to seek extra information, as well as information published by a certain corporation, before making any lending decision. These data are over and above those which usually provided by the clients. The major cause for extra information is to secure that the client has a solid financial status that would help them to pay back the key debt and interest. Thus, it was essential to seek bank credit officers' viewpoints of diverse aspects of the corporation annual report that is published by Libyan companies. All these twelve banks were approached personally and the researcher managed to hand out twenty questionnaires and to receive sixteen of them back. These banks are as shown in the following table:

Table 4:2 Public and Private Banks in Libya[11]

Nr	Public Banks	Private Banks
1	Gumhoria Bank	Sahara Bank
2	Wahda Bank	Banking institution eligibility
3	The National Commercial Bank	Bank of commerce and development
4		Al-Ejmaa Al-Arabi Bank
5		Mediterranean Bank
6		Al-aman Bank
7		Al-waha Bank
8		Al-wafa Bank
9		United Bank

Source: Central Bank of Libya (CBL), 2010

[11] This table lists all commercial banks existing in Libya in 2010

4.9 Reliability and validity evaluation

Jankowicz (1991) concluded that among the fundamental criteria for evaluating the accuracy and precision of a piece of quantitative research are validity and reliability measurements. The measurements of the research parameters should be valid; for instance, they should be precise in that they should produce an answer similar to that when another measurement method is applied. The answers must also be reliable; for example, they should be exact in order that they produce the same answer when the test is re-measured based on the assumption that there is no change in the situation.

4.9.1 Reliability

Test reliability indicates the extent to which the test is not biased; it thus secures a constant measurement across time concerning the different items of the instrument (Sekaran, 2003). Jankowicz (1991) conclude, that is to say, that it is involved with the accuracy of measurements in such a manner, that the same results would be attained on re-measurement. Reliability is an indication of the constancy of the instrument. It is principally a matter of consistency. For instance, if a tool is administered to the same person on two different instances, the question to be raised is: will it produce the same result, (Smith et al., 2002). Among the different forms of reliability are test-retest, parallel form reliability and internal consistency. Nonetheless, the most frequently employed type of reliability is internal consistency evaluated by Cronbach's alpha (Sekaran, 2003; Bryman & Bell, 2007; Saunders et al., 2007). Therefore, Cronbach's alpha is approved in this research to measure the general reliability of the measurement scale for each definite component of the study. Moreover, alpha gives an estimate of the ratio of the whole variance that is not caused by an error; it thus represents the reliability of the scale (Oppenheim, 1992). According to Hair, Anderson, Tatham and Black's (1998) criterion, the reliability should be greater than 0.50. Nunnally's (1978) report that criterion alpha coefficients of.50–.60 are acceptable for exploratory research. George & and Mallery (2003) have derived the following rules of thumb for Cronbach's test the Cronbach's alpha coefficient >.9 Excellent; the Cronbach's alpha coefficient >.8 Good;

the Cronbach's alpha coefficient >.7 Acceptable; the Cronbach's alpha coefficient >.6 Questionable; the Cronbach's alpha coefficient >.5 Poor; the Cronbach's alpha coefficient <.5 Unacceptable. Table 4.3 demonstrates the findings of reliability tests. Table 4.3 the Cronbach alpha findings of all the variables in section B and C in the questionnaire measured by the multiple-items (more than two) that passed the test; the achieved values exceed the minimum recommended values for this test.

Table 4:3 Reliability Test Results

Variable	Question	No. of items	Reliability
The role and nature of auditing	**B**	**47**	**.774**
The effectiveness of audit report communications	**C**	**24**	**.844**

4.9.2 Validity of the Data Collection Method

According to Leedy & Ormrod (2001), a questionnaire may not precisely measure what it is intended to measure, and that can influence the likelihood that a researcher gets the required statistical significance in data analysis, and the degree to which a researcher can elicit meaningful inferences from the examined data. To meet the requirements of validity, as recommended by Malhotra & Birks (2003) and Saunders, Lewis, & Thornhill, (2003), the following procedures were adopted for the purpose of this research.

- A widespread literature review was conducted to describe and elucidate the questions employed in the questionnaire. Many questions utilized in the questionnaire were modified or adopted from similar studies which made the comparison between the research's outcomes and the findings of other research studies possible (see chapter three).
- Before using a questionnaire to collect the data, a pilot study was undertaken on two stages and at two levels; it involved colleagues and targeted the five groups. This method is sought to help found content validity (see subsection 4.8.4).

Concerning the semi-structured interview reliability, Smith (2003, p. 199) stressed that this is related to whether or not alternative interviewers would yield similar information. On the other hand, the researcher supplied the interviewees with a number of interview themes prior to carrying out the interview. The reason behind this is to uphold validity and reliability by helping the interviewees to take into account the information requested and granting them the opportunity to collect complementary organisational documents from their files (Saunders et al., 2003)

Additionally, Saunders, Lewis, & Thornhill (2007) noted that the concern about reliability is associated with the aspect of bias. In this study, the researcher did not concern herself with interviewer bias resulting from the comments, tones or non-oral behaviour to generate bias in the manner that the interviewees respond to the questions asked. In this situation, the researcher attempted to build up trust in the interviewees by introducing the study properly, a process which establishes confidentially. She left the interviewees to talk as they wanted and gained their permission to record the interviews (Saunders et al., 2007).

4.10 Summary of Fieldwork Process

The fieldwork study was undertaken in Libya, the homeland of the researcher, in the period from mid January 2010 to the end of April 2010. At the initial stage, the researcher personally visited the Libyan Accounting and Audit Association, the Chamber of Commerce in Tripoli and the Libyan Stock Exchange Market to obtain the organisations' addresses that were licensed and listed as private companies. Then the researcher personally visited each company to introduce herself and her study and to build relationship and trust with the participants to specify a time limit for implementing the questionnaires. The questionnaire was handed out and gathered by the researcher herself. Sekaran (2003) observed that the advantages of this type of questionnaire are the ability to create a good affinity with the respondents in order to stimulate respondents, to give room for questions concerning the questionnaire and the communication. Moreover, it is less expensive with respect to handing it out to a group of respondents. The response rate it gains is exactly 55%. The researcher handed in the questionnaire with a cover letter from the researcher's sponsor to the Libyan Scholarship Office and to the participants to ensure that the questionnaire would be filled out by them. 495 questionnaires were handed out to five groups of the participants; the sample included all the financial managers, the private investors and the external auditors in the audit offices, in the general auditing bureau and in the bank credit managers. In order to maintain contact with the participants, the researcher gave her phone number in case the participants encountered any difficulty in responding to any question. Moreover, she asked the participants to call her as soon as the questionnaire was ready to be gathered. Otherwise, when the research was due for completion, the researcher contacted the respondents to encourage them to complete the questionnaire. Thus, she asked them if there were any misunderstanding or ambiguity. Upon collecting the questionnaire, the respondents who completed the questionnaire asked the researcher if she wanted any help in the future; they were willing to exchange cards with the researcher.

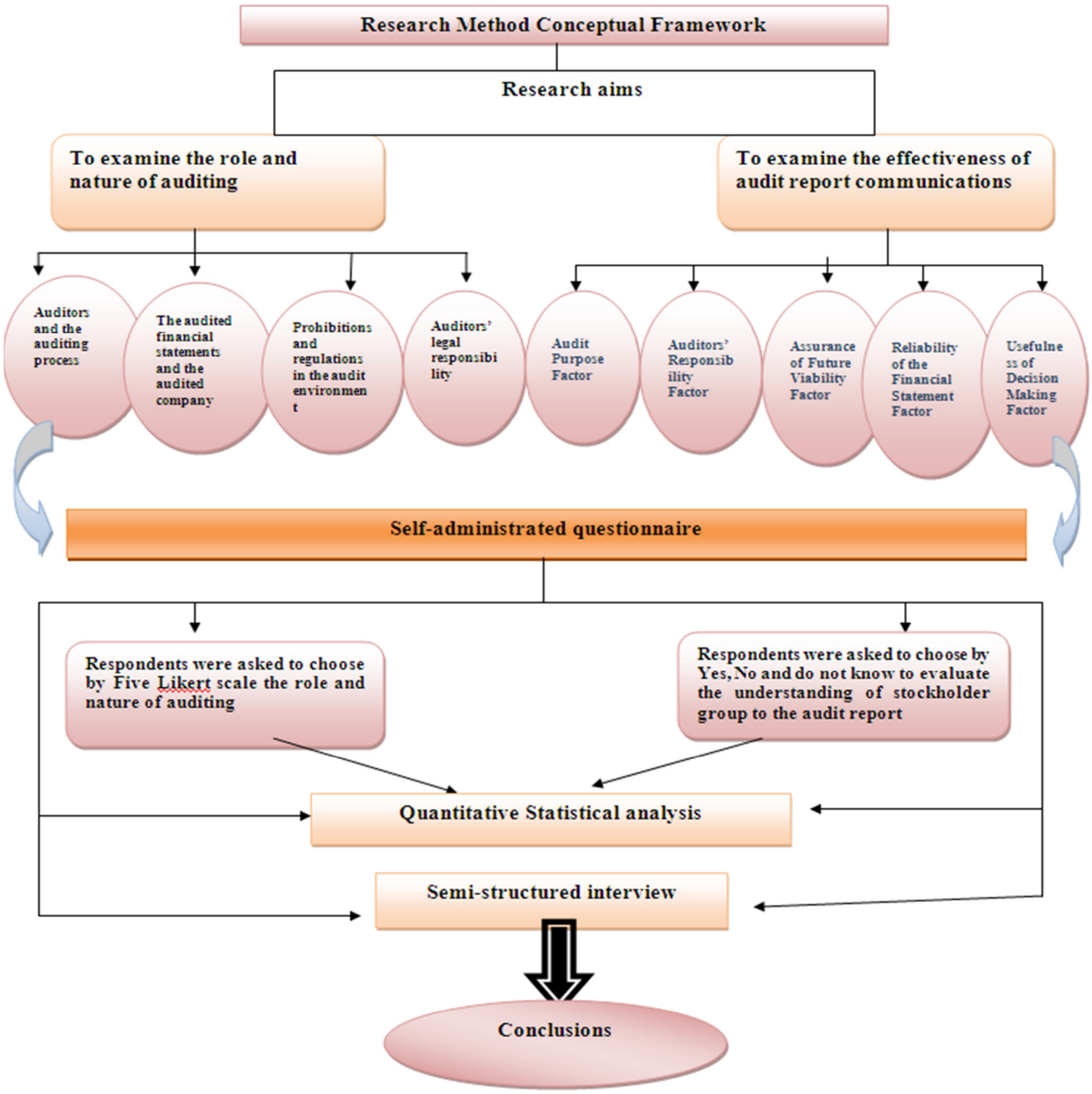
The total number of the returned questionnaires was 331. Based on this researcher's judgement, fifty one were unusable; 40% or more of the unanswered questions were removed for the purposes of this study; to obtain more information, refer to section 5.3 in Chapter 5. Thus, a total of 270 questionnaires were usable. These questionnaires underwent preliminary analysis by applying SPSS program version 15.0.

The second stage of the data collection involved the semi-structured interviews with a sample drawn from the five groups mentioned earlier; these were used to provide clear understanding of the topics emerging from using the questionnaire. A sample for interview purposes was selected from five groups in accordance with their years of experience and their level of education. During the process of collecting the questionnaire, the researcher arranged the appointments for the interview of all the samples of the interview. The time and place of the interview were selected by the interviewees themselves, a process which made it flexible to choose the best time and place for them, though most of the interviews were conducted in the interviewees' offices for their convenience. The researcher forwarded emails or called each interviewee before the time of the interview to verify the appointment. The researcher needed to supply the interviewees with a cover letter that clarified the objectives of the interview and provided them with the questions listed in the interview seeking their cooperation. The interviewees were interviewed separately and each interview took about half an hour or more. The questions incorporated both open-ended question types. Anyhow, the interviewees talked generally and, really, they gave more information on important related issues. All interviews were carried out in Arabic. While carrying out the semi-structured interviews, the researcher wrote down notes; she also recorded the whole interview on a tape to remember all the details. Nonetheless, each interviewee was openly asked whether or not it was possible to tape-record the interview.

Twelve interviewees permitted the researcher to record the interviews, but the other three did not. The researcher allowed the interviewees to stop tape-recording whenever they wanted in order to let the interviewees express their views freely. When the interviewees did not feel free to express their views during tape-recording, the researcher wrote down notes in a note book. While conducting the interviews, every interviewee was asked questions in the same manner, tone and style and was completely free to express his/her views and readings of the questions. The researcher secured the confidentially of the given data. At last, the researcher thanked the interviewee expressing her appreciation for their time and co-operation after each interview. The researcher's aim was to conduct 17 semi-structured interviews; a total of fifteen were realised, while two were not attained because two of the participants were very busy: one was a bank credit officer and the other was a private investor. Miles & Huberman (1994) suggested that presenting the data of interview in tables and other forms is a useful tool to simplify, classify, understand and interpret the data. Therefore, in this study, the analysis of data from interviews to summarise and present the data that has been collected from the sample using a three-step:

- Transcription,
- Translation,
- The reduction of the sample data and pattern coding.

Figure 4:4 Research Method Conceptual Framework



4.11 Methods Applied in Data Analysis Statistics

This part outlines the set of statistical analyses and tests adopted in the empirical analysis of the questionnaires. Pallant (2007) and Field (2009), identify two main sets of statistical techniques applicable to the current study: parametric and non-parametric tests. Applying one technique rather than the other depends upon the sort of items and scales incorporated in a given study. Field (2000) and Sekaran (2003) identify four fundamental assumptions underlying the parametric concept:

- The collected data should be normally distributed.
- The data variance should be homogeneous; they do not change systematically.
- The gathered data should be established on an interval scale.
- Data obtained from diverse subjects should be independent.

If one of the above-stated assumptions is not met, a non-parametric test can be applied instead; non-parametric tests are, by definition, assumption-free (Field, 2009). According to Field, though, such techniques can be more efficient (Hussey & Hussey, 1997; Sekaran, 2003; Smith, 2003; Field, 2009) than non-parametric tests[12] and it is wrong to use parametric tests with non-parametric data. Such tests cannot often be applied for two reasons. First, with respect to social science research, the situation commonly is that the major assumptions regarding the data in the parametric techniques cannot be realized. For instance, Pallant (2001, p. 98) noted, “many of the attributes we want to measure are in fact not normally distributed”. Second, the data may be gathered on an ordinal scale. Thus, it is often difficult to fulfil parametric assumptions. Consequently, non-parametric tests can be employed, e.g. the Kruskal-Wallis one-way ANOVA and Mann-Whitney U test, since they are regarded as principally efficient in this type of research.

4.11.1 Kruskal-Wallis H Test

The Kruskal-Wallis test, according to Bryman & Cramer (2001) is a non-parametric option to the one-way between-groups analysis of variance similar to the Mann-Whitney U test. It is applied to pinpoint variations among three or more subjects (Field, 2009).

[12] Smith & ebrary, (2003) suggests several advantages for the use of non-parametric tests as follows:
• Non-parametric tests can be used on all types of data.
• Non-parametric test is easy to use if the size of sample is small.
• Non-parametric tests make fewer -and less strict- assumptions than do parametric tests.

According to Black (1999), it is used where the dependent variable is measured on an ordinal scale and answers the question whether or not three or more groups belong to a single population, and whether their differences are within expectation or not. Similarly, it is utilized to contrast the viewpoints and insights of the respondents from a variety of stockholder groups; nevertheless, the test does not point out which group is diverse from the other. If the test results in a (*p*) value that is equal to or less than 0.05, then the result is said to be significant and indicates a statistically significant difference between the categories. However, if the value of (*p*) is greater than 0.05, this indicates that there is no significant difference between the categories.

4.11.2 Mann-Whitney U Test

The Mann-Whitney U test is a non-parametric option to the t-test for the independent sample (Pallant, 2007); the test is applied in situations where the t-test would be unsuitable. The Mann- Whitney U test is utilized to spot variations between two subjects that are based on the analysis of two independent samples. Nonetheless, the Mann-Whitney test is similar in structure to the Kruskal-Wallis test but it is applied to point out the main differences between pairs of groups. That is to say, this test will point to the source of difference. The two tests are suitable for analyzing the data that are measured on an ordinal scale such as the five-point Likert scale used in this survey. The significance levels selected for this study were $p \leq 0.05$, $p \leq 0.01$ and $p \leq 0.001$; they are the traditionally accepted levels for most business research.

4.11.3 The Chi-square Test

Pallant (2007) and Field (2009) highlighted that the Chi-square tests are non-parametric tests that are commonly employed to examine whether or not there is a relationship between the two nominal variables by investigating whether or not there are statistically significant variations between the groups of these variables. Moreover, the Chi-square test can be utilized for variables of the ordinal scale and for variables that belong to more than two classes (e.g. 2 by 3, 4 by 4). While opting for using a Chi-square test to examine whether or not there are statistically significant variations between the groups of the two variables using cross-tabulation contingency tables, an important condition has to be considered; it is the least expected cell frequency (i.e. count). Pallant (2007) remarked that the least expected cell frequency should be 5 for all the cells in the contingency table. That is to say, at least 80% of the cells of the contingency table have to have a minimum expected count of at least 5. If this condition is breached, which is a part of the output from Chi-square test, should be employed instead (Pallant, 2007; Field, 2009). The Chi-square test has its own limitations. The generated statistic is only dependable where one variable belongs to more than two categories, and fewer than 20 per cent of the cells have an expected frequency of less than five. Furthermore, there are no cells with an expected frequency of less than one (Cramer, 1994).

4.12 Difficulties in Conducting the Fieldwork

All research studies encounter difficulties and obstacles. The researcher, during the entire process of the study, met a number of difficulties; some were regarded as habitual, others were very significant.

1) During the process of data collection, the researcher was met with some boundaries owing to the nature of the Libyan society. For example, some corporations and banks refused to co-operate. Thus, the researcher depended on her personal relations with friends, managers and staff to fill out the questionnaire.

2) It was hard to find out contact information about a number of user groups. This, in turn, cost the researcher additional time, effort and money since the population was very large; this occurred with all five groups.

3) In certain cases, the researcher had to make more than three visits to gather the questionnaire.

4) Many people in Libya are not so well-acquainted with research as in other countries; they do not even understand the importance of the research and the impact it may have on their lives.

5) The sample of the study, at both levels, was handed out all over the country. The researcher had to spend much time travelling between cities and towns.

6) With respect to the private auditors, the researcher had relied on the old list of the auditors' names, addresses and telephone numbers issued by the Libyan Accountants and Auditors Association (LAAA). Nonetheless, some auditors had changed their addresses, others went on working, and still others gave up work without notifying the Association. Thus, the researcher had to find out the new addresses. To achieve this objective, a lot of time was spent obtaining their addresses via re-contacting the Association and their colleagues.

With respect to the auditors, they were always engaged in work outside their offices or firms. The researcher might thus call at some offices two or three times to interview those auditors. In spite of all these problems, the researcher made every effort possible to get in touch with as many auditors, financial directors and user groups as possible. Furthermore, most of the participants of the study were supportive and cooperative; no complaints were reported regarding the present research study with respect to its length or the lucidity of the questions that the questionnaire and the interview raised.

4.13 The Study Framework

Studying the theoretical framework is an essential aid to the researcher since it enables him/her to fully understand and make appropriate judgments regarding the facts of a certain discipline. This framework will highlight specific factors closely related to this occurrence of an audit expectation gap as related to the auditors' commitments and responsibilities, besides the understanding of unqualified audit report use in Libya. Black (1993, p. 25) identified the theoretical framework as "explanations of how things function or why events occur".

During the last few decades, the corporate situation all over the world has undergone a wave of business scandals like the downfall of Parmalat in Italy, One Tel in Australia, and most recent disgrace of the Enron and World Com financial collapse of 2001 in the

USA. The audit failures have put the audit expectation gap debate resolutely on the schedule of the accounting profession, regulators and the public (Humphrey et al., 1993).

On the basis of the literature review regarding the growth of auditing and that of the audit expectation gap discussed earlier in the current chapter, especially the section dealing with the existence of the audit expectations gap in the area of audit functioning and audit report communication, one can infer that the audit expectation gap debate has constantly focused on several issues that are still controversial. Humphrey et al. (1993) arrived at a similar inference. The debate on the audit expectation gap is divided into four main issues: the tasks and responsibilities of the auditors; the quality of the audit functioning; the construction and management of the profession; and the nature and meaning of audit report messages. Both Schelluch (1996), and Best, et al. (2001), discussed four issues related to audit expectations: the auditors' responsibilities, the dependability of the financial statements, the projections of the audit entity, and the decision effectiveness of the audited financial statements.

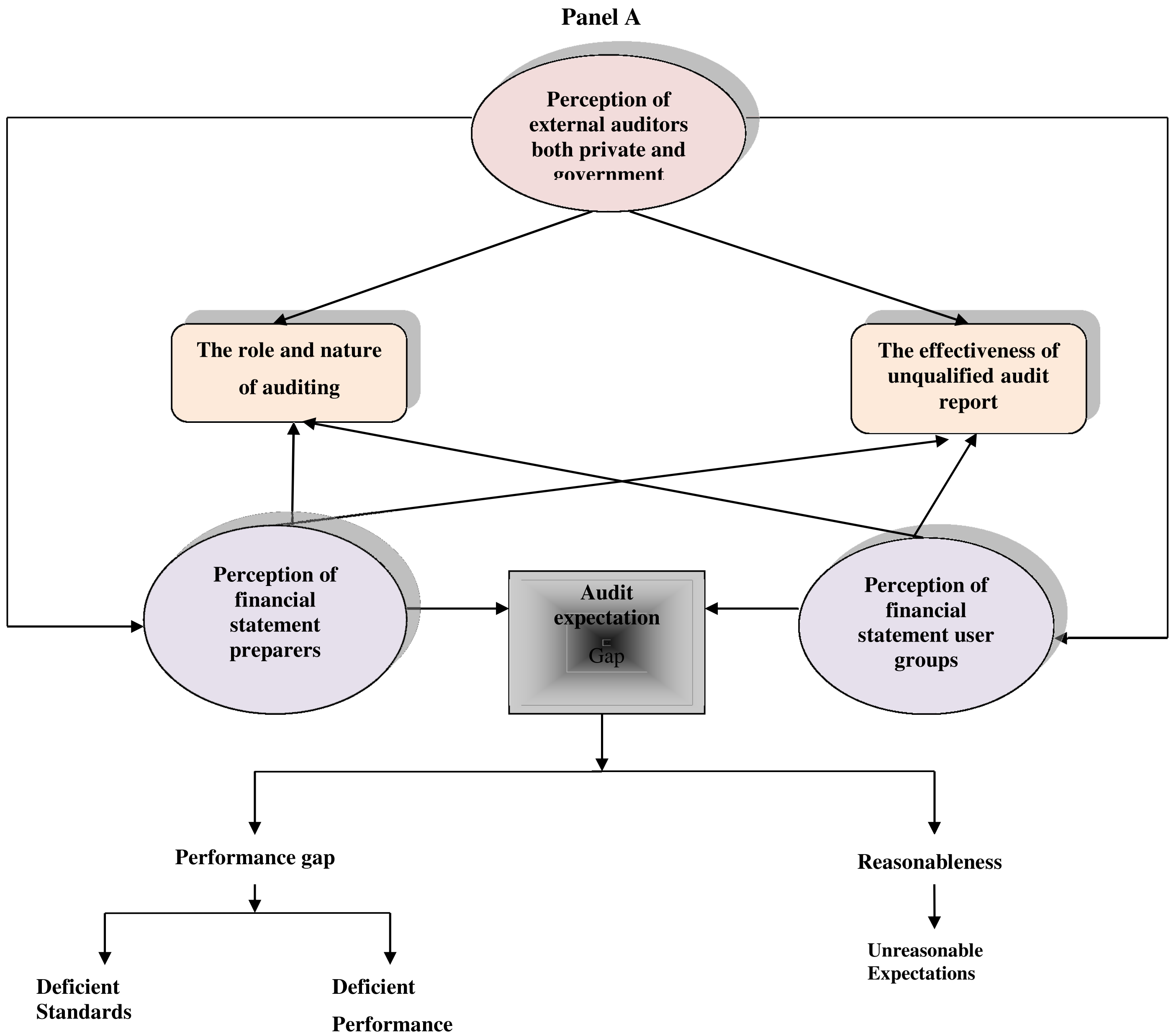
The present literature demonstrates that the audit expectations gap comprises diverse components. To illustrate this, the Canadian Institute of Chartered Accountants (CICA, 1988) stated that the gap encompasses three main components: (1) irrational expectations by the users; (2) insufficient legislation, auditing and accounting standards; and (3) insufficient performance of the auditors.

Porter (1993), made a refinement to the components indicated by CICA, (1988). She proposed that the expectation gap be divided into two components, consisting of: (1) the performance gap; and (2) the rationality gap. Porter (1993), referred to the former gap as the difference between 'what society can reasonably expect auditors to accomplish and what they are perceived to achieve'. She referred to the latter gap as the difference between 'what society expects auditors to achieve and what they can reasonably be expected to accomplish'.

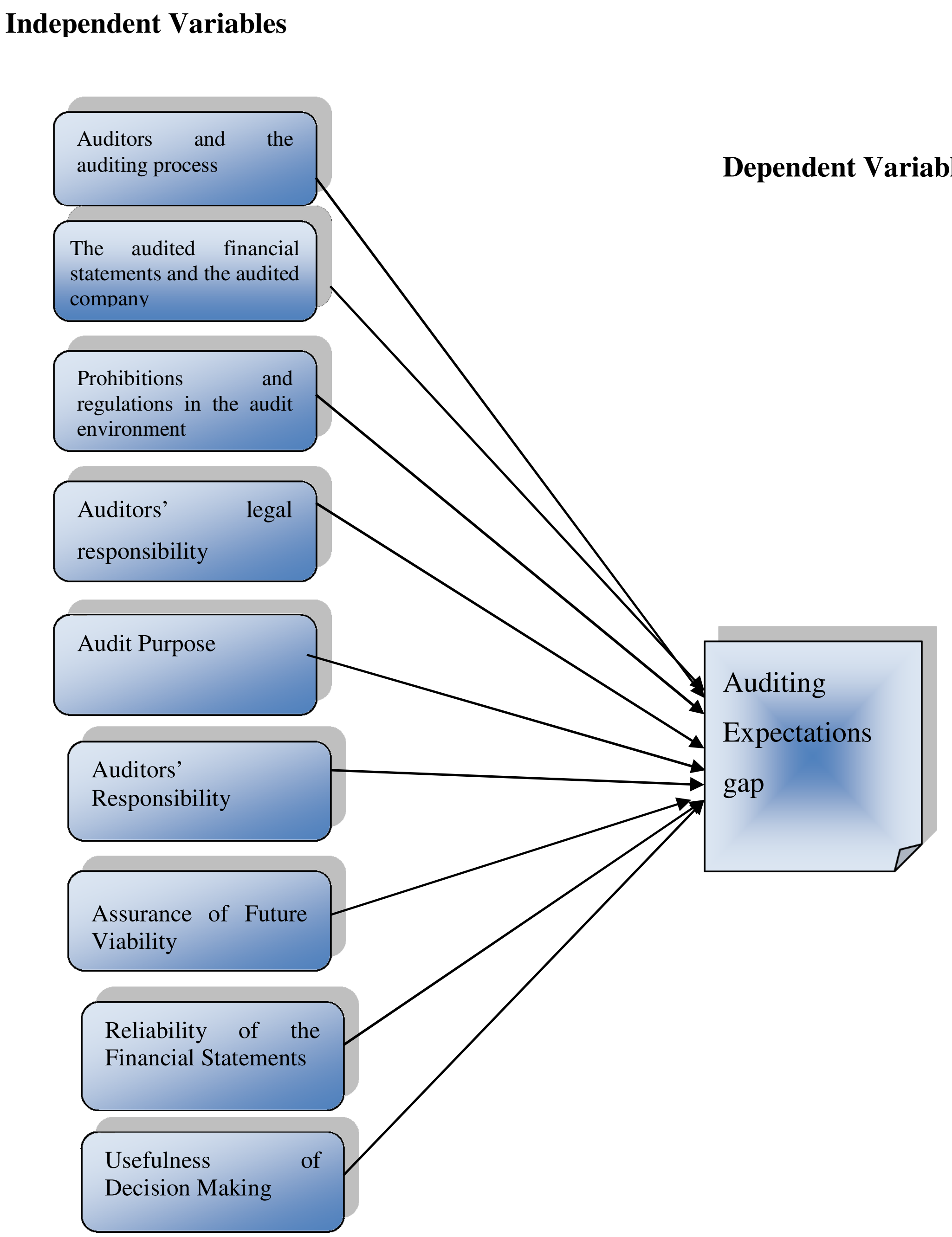
A total of 47 statements related to the nature and role of auditing and 24 statements connected to the efficiency of unqualified audit report communications are examined regarding any audit expectation gap between producers of accounting and external auditors and users. The nature and role of auditing which are included in the study are adopted from Humphrey (1993) and the effectiveness of audit report communications are adopted from Hatherly et al. (1991), Schelluch (1996) and Best, et al. (2001). The role and nature of auditing together with the efficiency of the unqualified audit report communications factors are chosen for the study for certain reasons. These are: first, they have been successfully applied in some countries for developing the accounting profession, such as Saudi Arabia and Oman; second, they comply with the auditing literature generally and with the expectation gap literature particularly Humphrey, et al. (1993), Schelluch (1996), and Al Otaibi (2003); third, they mirror the changing awareness of the role and nature of auditing and the efficiency of the unqualified audit report communications.

Though many variables are identified in the audit expectation gap literature, only the following variables are encompassed in this model: first, the role and nature of auditing, the audited financial statements, auditors and the auditing processes, the audited corporations, along with the preventions and regulations in the audit milieu and the auditors' legal accountability; second, the efficiency of the audit report communications variables which include questions that are related to the audit purpose, questions that are linked to the auditors' accountability, questions that are connected with the assurances of future viability, questions that involve the dependability of the financial statements, and questions that concern the utility of decision making. In this study the researcher will interpret the result of these factors based on to the components of the audit expectation gap as suggested by Porter (1993), which are performance gap and reasonableness gap.

Figure 4:5 Framework of the Study



Panel B


Independent Variables
Dependent Variable
Auditors and the auditing process
The audited financial statements and the audited company
Prohibitions and regulations in the audit environment
Auditors' legal responsibility
Audit Purpose
Auditors' Responsibility
Assurance of Future Viability
Reliability of the Financial Statements
Usefulness of Decision Making
Auditing Expectations gap

4.14 Summary

Methodology is concerned with a series of linked multi-stage procedures that are required to undertake a research project and achieve its objectives. This chapter highlighted the research design applied in this study together with its primary paradigms and methodology. On the bases of the paradigm selection criteria, the researcher preferred to work within both the functionalist and interpretive paradigms. Furthermore, the research is considered as cross-sectional as it is carried out once and represents a snapshot of one point of time. The questionnaire design, the pilot test, the distribution and gathering procedures and the participant groups and the rationale for selecting them were described in detail in this chapter. Quantitative was the dominant approach, and the qualitative was the less dominant. Questionnaires were used as the main data collection method, and to complement the quantitative data and to allow for novel ideas and notions to evolve and develop, several semi-structured interviews were carried out. Pertinent tests were conducted to institute the validity and reliability of the questionnaire. The problems encountered by the researcher in gathering the data were presented. Finally, the statistical tests selected for the research study were expanded and clarified. The following chapter reports on the analysis of the data gathered.

Chapter 5: Questionnaire Survey Results

5.1 Introduction

The previous chapter outlined the research methodology. The aim of this chapter is to present and analyze, and then discuss the data obtained from self-administered questionnaires, the purpose of which is to explore the perceptions of different Libyan stakeholders in relation to the research's aims and objectives. The results of this chapter are presented in four main sections, following this introductory paragraph. The *first* section presents the response rate, the *second* section reports demographic information on respondents involved in this questionnaire, the *third* section deals with examining the perceptions of stakeholders regarding the role and nature of auditing in the Libyan environment. Finally, the fourth section is devoted to examining the understanding of Libyan stakeholders of the message(s) that may be communicated by the unqualified audit report currently used in Libya.

5.2 Response Rate

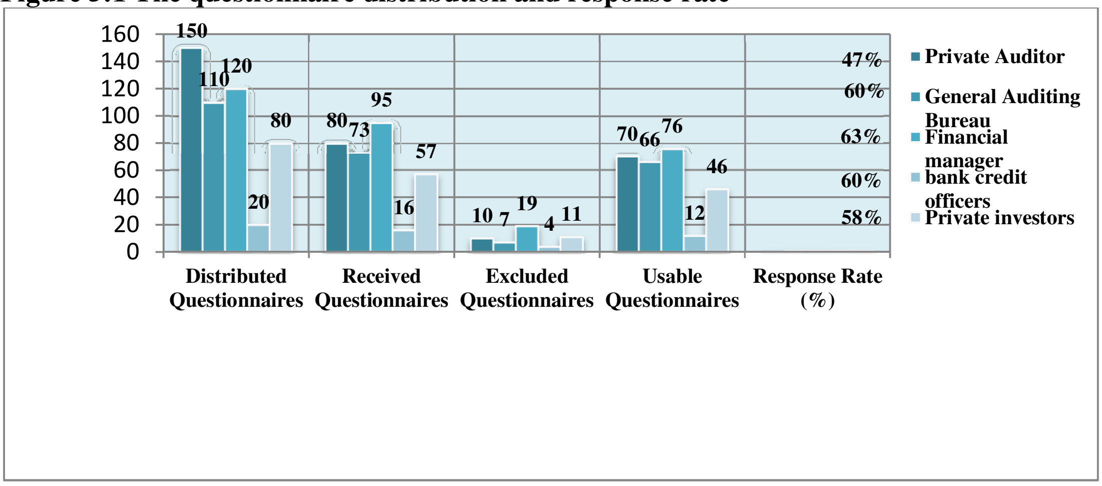
The empirical work conducted and reported here was primarily that of exploration and examination. The sample of this study consists of five Libyan stakeholder groups: private audit firms or offices (external auditors); General Auditing Bureau; financial managers (or accountants); private investors; and bank credit officers (for more details see chapter four). In addition, the questionnaires were distributed to individuals representing audit firms or offices, joint venture and private companies, and main offices of banks. A personally administered questionnaire survey was carried out on 495 participants (see Table 5.1); fifty one of the questionnaires were incomplete and thus not acceptable for the purpose of the research, because missing a large amount of important data.

In a research study, statistical rigidity does not expand to specifying the standards of acceptability for the unfinished questionnaires; nonetheless, according to the researcher's decision, where 40% or more of the questions were unanswered, these were dismissed for the purpose of this study. Consequently, the number of utilisable questionnaires was 270 since the missing data are related directly to sections B and C that sought to disclose the viewpoint of the Libyan external auditor and the financial statement user groups regarding the role and nature of auditing, along with the efficiency of communication in the unqualified audit report. The adopted view is that the exclusion of these data may have been due to the respondents not having adequate time to fill out all the parts of the questionnaire, or to the lack of adequate knowledge or confidence to give answers relating to the controversial aspects of the audit expectation gap and the effectiveness of audit report communications. These questionnaires were administrated among the five stakeholder groups mentioned above, and after eliminating the questionnaires where there are no responses the usable questionnaires and responses are disclosed in Table 5.1 and Figure 5.1, stakeholder participants, below.

Table 5:1 The questionnaire distribution and response rate

stockholder groups	Distributed Questionnaires	Received Questionnaires	Excluded Questionnaires	Usable Questionnaires	Response Rate (%)
Private Auditor	150	80	10	70	47%
General Auditing Bureau	110	73	7	66	60%
Financial manager	120	95	19	76	63%
Bank credit officers	20	16	4	12	60%
Private investors	80	57	11	46	58%
Total	**495**	**331**	**51**	**270**	**55%**

Figure 5:1 The questionnaire distribution and response rate



As mentioned earlier, a total of 495 questionnaires were distributed from which 270 questionnaires with usable responses were received from five groups. For the General Auditing Bureau groups, 110 questionnaires were distributed to target group, 66 usable questionnaires were received with a response rate of 60%. Out of the 120 questionnaires distributed to financial managers, 76 usable questionnaires were received with a response rate of 63%. It is notable that the financial manager obtained the highest percentage of participants' responses. For the private auditor 150 questionnaires were distributed to firms and offices from which 70 usable questionnaires were received with a response rate of 47%. With regard to private investors a total of 80 questionnaires were distributed, from which 46 questionnaires were returned with a response rate of 58%. The bank credit officer group participants were sourced from the twelve Libyan banks, from which 12 usable responses were received from 20 questionnaires distributed. The bank credit officer group was the smallest group participants' with only 20, which may be attributed to the late of Libyan policy for privatisation, where most banks have been only recently opened. The financial manager group had the highest response rate and the private auditors group had the lowest response rate.

The general response rate over five groups was 55%, which is considered a good response rate compared to other studies conducted in the same field such as Humphrey, Moizer, & Turley (1993) who conduct a partly similar study in the UK, where the response rate was 38.2%.

5.2.1 General Profile of the Private Auditors and General Auditing Bureau

The first section of the questionnaire (section A) was intended to gather respondents' personal background information. The questions in the three questionnaires were designed according to the nature of each group involved in the research study. As a result the general information which is required from each group, and the number of questions to be answered, were not identical. The respondents were asked to provide information related to their nationality, the type of the audit firm or organisation they worked for, their present position, their years of experience, their level of education and their major area of study and their professional qualifications, professional training in auditing that is organised by the office or firm, the average number of attendants in these programs; also respondents were asked to provide information related to professional training in auditing organised by the Libyan Accountants and Auditors Association, and the average number of attendants in these programs. Thus, the demographic, job, experience, educational background and engagement in continuing professional development were factors which might influence their perceptions and the quality of their responses to the questionnaire, on the perceptions of external auditor toward the role and responsibilities of external auditors, the effectiveness of unqualified audit report communications, and the audit expectation gap.

Table 5:2 Respondents' Profiles (PA and GAB)

Group	Nationality	Frequency	Percentage
PA	Libyan	68	93.15
	Other Arab countries	5	6.85
	Total	73	100%
GAB	Libyan	66	100
	Other Arab countries	0	0.0
	Total	66	100%
Group	**Type of audit firm**	**Frequency**	**Percentage**
PA	National / local firm	68	93.15
	International firm	5	6.85
	Total	73	100%
GAB	General Auditing Bureau	66	100%
	Total	66	100%
Group	**Experience**	**Frequency**	**Percentage**
PA	Less than 3 years	7	9.6
	3-5 years	12	16.4
	6-10 years	15	20.5
	More than 10 years	39	53.5
	Total	73	100%
GAB	Less than 3 years	4	6.1
	3-5 years	10	15.2
	6-10 years	17	25.8
	More than 10 years	35	53.0
	Total	66	100%
Group	**Participants' status**	**Frequency**	**Percentage**
PA	Owner/ Partner	46	63
	Manager	6	8.2
	Audit staff	18	24.7
	Other	3	4.10
	Total	73	100%
GAB	Manager	6	9.1
	Audit staff	60	90.9
	Total	66	100%
Group	**Qualifications**	**Frequency**	**Percentage**
PA	Below bachelor degree	1	1.4
	Bachelor	40	54.7
	Master	18	24.7
	PhD	8	11.0
	Professional qualification	6	8.2
	Total	73	100%
GAB	Below bachelor degree	6	9.1
	Bachelor	50	75.8
	Master	8	12.1
	PhD	0	0.0
	Professional qualification	2	3.0
	Total	66	100%
Group	**Country of Final Graduation**	**Frequency**	**Percentage**
PA	Libya	43	58.9
	UK	14	19.2
	USA	5	6.8
	Other Arab countries	11	15.1
	Total	73	100%
GAB	Libya	64	97
	UK	1	1.5
	USA	0	0.0
	Other Arab countries	1	1.5
	Total	66	100%

PA = Private auditors GAB = General Auditing Bureau (the inspection and control Department)

Based on Table 5.2, it can be concluded that the vast majority of respondents amounting to 93.15% held Libyan nationality. Moreover, they had worked in the local office or firm or General Auditing Bureau, with only 6.85% of the respondents who had worked in international firms. A possible explanation for the low participation of international firm might be due to law No. 116 for the year 1973 and civil law, which did not allow international firms to operate in Libya except two firms from the Big Four which have been operating in Libya as full members, in addition to, the other two Big Four firms which have been operating in Libya are not as full members (Correspondent) namely Deloitte &Touche (M.E) and KPMG. In terms of respondents' work experience; around 53-53.5% respectively of respondents from both groups have more than ten years of work experience. It can also be concluded that 63% of private auditors are occupied in owner/partner positions in their office, while the majority of participants from GAB (i.e. 90.9%) of respondents are occupied audit staff. It can also be seen from table 5.2 that around 54.7% from private auditors and 75.8% from GAB hold a university BSc degree, and most of their specialisations were in accounting, which is an expected outcome because Law No. 116 for LAAA stipulates that a bachelor's degree is necessary to obtain an audit certificate from LAAA article Nr 24 for more details see (appendix D). It was also noted that six auditors from private auditor firms have professional qualifications such as the membership of Certified Public Accountant (CPA), Association of Chartered Certified Accountants (ACCA) or the Arab Society of Certified Accountants (ASCA), in addition to all auditors being members of LAAA. It can also be noted that 58.9% and 90% of both respondents received their education in Libya; the remaining auditors received their education in the UK, the USA and other Arab countries such as Jordan, Egypt, Tunisia and Lebanon. This may be a reflection on the Libyan government's policy towards higher accounting education since the 1969 revolution, when there was a focus on sending accounting students to the UK and USA for further studies. Combined with other factors, this created the possibility for a trend for Libyan auditors to apply British and American accounting and auditing standards.

Table 5:3 Professional Training by firms, LAAA and the number of the companies audited every year

Group	Professional training by the firm	Frequency	Percentage
PA	Yes	33	44.6
	No	39	52.7
	I do not know	1	1.4
	Total	**73**	**100%**
GAB	Yes	22	33.3
	No	43	65.2
	I do not know	1	1.5
	Total	**66**	**100%**
Group	**Times of attended training**	**Frequency**	**Percentage**
PA	Never	39	53.4
	Once every 3 months	1	1.4
	Once every 6 months	6	8.2
	Once a year	14	19.2
	Other	13	17.8
	TOTAL	**73**	**100**
GAB	Never	41	62.1
	Once every 3 months	0	0.0
	Once every 6 months	0	0.0
	Once a year	12	18.2
	Other	13	19.7
	TOTAL	**66**	**100%**
Group	**Professional training by LAAA**	**Frequency**	**Percentage**
PA	Yes	0	0.0
	No	51	69.9
	I do not know	22	30.1
	TOTAL	**73**	**100%**
GAB	Yes	0	0.0
	No	33	50.0
	I do not know	33	50.0
	TOTAL	**66**	**100%**
Group	**Times of attended training by LAAA**	**Frequency**	**Percentage**
PA	Never	72	98.6
	Once every 3 months	0	0.0
	Once every 6 months	0	0.0
	Once a year	0	0.0
	Other	1	1.4
GAB	**TOTAL**	**73**	**100%**
	Never	64	97
	Once every 3 months	0	0.0
	Once every 6 months	0	0.0
	Once a year	0	0.0
	Other	2	3.0
Group	**Nr of companies audited every year**	**Frequency**	**Percentage**
PA	1 - 5	25	34.2
	6 - 10	21	28.8
	11 - 15	8	11.0
	16 - 20	8	11.0
	More than 20	11	15.1
	TOTAL	**73**	**100%**
GAB	1 - 5	44	66.7
	6 - 10	14	21.2
	11 - 15	3	4.5
	16 - 20	1	1.5
	More than 20	4	6.1
	TOTAL	**66**	**100%**

PA = Private auditors **GAB** = General Auditing Bureau (the inspection and control Department)

Table 5.3 reveals that the overwhelming majority from both groups PA and GAB did not attend any professional training organised by their firm or LAAA in respect to the auditing discipline.

To gather more information concerning the development the auditing profession in Libya, the respondents were requested (in QA8) to indicate the number of courses that they had attended in the last 12 months. As can be seen from table 5.3, the information from the questionnaire shows that the vast majority of the participants, approximately 98.6% of total participants from PA, and 97% of total participants from GAB mentioned that they had not attended any professional training programmes conducted by LAAA. This result can be explained on the basis that the profession is not well established and the professional body regulatory framework is immature. This will contribute to the performance gap and the deficient standards gap.

As regards the average number of companies they audit every financial year, as shown in table 5.3 around 28.8% of private auditors indicated that they audited between 6 and 10 companies, With regard to General Auditing Bureau, the findings also showed that the vast majority of auditors (66.7%) audited between1 and 5 companies every financial year.

5.2.2 The Financial Statement Preparers

Table 5:4 General Profile of the financial statement preparers

Description/ Preparers	Category	Frequency	Percentage
Type of sectors	Industrial	32	43.2
	Banking	10	13.5
	Services	30	40.5
	Commercial	2	2.7
	TOTAL	**74**	**100%**
company's ownership	Private company 100%	51	68.9
	Joint venture stat and foreign partner	18	24.3
	Joint venture private and foreign partner	5	6.8
	TOTAL	**74**	**100%**
Description/ Preparers	**Category**	**Frequency**	**Percentage**
Preparers' nationality	Libyan	68	91.9
	Other Arab countries	5	6.8
	European	1	1.4
	TOTAL	**74**	**100%**
Preparers' position	Chief executive officer	5	6.8
	Financial director	26	35.1
	Financial controller	4	5.4
	Accountant or chief accountant	26	35.1
	Internal auditor	8	10.8
	Other	5	6.8
	TOTAL	**74**	**100%**
Preparers' experience	Less than 3 years	5	6.8
	3-5 years	6	8.1
	6-10 years	10	13.5
	More than 10 years	53	71.6
	TOTAL	**74**	**100%**
Preparers' education	Below bachelor degree	3	4.1
	Bachelor	48	64.9
	Master	19	25.7
	PhD	3	4.1
	Professional qualification	1	1.4
	TOTAL	**74**	**100%**
Preparers' major of study	Accounting	62	83.8
	Finance & business	11	14.8
	Other	1	1.4
	TOTAL	**74**	**100%**
Preparers' place of study	Libya	61	82.4
	Other Arab countries	8	10.7
	UK	3	4.1
	USA	1	1.4
	Other	1	1.4
	TOTAL	**74**	**100%**

From Table 5.4, it can be concluded that the majority of participants (43.2% and 40.5%) are working in industrial and services sectors. It can also be noted that 68.9% of preparers are working in private companies, as the country has been moving from social economy to free economy[13]. Therefore, these financial statement preparers working in these

[13] For further information regarding the outline of Libyan business, please refer to chapter Two

categories of companies are appropriate and represent a good sample to achieve the objectives of this study because it covers a range of sectors, private services, banking and industrial. In terms of respondents' nationality, the overwhelming majority (91.9%) of this group held Libyan nationality. With regard to their position, the results show that among respondents in the preparers group, 35.1% are financial directors, and again 35.1% are accountants or chief accountants. Moreover, they had high qualifications of at least university BSc degree, and a high proportion of respondents (83.8%) are specialised in accounting. It can also be noted that around 71.6% of respondents had professional experience exceeding ten years. In addition, the results in the same table also show that roughly all financial statements (94.7%) were prepared by those holding a bachelor's or postgraduate degree (bachelor's 64.9%, master's 25.7%). It can also be seen from table 5.4 that the majority of the preparer respondents obtained their degree in Libya, whereas the rest of the respondents obtained their degree in other Arab countries, the UK, the USA, and other European countries.

5.2.3 The Financial Statement User Group

Table 5:5 Demographic data about financial statement user groups

Statement	Category	Private investors		Lender	
		Frequency	Percentage	Frequency	Percentage
Nationality	Libyan	45	100	10	83.3
	others	0	0.0	2	16.7
	Total	**45**	**100**	**12**	**100**
User groups experience	Less than 3 years	45	100	2	16.7
	3-5 years	0	0.0	0	0.0
	6-10 years	0	0.0	1	8.3
	More than 10 years	0	0.0	9	75.0
	TOTAL	**45**	**100**	**12**	**100**
User groups education	Below bachelor degree	11	24.4	1	8.3
	Bachelor	22	48.9	5	41.7
	Master	4	8.9	3	25.0
	PhD	1	2.2	1	8.3
	Professional qualification	7	15.6	2	16.7
	TOTAL	**45**	**100**	**12**	**100**
User groups' major of study	Accounting	21	46.7	4	33.3
	Finance & business	13	28.9	6	50.0
	Other	11	24.4	2	16.7
	TOTAL	**45**	**100**	**12**	**100**
User groups place of study	Libya	42	93.3	9	75.0
	Other Arab countries	3	6.7	3	25.0
	UK	0	0.0	0	0.0
	USA	0	0.0	0	0.0
	Other	0	0.0	0	0.0
	TOTAL	**45**	**100**	**12**	**100**
Type of sector investment in	Banking	27	60	0	0.0
	Services	13	28.9	0	0.0
	Commercial	5	11.1	0	0.0
	TOTAL	**45**	**100**	**0**	**0.0**

Table 5.5 shows the characteristics of all user groups. The findings reveal that all private investors (100%) responding to the questionnaire were from Libya. With regard to a respondents' major of study, those who responded to the questionnaire are as follows. It seems likely that a majority (46.7%) are holding their degree in accounting. The result in the same table also shows that the vast majority (42%) of this group obtained their degree from Libya. With respect to the private investors' experience 100% of PI had less than three years' experience in the Libyan stock market. To some extent they do not have enough experience in the markets. The findings also show that the majority of the private investors' (60%) invest in the banking sector. It was also noted that the most popular sector to invest in the Libyan stock market is the banking because it is one of the sectors which is well-arranged and successful as well. The result in the same table also shows all

the characteristics of the lender group. The findings reveal that the overwhelming majority (83.3%) held Libyan nationality. The distribution pattern of the years of experience for the lender group was that the majority (75%) had experience exceeding ten years.

This is explained by Libya's new policy, which encourages a move from the public to private sector, hence creating new local banking. This local banking sector has adopted new graduates without any experience. With regard to lenders' level of education, the findings suggest that almost all lenders (91.7%) have a bachelor's degree. With respect to the countries from which they received their qualifications, the findings illustrate that the vast majority (75%) reported that they obtained their education from Libya. However, the fact that the vast majority of lenders hold their degree in finance & business may explain why they do not depend on the audit report when processing loan applications from firms.

In summary, the results arrived at from analysing the frequency and percentage distribution of the respondents' demographic data show that the auditors from both sectors were characterised by more than 10 years of accounting and auditing experience, with a bachelor's degree or higher in accounting, where the majority of external auditors had worked in local offices or firm, against a minority who had worked in international firms, namely PWC and Ernst & Young (E&Y). The preparers' group characteristics show the high level of accounting education. The preparers' group characteristics revealed more than 10 years accounting experience with a bachelor's degree in accounting. The majority of lenders have experience over 10 years, with a bachelor's degree or higher in accounting or finance & business, but only in the private investor group was there a majority without a degree or professional level qualifications in the business or finance area, although the findings show that the majority of the private investors group had more than two years' experience in the private sector and the Libyan stock market. The vast majority of respondents received their education from inside Libya, while the minority of respondents received their study from outside of Libya. Interestingly, it can be noticed that two third of both groups of auditors attended training programs arranged via their organisations. However, around 100% of respondents from both groups mentioned that the LAAA did not organise any professional training for their members. In view of that, it was vital to make certain that the respondents in this study had substantial years of experience in their areas of expertise as well as having a good level of accounting experience, combined with a good level of accounting education. Having this experience would subsequently enable them to present experienced judgements on the issues in the survey. It will be intriguing to observe if the backgrounds and experiences of respondents will have a considerable impact on their perceptions towards the role and the nature of auditing and their understanding of the messages that are (or are not) communicated in the unqualified audit report used in Libya. These findings will be presented in the next sections.

5.3 The Role and the Nature of Audit practice

This section is aimed at reporting the perceptions of sample groups regarding the following four issues under investigation: firstly, auditors and the auditing process; secondly, the audited financial statements and the audited company; thirdly, prohibitions and regulations in the audit environment; fourthly, auditors' legal responsibility. The perceptions of the sample groups were measured using a five point scale, as 1 representing strongly disagree, 2 disagree, 3 neutral, 4 agree, and 5 strongly agree. Accordingly, the following tables illustrate the results of the responses of sample groups in the next four sections.

5.3.1 The Libyan target groups' perceptions concerning Auditors and the Auditing Process

The purpose of this section is to report on the perceptions of sample groups, regarding auditors and current auditing practice, which is related to the aim two of the study, where the sample groups were asked to indicate their level of agreement or disagreement with thirteen statements regarding the recent, general nature of auditing practice. The study participants were given a list of current auditing practice in Libya. In order to determine the significant difference between the responses of Libyan target groups, non-parametric tests are undertaken, to examine the consensus or differences between the Libyan auditor groups and the non-auditor groups. Whereas the Kruskal-Wallis H test was undertaken to examine whether or not there was a difference in the perceptions among the overall Libya target groups, the Mann-Whitney U test was carried out to examine whether or not there was a difference in the perceptions to show the differences in responses between particular groups, in order to say that the aim of running this test was to discover the source of the differences between the pairs of groups, with the result that a significant difference in perceptions was revealed in six out of the thirteen statements given in the questionnaire. Table 5.6 summarises these responses of the respondents. This section is related to aim two of the study.

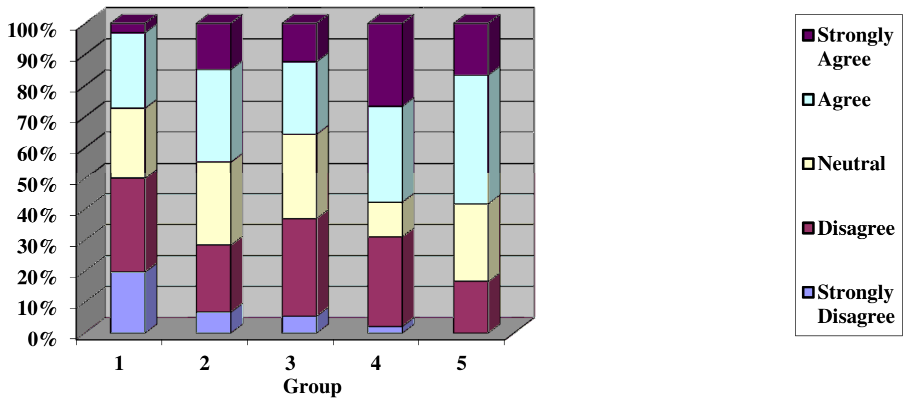
Table 5:6 Views regarding the auditors and the auditing process

Statements	Kruskal-Wallis Test		Mann-Whitney Multiple Comparisons									
	Chi	**P.Value**	**1-2**	**1-3**	**1-4**	**1-5**	**2-3**	**2-4**	**2-5**	**3-4**	**3-5**	**4-5**
Auditors are too concerned with keeping company management satisfied	**18.66**	**0.001****	**	*	***	**	-	-	-	*	-	-
Providing credible data through better auditing would increase foreign investment in Libya	**17.72**	**0.001****	***	*	***	-	-	-	-	-	-	-
Too much is expected of auditors by the investing community	**14.21**	**0.007****	**	-	***	-	-	-	-	-	-	*
Auditors are more interested in collecting fees than in doing a rigorous professional job	**13.12**	**0.011***	-	-	***	-	-	**	-	**	-	-
The quality of company audits has increased in recent years	**10.06**	**0.039***	**	*	-	-	-	-	-	-	-	-
Audits generally take too long to complete	**9.67**	**0.046***	-	-	-	-	-	-	**	-	*	-
Audits provide significant protection against fraud	**8.21**	**0.084**	-	-	-	-	-	-	-	-	-	-
Audits are of very little benefit to a company	**7.53**	**0.110**	**	-	-	-	-	*	-	-	-	-
The auditing process is seriously weakened by imprecise auditing standards	**5.66**	**0.226**	-	-	*	-	-	-	-	-	-	-
Auditors should report to shareholders on the efficiency of management	**3.42**	**0.490**	-	-	-	-	-	-	-	-	-	-
The quality of audit work is adequately regulated by the audit profession	**3.40**	**0.493**	-	-	-	-	-	-	-	-	-	-
Auditors do not understand the problems of business	**3.20**	**0.525**	-	-	-	-	-	-	-	-	-	-
Auditors should identify ways to improve management efficiency	**1.33**	**0.856**	-	-	-	-	-	-	-	-	-	-

(*, **, ***), indicates evaluations of responses is significantly different at the 0.05, 0.01, 0.001 levels respectively.
(-) indicates No significant differences. Groups are: 1= General Auditing Bureau (GAB), 2= financial statement prepares (FSP), 3= Private auditors (PA) 4= Private investors (PI), 5= Lender (L).

The result presented in table 5.6 reveals that a significant difference emerged in the responses to the statement “Auditors are too concerned with keeping company management satisfied”. The significant difference was reflected in the Kruskal-Wallis test results (chi-square = 18.66) and (P = .001). It is perhaps, not surprising that the external auditors group from both groups agree less, it is observed that the agreement of the respondents of group GAB for statement 1 is different from the agreement of the respondents of groups FSP, PA, PI and L. Around 63 percent of PI, 63 percent of L and 50 percent of the FSP, respectively indicated that they agree with this statement, in contrast 40 percent of Private auditors and only 32 percent of general auditing bureau respectively agree with the statement. To locate the differences between stakeholder groups, the Mann-Whitney Test was conducted and the result showed that responses of General Auditing Bureau were significantly different from those of the Private Auditor ($P \leq .05$), and lender ($P \leq 0.01$). The responses of general auditing bureau were significantly different as well from those of financial statement preparers ($p \leq .01$)14 and private investors ($P \leq 0.001$). In addition, other significant differences were found between the private auditor and private investor groups ($P \leq 0.05$). Nevertheless, all the other multiple comparisons showed no significant differences in view among the respondents. (For more illustration see bar chart in figure 5.2).

Figure 5:2 Perceptions toward auditors are too concerned with keeping company management satisfied



Likewise, the second statement indicated as expected that "providing credible data through better auditing would increase foreign investment in Libya" generated significant differences, which were noted among the respondents' responses (chi-square = 17.72 and

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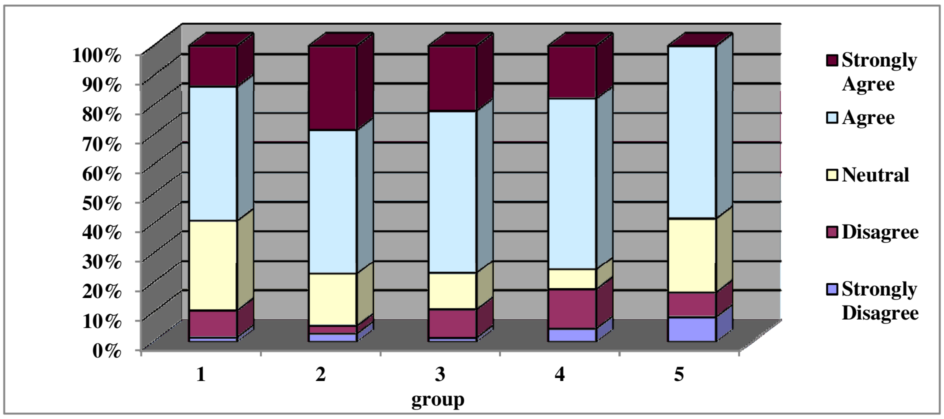
[14] The reader may regard the p- values of the comparisons between the five groups to be the same. However, the differences in P-values are due to differences in sample sizes.

p = .001), On the other hand, such differences did not belong to the agreement–disagreement category; rather, they represented variations in the level of agreement since some participants agreed more strongly than others. These differences were further reflected in the percentages of responses where a large proportion (82 percent) of financial statement preparer groups, 82 percent of private investors, 82 percent of private auditors. While only 72 percent of the general auditing bureau and 62 percent of lenders indicated their agreement. In order to investigate which group or groups were statistically different, the Mann-Whitney tests were conducted. The results of these tests showed that responses of General Auditing Bureau differed significantly from those of the private auditors in level of ($p \leq .05$), financial statement preparers in level ($p \leq .001$) and private investors in level of ($p \leq .001$). Furthermore, the test revealed that responses of private investors were significantly different from the responses of lenders ($P \leq 0.05$). However, no differences were reported between the general auditing bureaus' view and lenders. Also, no differences were found between three other groups regarding the above statement (For more illustration see bar chart in figure 5.3).

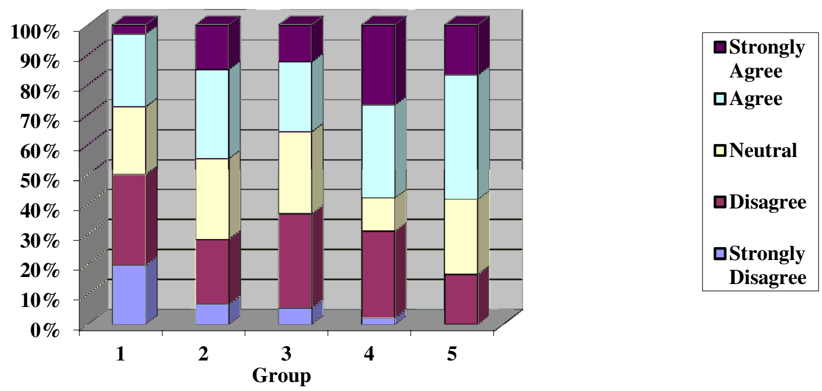
Figure 5:3 Providing credible data through better auditing would increase foreign investment in Libya.



Moreover, there is agreement among general auditing bureau and private auditors and non-auditors groups which including financial statement preparers, lenders, and private investors regarding the statement that "Too much is expected of auditors by the investing community". The significant differences was highlighted by Kruskal-Wallis test (Chi-square = 14.21 and P = .007) these differences were supported by the fact that the vast majority (81%) of the private investors expect too much from auditors, such as the discovery of fraud; this was an expected result. This was followed by financial statement preparers with a smaller proportion of agreement at 75%, and private auditors at 66%. In contrast, only 55% and 46% of General Auditing Bureau and lenders respectively agreed.

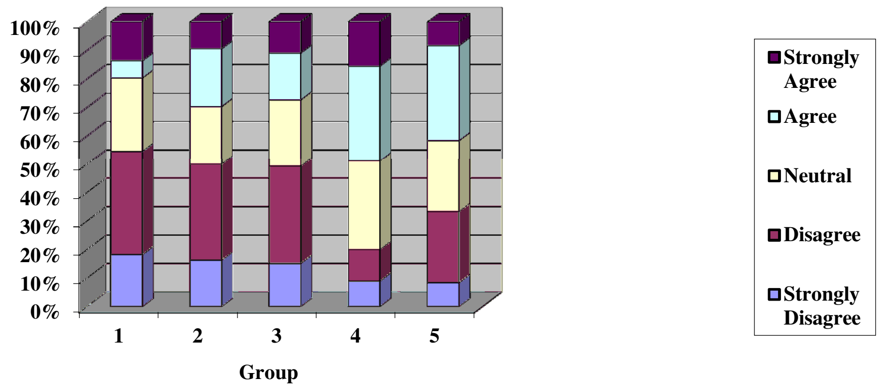
The Mann-Whitney test was conducted to get more insights, to discover which groups differed with which; the result of this test shows clear evidence of the difference in perception between general auditing bureau and those of financial statement preparers ($P \leq .01$) and private investor (P0.001); this was an expected result (For more illustration see bar chart in figure 5.4).

Figure 5:4 Too much expected of auditors by the investing community.



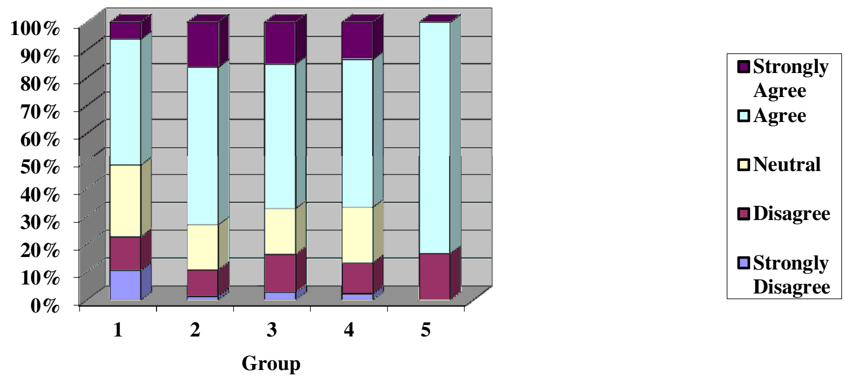
The Kruskal-Wallis test identified significant differences with regard to the statement "Auditors are more interested in collecting fees than in doing a rigorous professional job", where the agreement of private auditors to this statement is different from the agreement of the respondents of sophisticated groups, for instance General Auditing Bureau and financial statements preparers, (chi-square = 13.12 and P = .011). Going into for further details, as can be seen from a bar chart, the highest proportion of about 53% of private investor groups indicated their agreement with this statement whilst only 35%, 32% and 25% of financial statements preparers, private auditors and General Auditing Bureau respectively show less agreement with this statement or disagreement (for more illustration see bar chart in figure 5.4). The Mann-Whitney test carried out reveals that the responses of both auditor groups and financial statement preparers were significantly similar to those from private investors (P≤ .001) as shown in table 5.6; however, no significant differences were again identified in the perceptions between the general auditing bureau with financial statement prepares, private auditor and lender, in addition, there is significant differences between financial statement preparers with private auditor and lender, as well as, between private auditor with lender and between private investor with lender (For more illustration see bar chart in figure 5.5).

Figure5:5 Auditors are more interested in collecting fees than in doing a rigorous professional job



The analysis of responses to the statement “The quality of company audits has increased in recent years” showed that all target groups tend to agree on this issue. However, there is a significant difference among the overall auditor groups (PA and GAB) and non-auditor groups (FSP, PI and L) due to the different degrees of agreement between the different groups. The Kruskal-Wallis test also reported there were significant differences in the perceptions between the general auditing bureau group, the private auditors and the private investors (Chi = 10.06 and P = .039) (for more illustration see bar chart in figure 5.6).

Figure 5:6 The quality of company audits has increased in recent years

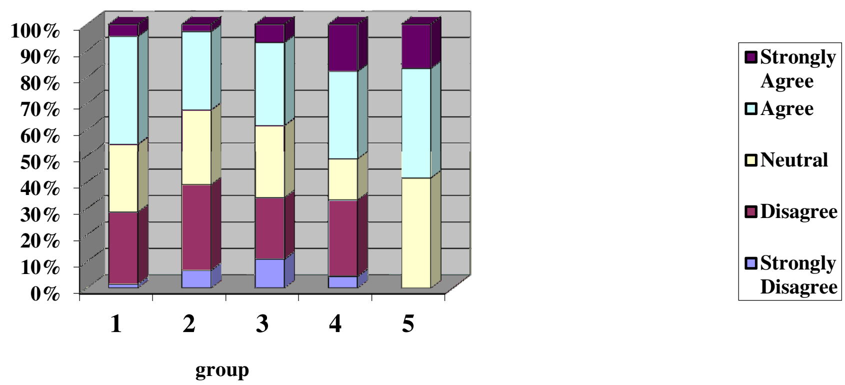


Results of the Kruskal-Wallis test, as shown in table 5.17, demonstrate that significant differences were found between financial statements preparers group, and private auditor group with lenders group. For example, lender respondents strongly agreed that "Audits generally take too long to complete" but private auditor and financial statement preparer respondents, overall, are less supportive, (Chi-square = 9.67 and P = .046). In order to get insights into which groups differed from which, the Mann-Whitney test was undertaken, and the results of these tests disclosed that the responses of financial statement preparers' perceptions were significantly different from lenders' perceptions ($P \leq .01$), and the responses of private auditors were significantly different from lenders' views ($P \leq 0.05$). However, no significant difference was again identified in multiple comparisons in perceptions between the general auditing bureau respondents and the financial statement preparers, private auditors, private investors and lenders. Moreover, no significant difference was reported in the Mann-Whitney test between financial statement preparers with private auditors and private investors. Furthermore, no significant evidence was reported by the Mann-Whitney test between private auditors with private investors and lender respondents.

In the remaining seven statements, the Kruskal-Wallis test failed to indicate any significant differences among the Libyan sample target groups. These statements are as follows:

- Audits provide significant protection against fraud (Chi = 8.21and P = 0.084)
- Audits are of very little benefit to a company (Chi = 7.53 and P = 0.110)
- The auditing process is seriously weakened by imprecise auditing standards (Chi = 5.66and P = 0.226)
- Auditors should report to shareholders on the efficiency of management (Chi = 3.42and P = 0.490)
- The quality of audit work is adequately regulated by the audit profession (Chi = 3.40 and P = 0.493)
- Auditors do not understand the problems of business (Chi = 3.20 and P = 0.525)
- Auditors should identify ways to improve management efficiency (Chi = 1.33 and P = 0.856)

Figure 5:7 Audits generally take too long to complete



To sum up, the aim of the statement was to poll respondents' perceptions regarding the external auditors and financial statement user groups' understanding of the formal nature of audit processes.

The analysis of the perceptions of the respondents on these issues as shown in table 5.6 revealed that some marked differences between the five target group's at all three levels of significant. As is evident in table 5.6 six statements out of thirteen produced significant differences between the groups. The largest one emerged in response to the issue "Auditors are too concerned with keeping company management satisfied" followed by the other significant differences: "Providing credible data through better auditing would increase foreign investment in Libya", "Too much is expected of auditors by the investing community", "Auditors are more interested in collecting fees than in doing a rigorous professional job", "The quality of company audits has increased in recent years" and "Audits generally take too long to complete". However, the GAB and PA had the most significant differences with financial statement user groups. Therefore, it can be concluded that there was a quite big deficient performance, deficient standards and unreasonable gaps in this area between external auditors and financial user groups. In particular it is assumed that the financial user groups and private auditors are most likely to be unsophisticated regarding the formal nature of auditors and auditing processes. It might be that the main drivers for the expectations gap are the absence of formal accounting and auditing framework and the formal procedures of auditing work.

It is suggested that there should be improvements in the Libyan educational system, auditing standards and renewal of the Libyan laws in order to narrow the gap.

5.3.2 The Libyan target groups' perceptions toward the Auditor's role with respect to Audited Financial Statements and Audit Clients

5.3.2.1 The Auditor's Role with respect to Audited Financial Statements

A list containing the main themes related to the auditor's role in respect of the clients' audited financial statements was presented to the five groups surveyed. The purpose of this poll was to gauge the perceptions of these groups, to help understand the extent to which they agree with each aspect of the responsibility of external auditors. The auditor's role in relation to the clients' audited financial statements showed significant differences in perceptions. This was detected in three out of the seven statements given in the questionnaire as reported in table 5.7.

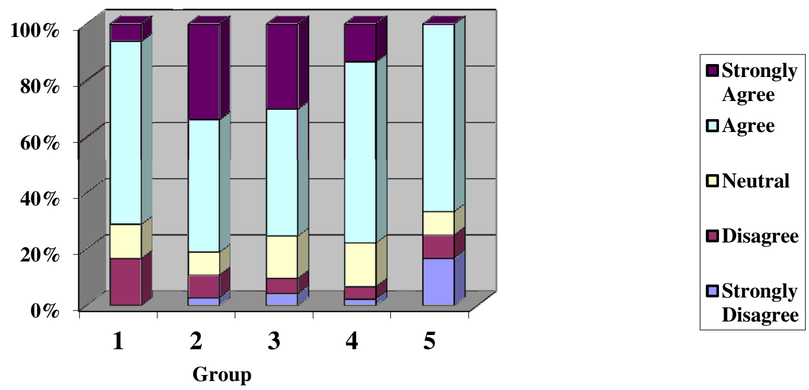
Table 5:7 Views regarding the auditor's role with respect to the audited financial statements of companies

Statement	Kruskal-Waillis Test		Mann-Whitney Multiple Comparisons									
	Chi	P_Value	1-2	1-3	1-4	1-5	2-3	2-4	2-5	3-4	3-5	4-5
Auditors should ensure that audited financial statements comply with the tax law	**14.86**	**0.005****	***	*	-	-	-	-	*	-	-	-
Auditors should ensure that audited financial statements comply with the LAAA rule	**13.21**	**0.010****	**	-	-	*	*	-	-	-	-	-
Auditors should ensure that the financial statements contain no deliberate distortions	**12.16**	**0.016***	**	**	-	-	-	-	*	-	-	-
Auditors should ensure that the financial statements contain no significant errors	**5.79**	**0.216**	*	-	-	-	-	-	-	-	-	-
Auditors should ensure that audited financial statements comply with International Accounting Standards	**0.83**	**0.935**	-	-	-	-	-	-	-	-	-	-
Auditors should ensure that audited financial statements comply with the Commercial Code	**8.38**	**0.079**	*	-	-	-	-	-	*	-	-	*
The main purpose of the audit is to lend credibility to the company's financial statements	**8.97**	**0.062**	*	-	-	-	-	-	*	-	-	-

(*, **, ***), indicates evaluations of responses is significantly different at the 0.05, 0.01, 0.001 levels respectively. (-) indicates No significant differences. 1= General Auditing Bureau (GAB), 2= financial statement prepares (FSP), 3= Private auditors (PA), 4= Private investors (PI), 5= Lender (L).

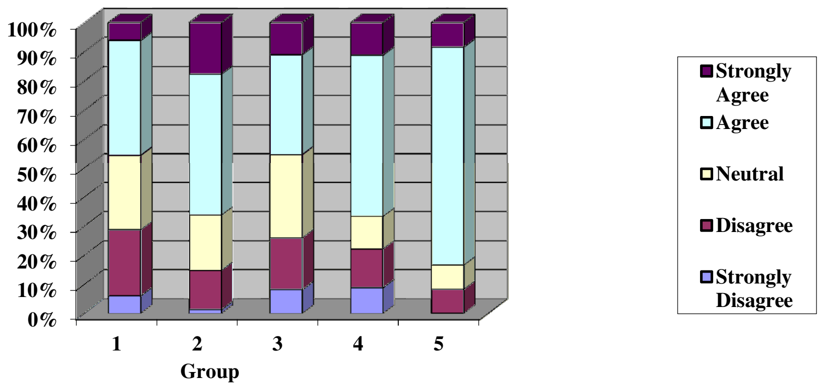
The analysis of responses to the statement "Auditors should ensure that audited financial statements comply with the tax law" (this issue is clearly recognised in Libyan commercial and tax law) shows that all target groups agree on this issue. However, there is a significant difference among the general auditing bureau, the financial statement preparers and the private auditors in their perceptions. Furthermore, a significant difference was found between financial statement preparers and lenders due to the fact that the agreements of the respondents of the five groups vary. The findings, based on the Kruskal-Wallis test, also reported that there are significant differences in the perceptions among the general auditing bureau group, the financial statements preparers and the private auditors (Chi = 14.86 and P = .005). This is, of course, not surprising as the overwhelming majority of financial statement preparers (86%), almost all private investors (83%) and about 80% of private auditors believed that external auditors should make sure that audited financial statements comply with the tax law. However, General Auditing Bureau and lenders did not agree fully with this statement. About 76% and 72% respectively indicated that this should be seen as an audit responsibility (for more illustration see bar chart in Figure 5.8). In order to determine which group is significant with which, the Mann-Whitney test was carried out. The results revealed clear evidence that the responses of General Auditing Bureau were significantly different from those of financial statements preparers at the level ($p \leq .001$) and private auditors ($P \leq .05$) level, with a significant difference between financial statement preparers and the lenders ($P \leq .05$). However, no significant difference was reported in perception among the general auditing bureau compared with those of private investors and lenders. Financial statement preparers compared with those of private auditors and private investors. private auditors compared with private investors and lenders, also, between private investors in contrast with the lenders.

Figure 5:8 Auditors should ensure that audited financial statements comply with the tax law.



Furthermore, a significant difference in views was again identified by The Kruskal-Wallis test with regard to the notion as to whether external auditors should ensure that financial statements comply with the LAAA regulation, (Chi = 13.21 and P = 0.010) where all financial statement user group were in agreement and had strong beliefs that the external auditor is responsible for this. In fact the vast majority of lenders (98%) and 71% of financial statement preparers highly agreed with this notion. However, it is interesting to note that the general auditing bureau groups and the private auditors who shared the same view were less supportive of the statement; only 50% of both groups believed in the role of external auditors to ensure that audited financial statements comply with the LAAA regulation, whereas the differentiated results of non-auditors group from the auditors group, pointed out that there is an existing problem due to the non-availability of auditing standards in Libya, which need to be overcome by intervention from the government by creating a new body to develop accounting and auditing standards as mentioned by (Almalhuf, 2009). In order to assess which groups are different with which, the Mann-Whitney test undertook where the result shown that the general auditing bureau groups views where were significantly different from those of financial statement preparers ($P \leq 0.01$) and lenders ($P \leq 0.05$). Furthermore, the views of financial statement preparers' group differed significantly from those of private auditors group ($P \leq .05$). The results of the Mann-Whitney test indicated no statistically significant differences of opinions between other groups concerned with this statement.

Figure 5:9 Auditors should ensure that audited financial statements comply with the LAAA rule.

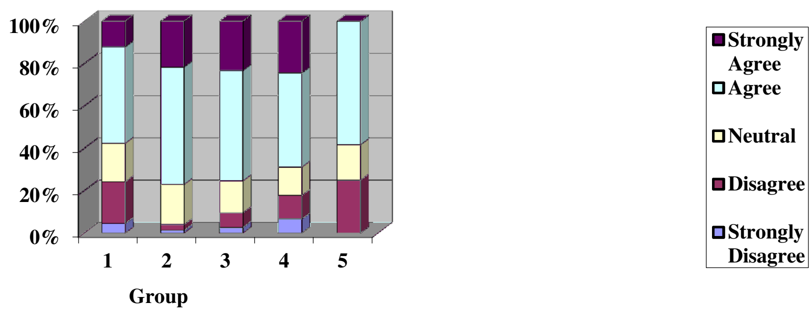


As for the last question in this part of the questionnaire, dealing with the statement "Auditors should ensure that the financial statements contain no deliberate distortions" the results of the Kruskal-Wallis test highlighted that there were significant differences in views toward this statement (Chi = 12.16 and P = 0.016). Approximately 92% of financial statement preparers, 90% of private auditors and 74% of private investors agreed with statement; however, only 62% of the General Auditing Bureau agreed with the statement. In order to assess which groups differ with which, the Mann-Whitney test shows there was a total agreement by the auditors' and the non-auditors' groups that the auditors are responsible for ensuring that the financial statements contain no deliberate distortion, while the general auditing bureau groups agreed less strongly with other groups, as a result of the occurrence of significant differences between the general auditing bureau groups and the financial statement preparers (P= 0.01) and private auditors group (P=0.01) respectively. The Mann-Whitney test reported no statistically significant differences in the attitude between other groups concerned with this statement.

In the remaining four differential statements, the Kruskal-Wallis test failed to indicate that there were significant differences among the Libyan sample target groups. These statements are as follows:

- Auditors should ensure that the financial statements contain no significant errors. (Chi = 5.79 and P = 0.216)
- Auditors should ensure that audited financial statements comply with International Accounting Standards. (Chi = .83 and P = 0.935)
- Auditors should ensure that audited financial statements comply with the Commercial Code. (Chi = 8.38 and P = 0.079)
- The main purpose of the audit is to lend credibility to the company's financial statements. (Chi = 8.97 and P = 0.062).

Figure 5:10 Auditor should ensure that financial statement contain no deliberate distortions



5.3.2.2 The Auditor's Role with respect to the Audited Companies

This section will report the result of Libyan target groups' perceptions that participated in the current research related to the auditor's role in respect of the clients' audit companies. Respondents were asked to express their beliefs on the level of agreement or disagreement with five of the aspects of the auditor's role in relation to the audited company, which showed were significant differences in perception detected in three out of five statements given in the questionnaire reported in table 5.8.

Table 5.8 below displays the results achieved from running the Kruskal-Wallis test to examine whether there is a significant difference or not among the five Libyan target groups' responses to the questionnaire survey toward the auditor's role with respect to the audited company.

Having identified differences in opinion from the Kruskal-Wallis test it is necessary to examine whether differences observed are statistically significant. We need to employ the Mann-Whitney test to the data to see where such differences are statistically significant between pair of groups.

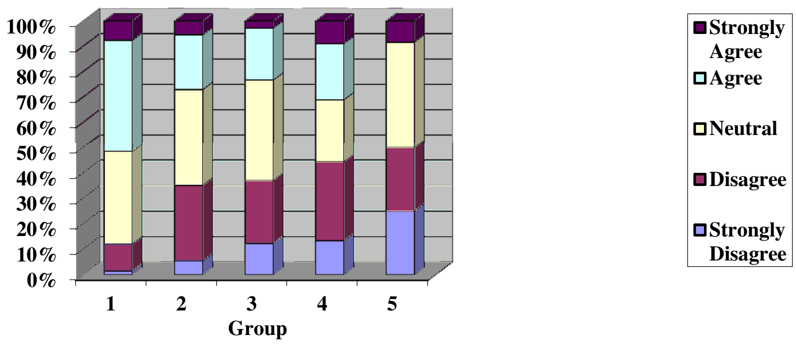
Table 5:8 Views regarding the auditor's role with respect to the company audited

Statement	Kruskal-Wallis Test		Mann-Whitney Multiple Comparisons									
	Chi	P_Value	1-2	1-3	1-4	1-5	2-3	2-4	2-5	3-4	3-5	4-5
Auditors should inform the regulatory authorities of any significant malpractices at their clients	**22.87**	**0.000*** **	***	***	**	***	-	-	-	-	-	-
Auditors should ensure that the company is being run efficiently	**11.26**	**0.024***	**	-	-	-	*	-	-	-	-	-
Auditors should ensure that the balance sheet provides a fair valuation of the company	**10.61**	**0.031***	**	*	-	-	-	-	*	-	-	-
Auditors should ensure that the future viability of the company is not in doubt	**9.04**	**0.060**	-	-	-	**	-	-	**	-	**	-
Auditors should ensure that internal controls are satisfactory	**2.78**	**0.595**	-	-	-	-	-	-	-	-	-	-

1= General Auditing Bureau (GAB), 2= financial statement prepares (FSP), 3= Private auditors (PA), 4= Private investors (PI), 5= Lender (L).

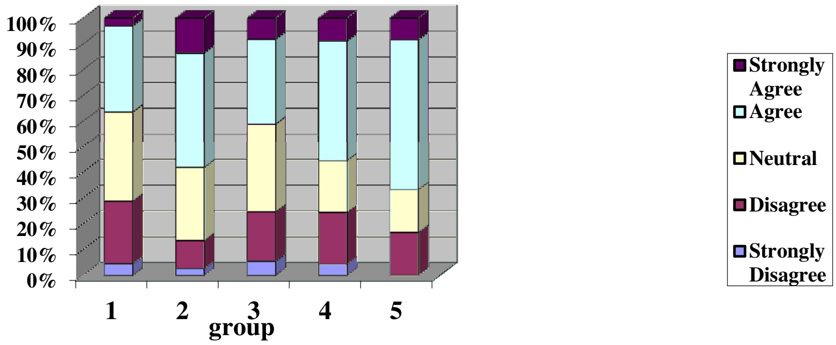
An expected outcome indicated by the statement pointed to the responsibility of the external auditor to report to the regulatory authorities any significant malpractices at their clients. It showed the second largest significant difference in views in the entire survey questionnaire. The results of The Kruskal-Wallis test clearly indicate significant differences in perceptions among the groups (Chi = 22.87 and P = 0.000). This outcome was strongly confirmed by the variation in the proportion of responses of participants. Just 12% of lenders, 29% of private auditors, 32% of financial statements preparers and 36% of private investors agreed with the statement. However, surprisingly, the general auditing bureau was the group most supportive of such a role with 57% agreeing that the main responsibility of the external auditor is to inform the regulatory authorities of any significant malpractices at their clients. To determine which groups are significantly different from which, we need to apply the Mann-Whitney test to the data. The results from running such a test illustrated that there was a statistically significant difference existing between the opinions of general auditing bureau groups in comparison with the financial statement preparers' groups' perceptions (P = 0.001), private auditors' groups' perceptions (P = 0.001), private investors' groups' point of view (P = 0.01) and lender groups' perceptions (P =0.001), (for more illustration see the bar chart in figure 5.11). In the remaining multiple comparisons between other groups the Mann-Whitney test failed to indicate that there were significant differences in views among the other Libyan sample target groups regarding this statement.

Figure 5:11 Auditors should inform the regulatory authorities of any significant malpractice



This was another statement in which differences in opinions between the groups were revealed by Kruskal-Wallis test as to whether "Auditors should ensure that the company is being run efficiently" (Chi = 11.26 and P =0.24). The non auditors' groups show slightly high support for the statement from about 60% of private investors, 63% of financial statement preparers and 72% of lenders. However, the auditor groups were slightly less in agreement with this statement with only 41% of the general auditing bureau groups and 46% of private auditors agreeing with this statement. The variations in the agreement, however, were sufficient to produce significant across-group differences. To determine the source of the significant differences, the Mann-Whitney test was undertaken, and strong evidence of significant difference was found when comparing the general auditing bureau groups with financial statement preparers (P = 0.01) and between private auditors and financial statement preparers (P = 0.05).

Figure 5:12 Auditors should ensure that the company is being run efficiently



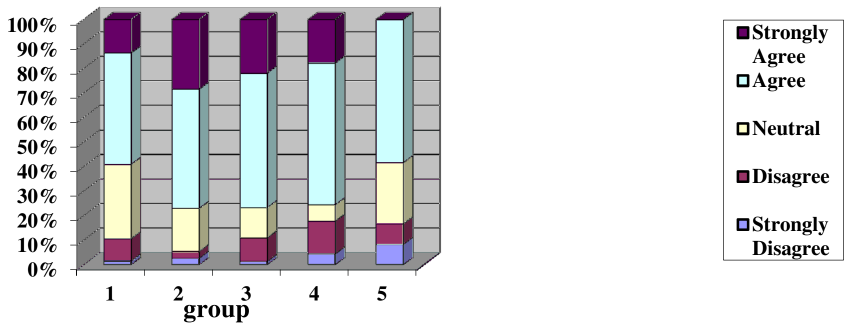
Moreover, there is strong agreement on the issue of whether "Auditors should ensure that the balance sheet provides a fair valuation of the company" between the auditor groups and the non-auditor groups. However, as can be observed the results of the Kruskal-Wallis test produced a less significant divergence in opinion among the groups (Chi = 10.61 and P = 0.031). In fact, 82% of both financial statement preparers and private auditors believed that independent auditors should ensure that the balance sheet provides a fair valuation of the company, although the general auditing bureau groups were less supportive of such a role with only 44% agreeing. To determine the sources of the difference, the Mann-Whitney test is undertaken. The result of the test revealed that there was a significant difference only between the General Auditing Bureau groups and those of financial statement preparers ($P \leq 0.01$) and private auditors ($P \leq 0.05$). The financial statement preparers' view were also significantly different from those of the lenders' groups (P = 0.05).

In the remaining of multiple comparisons between other groups the Mann-Whitney test failed to indicate that there were significant differences in belief among the other Libyan sample target groups regarding this statement.

In the remaining two differential statements, the Kruskal-Wallis and the Mann-Whitney tests failed to indicate significant differences in opinions among the Libyan target groups. These statements are as follows:

- Auditors should ensure that the future viability of the company is not in doubt (Chi= 9.04 and P = 0.060).
- Auditors should ensure that internal controls are satisfactory (Chi = 2.78 and P = 0.595).

Figure 5:13 Auditors should ensure that the balance sheet provides a fair valuation of the company



According to the above results it can be concluded that the auditor's role with respect to audited financial statement and the audited company is an important variable that gives an indication of the extent of differences in views between auditors and financial statements user groups. The results reported in Tables 5.7 and 5.8 revealed that the target groups have different perceptions; particularly the GAB groups were found less supportive to the current regulation in auditing. The result indicated that an expectation gap existed between (GAB,FSP,PA, PI and L) regarding a number of issues such as "Auditors should inform the regulatory authorities of any significant malpractices at their clients", "Auditors should ensure that the company is being run efficiently" and

“Auditors should ensure that the balance sheet provides a fair valuation of the company”. Moreover, there are a number of statements regarding the auditor’s role with respect to the company audited for example, “Auditors should ensure that audited financial statements comply with the tax law”, “Auditors should ensure that audited financial statements comply with the LAAA rule”, “Auditors should ensure that the financial statements contain no deliberate distortions”. This part of the questionnaire produced for the second largest significance in entire questionnaire (Chi- square = 22.87) (P=.000). Of course, the different perceptions results in a significant difference between the GAB group with the PA and user groups regarding these statements. This finding could be explained on the grounds that the GAB followed the laws and resolutions issued by the Libyan government to control public companies or sector to achieve their goals, growth and economic self-sufficiency, but their objective is not to achieve the profitability as in private companies. Therefore, there are clearly quite large deficient performance gap and deficient standards gap in this area. It appears that the GAB groups have a misunderstanding about financial statement audit regulation in the private sector, and it may be concluded that restoring confidence in the Libyan business environment and building trust in corporate financial reporting are factors in raising the awareness of the theme of accounting and auditing regulation. Also, because the Libyan government had indeed moved towards liberalisation of the economy, it is suggested that the knowledge of external auditors (GAB) needs to be improved in order to align with private companies’ regulation.

5.3.3 : The Libyan target groups’ perceptions toward Current and Possible Prohibitions and other Regulations in the Audit Environment.

This part was aimed at reporting the result of the Libyan target groups’ views after their participation in the current research toward prohibition and recent regulation of Libyan audit firms. It had 15 sub-items and respondents were requested to indicate their perceptions on the level of agreement or disagreement on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The responses of five groups are summarised in table 5.9.

Table 5.9 below displays the results achieved from running the Kruskal-Wallis test to examine whether there is a significant difference or not between the five Libyan target groups' response to the questionnaire survey regarding prohibition and recent regulation of the Libyan audit firms. Having identified the differences in opinion from the Kruskal-Wallis test, we need to examine whether the differences observed are statistically significant. It requires employing the Mann-Whitney test to the data to see where such differences are statistically significant between pairs of groups.

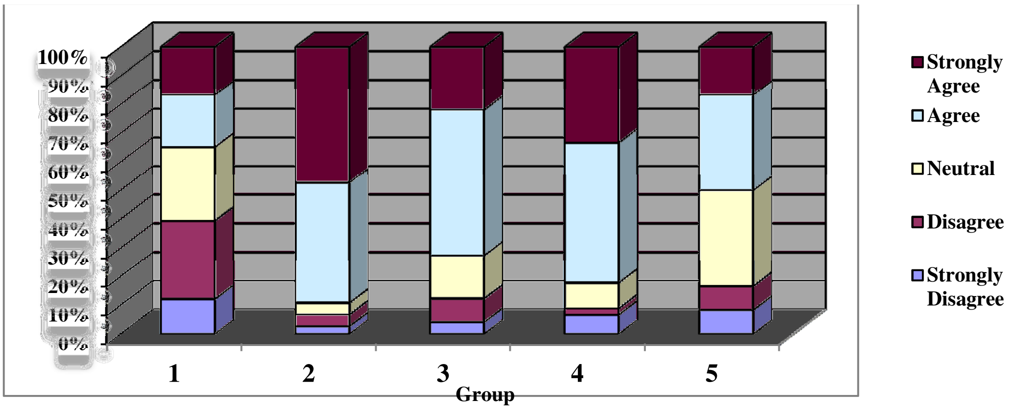
Table 5:9 Views regarding the prohibitions and regulations in the audit environment

Statement	Kruskal-Wallis Test		Mann-Whitney Multiple Comparisons									
	Chi	P_Value	1-2	1-3	1-4	1-5	2-3	2-4	2-5	3-4	3-5	4-5
Auditors are appointed and removed by the shareholders at the annual general meeting	**44.98**	**0.000*** **	***	***	***	-	***	-	**	-	-	-
Audit firms should have their appointments and fees determined by an independent third party	**17.93**	**0.001*** **	*	***	-	-	*	-	-	*	-	-
Auditors should not provide internal audit services to their audit clients	**13.85**	**0.008** **	-	*	*	-	-	**	-	***	-	-
Auditors should not provide computing services to their audit clients	**10.00**	**0.040***	-	-	-	-	-	-	-	**	-	-
Auditors should verify every business transaction entered into by an audited company	**5.88**	**0.208**	-	-	-	-	-	-	*	-	*	*
Auditors should give early warning about the possibility of business failure	**2.61**	**0.626**	-	-	-	-	-	-	-	-	-	-
Auditors should guarantee the accuracy of a company's financial statements	**2.66**	**0.616**	-	-	-	-	-	-	-	-	-	-
Auditors should not provide advisory services to their audit clients	**8.94**	**0.063**	-	-	*	-	-	*	-	*	-	-
Audit firm should have a maximum period for auditing clients	**5.54**	**0.236**	-	-	-	-	-	-	-	-	-	-
Audit firms should prohibit their staff from owning shares in their audit clients	**6.25**	**0.181**	-	*	-	-	-	-	-	-	-	-
Audit firms should not act primarily to make a profit	**3.39**	**0.495**	-	-	-	-	-	-	-	-	-	-
Auditors should not provide tax services to their audit clients	**8.73**	**0.068**	-	*	-	-	-	-	-	*	-	-
Auditors should not provide investment advice to their audit clients	**4.98**	**0.290**	-	-	-	-	-	-	-	*	-	-
The auditors should be liable for damages sustained by shareholders as a result of professional errors in the performance of their work	**5.47**	**0.242**	-	-	-	-	-	-	-	-	-	-
Audit firms should have their liability capped by law	**8.51**	**0.075**	*	-	-	-	-	-	*	-	-	-

1= General Auditing Bureau (GAB 2= financial statement prepares (FSP), 3= Private auditors (PA), 4= Private investors (PI), 5= Lender (L).

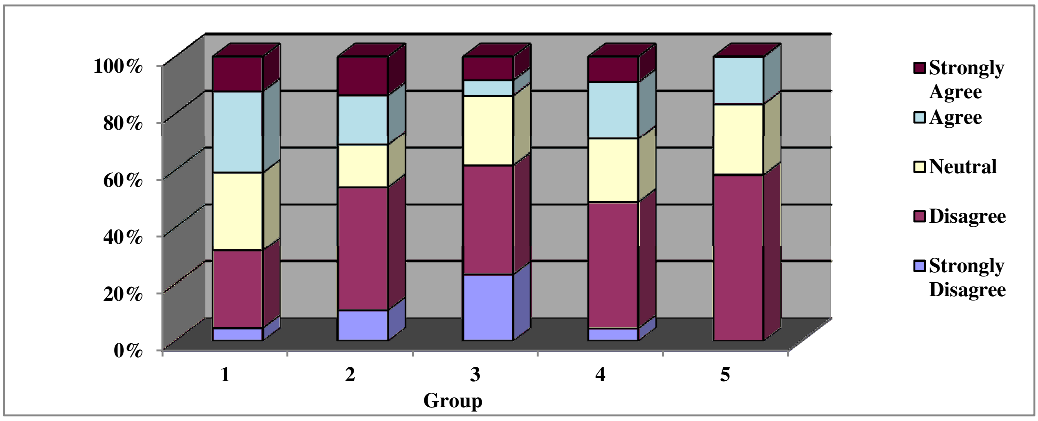
A perusal of table 5.9 reveals that a significant difference was found on the statement "Auditors are appointed and removed by the shareholders at the annual general meeting". The results arrived at from conducting the Kruskal-Wallis test show that an enormous perception gap exists among the five groups (Chi = 44.98 and P = 0.000). This significant difference is substantiated by the fact that 95 percent of financial statement preparer groups, the vast majority of 88% of private auditor groups, 98% of investors groups and 55% of lenders strongly support this statement. The general auditing bureau groups however were slightly in disagreement with this statement at 39%. According to the results arrived at from conducting the Mann-Whitney test the General Auditing Bureau groups' perceptions were significantly different from those of the financial statement preparers ($P \leq 0.05$), private auditors ($P \leq 0.05$) and private investors ($P \leq 0.05$), whilst the views of financial statements preparers differed significantly from the perceptions of private auditors ($P \leq 0.05$) and the perceptions of lenders ($P \leq 0.001$). The reasons why the GAB supported this statement less may due to the state law that regulates the GAB.

Figure 5:14 Auditors are appointed and removed by the shareholders at the annual general meeting



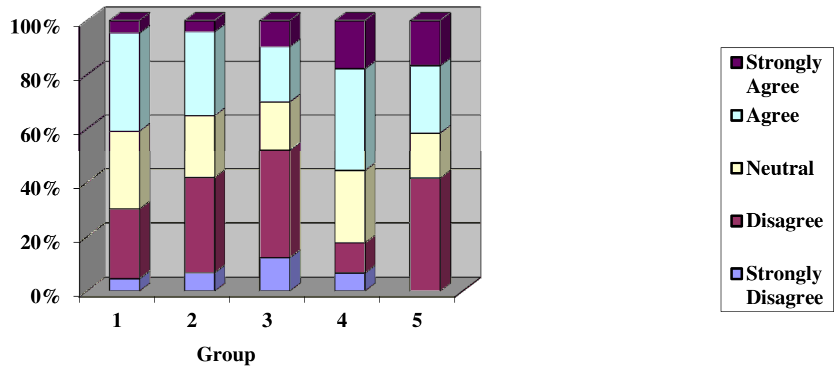
The results of the Kruskal-Wallis test, however, point to significant differences in the respondents' opinions on whether "Audit firms should have their appointments and fees determined by an independent third party" (Chi = 17.93 and P = 0.001). Again these differences were in terms of degree of disagreement. The private auditor and private investor are highly disagreement with this statement than lender and financial statement user groups; while the GAB group opinion was neutral. This differentiation indicates that there are confused concerning the appointment and the fess of the firm should determined by a third party, resulting in the significant difference appearing, as highlighted by the Mann-Whitney test, between the perceptions of the general auditing bureau groups and those of the financial statement preparers and private auditors with ($P\leq 0.05$) and ($P\leq 0.05$) respectively. The tests also found significant differences in views between the financial statement preparers and private auditors' opinions ($P \leq 0.05$), and between the perceptions of private auditors and private investors ($P \leq 0.05$).

Figure 5:15 Audit firms should have their appointments and fees determined by an independent third party



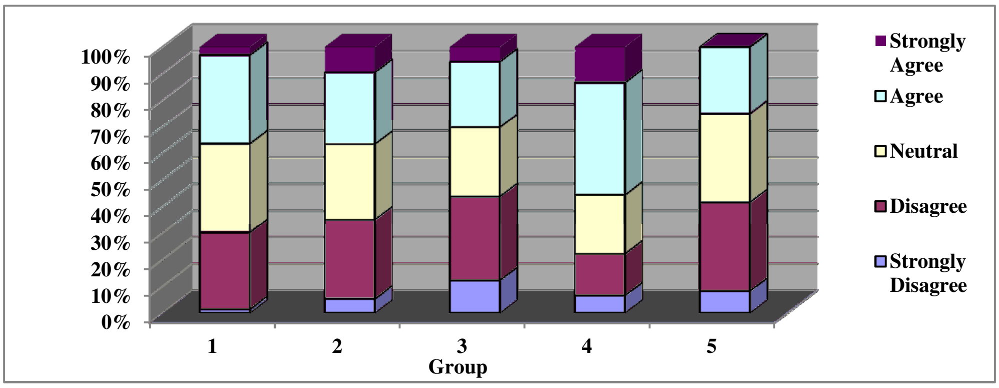
Also there are insignificant differences in perceptions identified by the Kruskal-Wallis test on whether "Auditors should not provide internal audit services to their audit clients" (Chi = 13.85 and P = 0.008). 60 percent of private investors, 47 percent of the general auditing bureau and 46 percent of lenders agree that external auditors should not provide internal service to their clients when involved in the audit process, to maintain the auditor independence (for more details see bar chart 5.14). On the other hand, 48 percent of private auditors and 38 percent of financial statement preparers disagree with that statement. According to the results arrived at from conducting the Mann-Whitney test, there are significant differences of opinion between the financial statement preparers and those of private auditors and private investors in level ($P \leq 0.05$), while other significant differences were also reported amongst the views of financial statement preparers and lenders ($P \leq 0.01$) and between the lenders and private auditors ($P \leq 0.001$).

Figure 5:16 Auditors should not provide internal audit services to their audit clients



Finally, in regard to "Auditors should not provide computing services to their audit clients" significant differences seem to exist as revealed from the result of the Kruskal-Wallis test (Chi = 10.00 and P = 0.040): only 36 percent of private auditors and 42 percent of general auditing bureau reported their agreement with this statement. However, about 56% of private investors strongly agree that they should provide this service to their clients. To know whether such differences, which were observed from the Kruskal-Wallis test, are statistically significant, the Mann-Whitney test was carried out and its result highlighted that there is statistically a significant difference between the perceptions of private auditors' and private investors' views ($P \leq 0.01$). This perception is given under the assumption that the computing services are an internal task that needs to be performed by a company rather than the auditors. Therefore, this would lead to violation of the auditor's independence standards that Libya follows.

Figure 5:17 Auditors should not provide computing services to their audit clients



In the remaining five differential items, the results of Kruskal-Wallis and the Mann-Whitney tests can be seen in table 5.9, which clearly showed that the five stakeholder groups share the same distributions of opinions towards the five prohibitions and regulations below. Therefore, there are no significant differences among the Libyan target groups. These statements are as follows:

- Auditors should not provide advisory services to their audit clients (Chi = 8.94 and P = 0.063).
- Audit firms should prohibit their staff from owning shares in their audit clients (Chi =6.22 and P = 0.183)
- Auditors should not provide tax services to their audit clients (Chi = 873 and P 0.068)
- Auditors should not provide investment advice to their audit clients (Chi = 4.98 and P = 0.290)
- Audit firms should have their liability capped by law (Chi = 8.51 and P = 0.075).

In conclusion, The statistical results addressed in table 5.9 shows that there were a number of statements resulting in an expectation gap amongst the five groups served, regarding "Auditors are appointed and removed by the shareholders at the annual general meeting" this statement produced the largest significant difference in the entire questionnaire (Chi- square = 44.98) (P=.000) In terms of Libyan laws and regulations, auditors are appointed by shareholders; however, managers may exert an influence over auditor appointments. For instance, auditors could be dismissed by managers without consulting shareholders, with the shareholders merely voting on whether to accept their recommendation regarding the appointment of a new auditor or the re-appointment of the current auditors. Thus, this statement may reflect the need to improve Libyan legislation. Also, the periodic rotation of lead audit partners is now obligatory in much of the world, but in Libya currently there is no legal requirement for external auditor rotation.

Regarding the statements "Audit firms should have their appointments and fees determined by an independent third party", "Auditors should not provide internal audit services to their audit clients" and "Auditors should not provide computing services to their audit clients", the auditors generally agreed the least and user groups agreed the most.

Generally speaking, the private external auditors and GAB show misunderstanding of existing audit regulations, which possibly reflects poor knowledge and education of this group, and also the problem of the absence of Libyan auditing standards. The findings indicated that there is a need for the development of accounting and auditing standards as well as reviewing Libyan law. Hence, this suggests a deficient standards gap and also an education gap for Libyan auditors (Hussain, 2003; Javed et al., 2009). In this regard a number of studies have suggested that the Libyan accounting education was not completely successful at fulfilling the aims or needs of the Libyan economic, political and social system, or any environmental factors, and must be amended so as to serve the development needs of the country (Ahmad & Gao, 2004; Shareia, 2010). Also, Mahmud & Russell, (2003) highlighted that the primary obstacles to the development of accounting education and practice in Libya were 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.

5.3.4 The Libyan target groups' perceptions toward Parties to Whom Auditors should be Responsible

This part aims to examine the perceptions of the Libyan sample groups regarding the parties to whom external auditors should be responsible. For this purpose, seven parties have been identified and respondents were asked to indicate their perceptions toward whether the external auditors in Libya who had given a wrong audit opinion should be responsible to certain groups (primary beneficiaries of the audit report) and whether a gap exists between their perceptions. These parts comprise present shareholders, potential shareholders, present lenders, potential lenders, present suppliers, present employees, and government. No statutory obligation to the primary external users of the audited financial statements in Libya is recognised, except by the government. However, there is general article in civil law stating where “anyone who has been affected as a result of anyone else’s work is entitled to compensation”. It can be applied to any one, for example an auditor.

The responsibility of external auditors toward the government was recognised by a banking law No. 1 chapter 81, and recognised in exposure drafts of the tax law 2010.

Table 5:10 Views regarding the auditors’ legal responsibility.

Statement	Kruskal-Wallis Test		Mann-Whitney Multiple Comparisons									
	Chi	P_Value	1-2	1-3	1-4	1-5	2-3	2-4	2-5	3-4	3-5	4-5
Government	7.72	0.102	-	-	-	-	-	-	-	-	*	*
Present shareholders	7.02	0.135	-	-	-	-	-	-	-	-	-	-
Potential lenders	6.91	0.141	-	-	-	-	*	*	-	-	*	-
Present Suppliers	4.64	0.326	-	-	-	-	-	-	-	-	-	-
Potential shareholders	4.40	0.355	-	-	-	-	-	-	-	-	-	-
Present Employees	2.84	0.586	-	-	-	-	-	-	-	-	-	-
Present lenders	1.63	0.803	-	-	-	-	-	-	-	-	-	-

1= General Auditing Bureau (GAB), 2= financial statement prepares (FSP), 3=Private auditors (PA),
4= Private investors (PI), 5= Lender (L).

A perusal of Table 5.10 shows the result of five groups’ perceptions surveyed in the questionnaire as to whether the external auditors should be responsible to certain groups. Seven groups to whom auditors could be responsible include present shareholders, present suppliers, potential shareholders, present employees and present lenders. The means indicate that the five groups (GAB, FSP, PA, PI and L) believe that the external auditors should be responsible with a mean of (3.820, 3.959, 3.167, 3.515, 3.189, 3.300 and 3.759) respectively. The respondents strongly agreed that external auditors are held responsible not only towards the shareholders but also towards other stakeholders such as the suppliers, lenders, employees, among others who have an impact on, or are impacted by the external auditors’ report.

The statistical analysis indicated that no significant differences existed regarding to the auditor's responsibility to government as measured by The Kruskal-Wallis test (Chi = 7.72 and P = 0.102); this is due to the fact that the respondents strongly support this statement that the responsibility of external auditor to government was clearly indicated in law; as pointed out earlier. However, the Mann-Whitney test discovered some significant differences between the perceptions of private auditors and lenders ($P \leq 0.05$). The difference between the two groups might be due to the diversity of their interests, or to their knowledge and understanding of Libyan Law.

It seems from Table 5.10 that there was no significant difference between the groups' views as to whether an external auditor in Libya is responsible potential lenders (Chi-square = 6.91 and P = 0.141). Only 29% of auditors and 33% of lenders showed their agreement with this statement; however, the other groups were more supportive than the auditors and lenders in this regard, with agreement in each group by 43% of financial statement preparers and 49% of private investors. However, the statistical analysis (the Mann-Whitney test) revealed that there was significant difference which existed in opinion between the financial statement preparers and the private auditors' views ($P \leq 0.05$); furthermore the perceptions of financial statement preparers were significantly different from those of the private investors ($P \leq 0.05$). Moreover, a significant difference was noted by the Mann-Whitney test in regard to the external auditors' responsibility toward potential lenders, between private auditor and lender perceptions ($P \leq 0.05$). Also, a significant difference was noted regarding external auditors' responsibility to the government.

A comparison between the perceptions of GAB & FSP, GAB & PA, GAB & PI, GAB & L, and FSP & L, in addition between PI & L, revealed that no significant differences existing between their perceptions

For the remaining statements in table (5.10), The Kruskal-Wallis test and the Mann-Whitney test results suggest that there are no differences between the perceptions of five Libyan target groups regarding present shareholders, present suppliers, potential shareholders, present employees and present lenders (for more details see table 5.10 and Appendix D).

In summary, the results showed above revealed that there were no statistically significant differences as the P values for the seven statements were .102, .135, .141, .326, .355 and .586 respectively (see table 5.10). These results suggest that participants from the five targeted groups achieved general consensus on these six statements regarding the parties to whom auditors should be responsible. All auditors and other users' responses tended to agree. The results suggested that, in general, respondents believed that not all of parties to whom auditors should be responsible included in the questionnaire survey exist in Libyan law, which might have confused the respondents. Also, they considered that external auditors do not act in a responsible manner and protect the right of these parties. However, there is a weak belief regarding responsibility of external auditors to government and potential lenders. It can be argue that there are no significant differences in this area between external auditors. However, an auditor under civil law should be responsible to primary beneficiaries from audit work. Thus, this statement may reflect the need to improve Libyan legislation. It could be concluded that gaps exist in this area which may be attributed to a deficient standards gap in Libya.

5.3.5 Section C: The Effectiveness of Unqualified Audit Report Communication

The section was designed to measure the perceptions of respondent groups concerning the five factors related to messages that may or may not be communicated in the unqualified audit report currently used in Libya. In this section the respondents are asked to express their opinion on 24 statements developed for this research study, by providing three options labelled Yes, No and Do Not Know. Identifying factors which respondents consider the auditor should perform would provide evidence for any difference between perceptions of target groups regarding the message(s) communicated in the current unqualified audit report used in Libya, and thus examine the presence of the audit expectation gap. The outcomes suggest that there was an expectation gap between the beliefs of external auditors and the financial statement users in respect to the unqualified audit report presently used in Libya. This section can be broken down into five factors. These factors are as follows:

5.3.5.1 Audit Purpose Factor

The purpose of an audit report is to communicate the outcome of the auditor's review of financial statements. Ultimately, this is done through the expression of an opinion following their audit work (AICPA1988). In Libya, the whole purpose of an external audit is to express an opinion on whether the information presented in the financial statements reflects the financial position of the organisation at a given date.

Table 5:11 Perception of stakeholder groups toward the purpose of the audit is clear in the audit report

			Group					Total
			1	**2**	**3**	**4**	**5**	
The purpose of the audit is clear in the audit report	Yes	Count	5	5	7	7	3	27
		Expected Count	6.6	7.4	7.3	4.5	1.2	27.0
		% within Group	7.6%	6.8%	9.6%	15.6%	25.0%	10.0%
	No	Count	9	1	2	1	0	13
		Expected Count	3.2	3.6	3.5	2.2	.6	13.0
		% within Group	13.6%	1.4%	2.7%	2.2%	.0%	4.8%
	Do not know	Count	52	68	64	37	9	230
		Expected Count	56.2	63.0	62.2	38.3	10.2	230.0
		% within Group	78.8%	91.9%	87.7%	82.2%	75.0%	85.2%
Total		**Count**	**66**	**74**	**73**	**45**	**12**	**270**
		Expected Count	66.0	74.0	73.0	45.0	12.0	270.0
		% within Group	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

1= General Auditing Bureau (GAB), 2= financial statement prepares (FSP), 3= Private auditors (PA), 4= Private investors (PI), 5= Lender (*L*).

Chi-Square Tests

Statement	Group means					Overall mean	Chi-square test	Fisher's Exact Test
	1	**2**	**3**	**4**	**5**			
The purpose of the audit is clear in the audit report	**2.712**	**2.851**	**2.781**	**2.667**	**2.500**	**2.752**	**.008***	**.024**

The respondents were asked to indicate if the purpose of the audit is clear in the audit report. Therefore, three options were provided: "Yes", "No", and "Do Not Know". In order to examine whether or not there exist statistically significant differences between the five groups regarding the variable "the purpose of the audit is clear in the audit report", a Chi-square test was used. However, since there were 7 cells that had expected count of less than 5 in the cross-tabulation contingency table (i.e. 46.7% of cells had expected count less than 5), Fisher's exact probability output was used instead of the output of the Chi-square. The output of the Fisher exact probability test shows that there were statistically significant differences between the five groups in terms of the variable "the purpose of the audit is clear in the audit report" (Fisher Exact value = 15.990, p = .024, 2-sided). The major differences between the viewpoints of the five groups concerning the statement of the purpose of the audit are evident in the audit report. The examined sample groups agreed (answers yes) with different degrees that the purpose of the audit is clearly communicated in the audit report reflecting how each group perceives the audit report. This may be due to the different education of the different groups; there are significant differences between auditors, financial statement preparers group and financial statements users group. It is observed that the auditors and financial statements prepares groups' degree of agreement are stronger than that of investors and lenders groups, which results in the significant different between the auditors groups and the other groups. The overall mean scores of the five groups were (2.712, 2.851, 2.781, 2.667, 2.500) respectively.

Table 5:12 Chi-square test: Perception of stakeholder groups toward the financial statements are presented fairly

Statement	**Group means**					**Overall mean**	Chi-square test	**Fisher's Exact Test**
	1	**2**	**3**	**4**	**5**			
The financial statements are presented fairly	**2.727**	**2.919**	**2.795**	**2.667**	**3.000**	**2.800**	**.204**	**.204**

The respondents were asked to indicate if the financial statements are presented fairly. Therefore, three options were provided: "Yes", "No", and "Do Not Know". In order to examine whether or not there exist statistically significant differences between the five groups regarding the variable "the financial statements are presented fairly", a Chi-square test was used. However, since there were 10 cells that had expected count less than 5 in the cross-tabulation contingency table (i.e. 66.7% of cells had expected count less than 5), Fisher's exact probability output was used instead of the output of the Chi-square. The output of the Fisher exact probability test shows that there were no statistically significant differences between the five groups in terms of the variable "the financial statements are presented fairly" (Fisher Exact value = 10.130, p = .204, 2-sided).

Looking at the overall mean scores, it can be observed that the five groups surveyed were in general agreement that the audit report shows that the financial statements are presented fairly (2.727, 2.919, 2.795, 2.667, and 3.000) respectively. Therefore, there is insignificant difference between the auditors group's perception and the overall non auditors groups' perception towards above statement.

Table 5:13 Perception of stakeholder groups toward the extent of audit work performed is clear

			Group					**Total**
			1	**2**	**3**	**4**	**5**	
The extent of audit work performed is clear	Yes	Count	14	5	8	7	4	38
		Expected Count	9.3	10.4	10.3	6.3	1.7	38.0
		% within Group	21.2%	6.8%	11.0%	15.6%	33.3%	14.1%
	No	Count	8	6	5	9	1	29
		Expected Count	7.1	7.9	7.8	4.8	1.3	29.0
		% within Group	12.1%	8.1%	6.8%	20.0%	8.3%	10.7%
	Do not know	Count	44	63	60	29	7	203
		Expected Count	49.6	55.6	54.9	33.8	9.0	203.0
		% within Group	66.7%	85.1%	82.2%	64.4%	58.3%	75.2%
Total		**Count**	**66**	**74**	**73**	**45**	**12**	**270**
		Expected Count	66.0	74.0	73.0	45.0	12.0	270.0
		% within Group	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

1= General Auditing Bureau (GAB), 2= financial statement prepares (FSP), 3= Private auditors (PA), 4= Private investors (PI), 5= Lender (L).

Chi-Square Tests

Statement	Group means					Overall mean	Chi-square test	Fisher's Exact Test
	1	2	3	4	5			
The extent of audit work performed is clear	**2.755**	**2.784**	**2.712**	**2.489**	**2.250**	**2.711**	**.024***	**.024**

The respondents were asked to indicate if the extent of audit work performed is clear. Therefore, three options were provided: "Yes", "No", and "Do Not Know". In order to examine whether or not there exist statistically significant differences between the five groups regarding the variable "the extent of audit work performed is clear", a Chi-square test was used. However, since there were 3 cells that had expected count less than 5 in the cross-tabulation contingency table (i.e. 20% of cells had expected count less than 5), Fisher's exact probability output was used instead of the output of the Chi-square. The output of the Fisher exact probability test shows that there were statistically significant differences between the five groups in terms of the variable "the extent of audit work performed is clear" (Fisher Exact value = 16.695, p = .024, 2-sided).

The major difference between the viewpoints of the five groups regards the statement that the extent of audit work performed is clear. A close look at Chi-Square tests result, showed that there is significant difference between auditors and financial statements prepares with the user group (except lender group were their answer do not know). Therefore, this difference may be due to the inconsistency of agreement among the diversified groups towards this issue.

Table 5:14 Perception of stakeholder groups toward the audit report is understandable

			Group					Total
			1	**2**	**3**	**4**	**5**	
The audit report is understandable	Yes	Count	21	7	9	8	3	48
		Expected Count	11.7	13.2	13.0	8.0	2.1	48.0
		% within Group	31.8%	9.5%	12.3%	17.8%	25.0%	17.8%
	No	Count	7	3	6	2	0	18
		Expected Count	4.4	4.9	4.9	3.0	.8	18.0
		% within Group	10.6%	4.1%	8.2%	4.4%	.0%	6.7%
	Do not know	Count	38	64	58	35	9	204
		Expected Count	49.9	55.9	55.2	34.0	9.1	204.0
		% within Group	57.6%	86.5%	79.5%	77.8%	75.0%	75.6%
Total		**Count**	**66**	**74**	**73**	**45**	**12**	**270**
		Expected Count	66.0	74.0	73.0	45.0	12.0	270.0
		% within Group	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

1= General Auditing Bureau (GAB), 2= financial statement prepares (FSP), 3= Private auditors (PA), 4= Private investors (PI), 5= Lender (L).

Chi-Square Tests

Statement	**Group means**					**Overall mean**	Chi-square test	**Fisher's Exact Test**
	1	**2**	**3**	**4**	**5**			
The audit report is understandable	**2.258**	**2.770**	**2.671**	**2.600**	**2.500**	**2.578**	**.012***	**.013**

The respondents were asked to indicate if the audit report is understandable. Therefore, three options were provided: "Yes", "No", and "Do Not Know". In order to examine whether or not there exist statistically significant differences between the five groups regarding the variable "the audit report is understandable", a Chi-square test was used. However, since there were 6 cells that had expected count less than 5 in the cross-tabulation contingency table (i.e. 40.0% of cells had expected count less than 5), Fisher's exact probability output was used instead of the output of the Chi-square. The output of the Fisher exact probability test shows that there were statistically significant differences between the five groups in terms of the variable "the audit report is understandable" (Fisher Exact value = 18.178, p = .013, 2-sided).

The auditors group (except GAB group) answers were mostly "Do Not Know", while the user groups agreed that the current unqualified audit report is understandable. Looking at the overall mean scores above, it can be observed that the four groups surveyed were in general agreement that the current unqualified audit report is understandable**,** (FSP = 2.770, PA = 2.671, PI = 2.600 and L = 2.500).

Table 5:15 Chi-square test: perception of stakeholder groups toward the audit report enhances the credibility of the financial statements

Statement	**Group means**					**Overall mean**	Chi-square test	**Fisher's Exact Test**
	1	**2**	**3**	**4**	**5**			
The audit report enhances the credibility of the financial statements	**2.712**	**2.905**	**2.753**	**2.889**	**2.750**	**2.807**	**.369**	**.369**

The respondents were asked to indicate if the audit report enhances the credibility of the financial statements. Therefore, three options were provided: "Yes", "No", and "Do Not Know". In order to examine whether or not there exist statistically significant differences between the five groups regarding the variable "the audit report enhances the credibility of the financial statements", a Chi-square test was used. However, since there were 7 cells that had expected count less than 5 in the cross-tabulation contingency table (i.e. 46.7% of cells had expected count less than 5), Fisher's exact probability output was used instead of the output of the Chi-square. The output of the Fisher exact probability test shows that there were no statistically significant differences between the five groups in terms of the variable "the audit report enhances the credibility of the financial statements" (Fisher Exact value = 7.997, p = .369, 2-sided).

Regarding the effect of including an audit report to enhance the credibility of financial statements, all five groups agree on this issue. Therefore, there is no significant difference between the auditors group's perception and the overall user groups' perception as it can see from mean scores above.

Table 5:16 Chi-square test: perception of stakeholder groups toward Users of the audit report would understand better if the audit report was standard for all companies

Statement	Group means					Overall mean	Chi-square test	Fisher's Exact Test
	1	2	3	4	5			
Users of the audit report would understand better if the audit report was standard for all companies	2.182	2.311	2.340	2.300	2.267	2.126	.376	.376

The respondents were asked to indicate if the users of the audit report would understand better if the audit report was standard for all companies. Therefore, three options were provided: "Yes", "No", and "Do Not know". In order to examine whether or not there exist statistically significant differences between the five groups regarding the variable "users of the audit report would understand better if the audit report was standard for all companies", Chi-square test was used. The results of the Chi-square show no statistically significant differences between the five groups in terms of the variable "users of the audit report would understand better if the audit report was standard for all companies" (Pearson Chi-square = 9.320, p = .318, 2-sided).

Regarding the issue of users of the audit report, they would understand better if the audit report was standard for all companies. The answer of the auditors and financial statement preparers groups and the financial statement user groups revealed that they mostly gave a "Do Not Know" opinion. This is an indicative of the fact that even auditors groups themselves are not very satisfied with the suggestion of the uniformity of audit report for all companies as it can be seen from above mean scores.

Regarding audit purpose factor, the results of the Chi-square test showed that there were statically significant differences between the five groups in term of three of the variables related to audit purpose factor, namely; "the purpose of the audit is clear in the audit report"; "the extent of audit work performed is clear"; and "the audit report is understandable". However, the results of the Chi-square test showed that there were no statistically significant differences between the five groups in terms of three other variables related to Audit Purpose Factor, namely; "the financial statements are presented fairly"; "the audit report enhances the credibility of the financial statement"; and "users of the audit report would understand better if the audit report was standard for all companies".

5.3.5.2 Auditors' Responsibility Factor

Table 5:17 Perception of stakeholder groups toward the internal control structure of the entity is sound

			Group					Total
			1	2	3	4	5	
The internal control structure of the entity is sound	Yes	Count	19	6	13	9	2	49
		Expected Count	12.0	13.4	13.2	8.2	2.2	49.0
		% within Group	28.8%	8.1%	17.8%	20.0%	16.7%	18.1%
	No	Count	12	30	21	12	8	83
		Expected Count	20.3	22.7	22.4	13.8	3.7	83.0
		% within Group	18.2%	40.5%	28.8%	26.7%	66.7%	30.7%
	Do not know	Count	35	38	39	24	2	138
		Expected Count	33.7	37.8	37.3	23.0	6.1	138.0
		% within Group	53.0%	51.4%	53.4%	53.3%	16.7%	51.1%
Total		**Count**	**66**	**74**	**73**	**45**	**12**	**270**
		Expected Count	66.0	74.0	73.0	45.0	12.0	270.0
		% within Group	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

1= General Auditing Bureau (GAB), 2= financial statement prepares (FSP), 3= Private auditors (PA), 4= Private investors (PI), 5= Lender (L).

Chi-Square Tests

Statement	**Group means**					**Overall mean**	Chi-square test	**Fisher's Exact Test**
	1	**2**	**3**	**4**	**5**			
The internal control structure of the entity is sound	**2.242**	**2.432**	**2.356**	**2.333**	**2.000**	**2.330**	**.004**	**.(b)**

The respondents were asked to indicate if the internal control structure of the entity is sound. Therefore, three options were provided: "Yes", "No", and "Do Not know". In order to examine whether or not there exist statistically significant differences between the five groups regarding the variable "the internal control structure of the entity is sound", Chi-square test was used. The results of the Chi-square show that statistically significant differences do exist between the five groups in terms of the variable "the internal control structure of the entity is sound" (Pearson Chi-square = 22.357, p = .004, 2-sided).

A close look at table 5.17 shows that there are huge differences between the expected count and the actual count in some of the table cells that are highlighted for the purpose of clarification. These huge differences between the expected count and the actual count may illustrate reasons for considering the important differences between the five stakeholder viewpoints.

The result of Chi-square test revealed a statistically significantly difference among the groups perceptions with regard to the statement ‘the internal control structure of the entity is sound’ (p = 0.005), which implies that at least one group is different from the others, where the financial statement preparers group and private auditors groups agreed that the above statement is the responsibility of external auditors with mean scores of 2.432 and 2.356 respectively. However, the answer of the General Auditing Bureau, Private Investors and Lender groups mostly revolved around “Do Not Know” option, with mean scores of 2.242, 2.333 and 2.000 respectively. We conclude, therefore, that there is an audit expectation gap in existence in Libya within the unqualified audit report currently in use.

Table 5:18 Chi-square test: Perception of stakeholder groups toward the auditor has prepared the financial statements

Statement	**Group means**					**Overall mean**	Chi-square test	**Fisher's Exact Test**
	1	**2**	**3**	**4**	**5**			
The auditor has prepared the financial statements	**1.790**	**1.568**	**1.671**	**1.711**	**1.417**	**1.667**	**.343**	**.399**

The respondents were asked to indicate if the auditor has prepared the financial statements. Therefore, three options were provided: “Yes”, “No”, and “Do Not know”. In order to examine whether or not there exist statistically significant differences between the five groups regarding the variable “the auditor has prepared the financial statements”, Chi-square test was used. The results of the Chi-square show no statistically significant differences between the five groups in terms of the variable “the auditor has prepared the financial statements” (Pearson Chi-square = 8.989, p = .345, 2-sided).

This statement covering the belief that "The auditor has responsibility to prepare the financial statements" produced no significant differences in opinion between the respondents. This was reflected in the result of the Chi-square test. All groups showed their disagreement with this statement, because prepare the financial statements is responsibility of the company and not the external auditor with mean scores of 1.790, 1.568, 1.671, 1.711 and 1.417 respectively.

Table 5:19 Chi-square test: Perception of stakeholder groups toward the auditor has assessed the good character of management

Statement	**Group means**					**Overall mean**	Chi-square test	**Fisher's Exact Test**
	1	**2**	**3**	**4**	**5**			
The auditor has assessing the good character of management	**2.076**	**1.919**	**1.945**	**1.911**	**1.750**	**1.956**	**.199**	**.204**

The respondents were asked to indicate if the auditor has assessed the good character of management. Therefore, three options were provided: "Yes", "No", and "Do Not Know". In order to examine whether or not there exist statistically significant differences between the five groups regarding the variable "the auditor has assessed the good character of management", a Chi-square test was used. However, since there were 3 cells that had expected count less than 5 in the cross-tabulation contingency table (i.e. 20% of cells had expected count less than 5), Fisher's exact probability output was used instead of the output of the Chi-square. The output of the Fisher exact probability test shows that there were no statistically significant differences between the five groups in terms of the variable "the auditor has assessed the good character of management" (Fisher Exact value = 10.878, p = .204, 2-sided).

Based on the result of Chi-square test, statistically significant differences were not noted between the groups' perceptions for the above statement, the overall mean score 1.956 indicated that the respondents largely disagreed with the statement (except GAB group, were their answers "Do not Know" that auditors has responsibility to assess the good character of management, which is indicative of the fact that even external auditors themselves are not satisfied with this statement.

Table 5:20 Chi-square test: Perception of stakeholder groups toward the accounting records of the entity are correct

Statement	Group means					Overall mean	Chi-square test	Fisher's Exact Test
	1	2	3	4	5			
The accounting records of the entity are correct	**2.394**	**2.838**	**2.753**	**2.867**	**2.833**	**2.711**	**.002**	**.004**

The respondents were asked to indicate if the accounting records of the entity are correct. Therefore, three options were provided: “Yes”, “No”, and “Do Not Know”. In order to examine whether or not there exist statistically significant differences between the five groups regarding the variable “the accounting records of the entity are correct”, a Chi-square test was used. However, since there were 4 cells that had expected count less than 5 in the cross-tabulation contingency table (i.e. 26.7% of cells had expected count less than 5), Fisher’s exact probability output was used instead of the output of the Chi-square. The output of the Fisher exact probability test shows that there were statistically significant differences between the five groups in terms of the variable “the accounting records of the entity are correct” (Fisher Exact value = 20.925, p = .004, 2-sided).

The result of Chi-square test in table 5.20 revealed significant differences between the target groups. However, these significant differences indicate the presence of variety in the level of agreement responses, with most respondents from the PA,FSP, PI and L groups expressing stronger agreement with this statement with mean scores of 2.838, 2.753, 2.867 and 2.833 respectively.

Table 5:21 Chi-square test: Perception of stakeholder groups toward the financial statements are free from bias

Statement	Group means					Overall mean	Chi-square test	Fisher's Exact Test
	1	2	3	4	5			
The financial statements are free from bias	**2.667**	**2.851**	**2.753**	**2.689**	**2.667**	**2.744**	**.451**	**.363**

The respondents were asked to indicate if the financial statements are free from bias. Therefore, three options were provided: “Yes”, “No”, and “Do Not Know”. In order to examine whether or not there exist statistically significant differences between the five groups regarding the variable “the financial statements are free from bias”, a Chi-square test was used. However, since there were 4 cells that had expected count less than 5 in the cross-tabulation contingency table (i.e. 26.7% of cells had expected count less than 5), Fisher's exact probability output was used instead of the output of the Chi-square. The output of the Fisher exact probability test shows that there were no statistically significant differences between the five groups in terms of the variable "the financial statements are free from bias" (Fisher Exact value = 8.258, p = .363, 2-sided).

Table 5:22 Perception of stakeholder groups toward the auditor has agreed with the accounting policies used in the financial statements

			Group					Total
			1	**2**	**3**	**4**	**5**	
The auditor has agreed with the accounting policies used in the financial statements	Yes	Count	15	4	6	2	3	30
		Expected Count	7.3	8.2	8.1	5.0	1.3	30.0
		% within Group	**22.7%**	**5.4%**	**8.2%**	**4.4%**	**25.0%**	**11.1%**
	No	Count	8	6	7	9	0	30
		Expected Count	7.3	8.2	8.1	5.0	1.3	30.0
		% within Group	**12.1%**	**8.1%**	**9.6%**	**20.0%**	**.0%**	**11.1%**
	Do not know	Count	43	64	60	34	9	210
		Expected Count	51.3	57.6	56.8	35.0	9.3	210.0
		% within Group	**65.2%**	**86.5%**	**82.2%**	**75.6%**	**75.0%**	**77.8%**
Total		**Count**	**66**	**74**	**73**	**45**	**12**	**270**
		Expected Count	66.0	74.0	73.0	45.0	12.0	270.0
		% within Group	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

1= General Auditing Bureau (GAB), 2= financial statement prepares (FSP), 3= Private auditors (PA),
4= Private investors (PI), 5= Lender (L).

Chi-Square Tests

Statement	**Group means**					**Overall mean**	**Chi-square test**	**Fisher's Exact Test**
	1	**2**	**3**	**4**	**5**			
The auditor has agreed with the accounting policies used in the financial statements	**2.424**	**2.811**	**2.740**	**2.711**	**2.500**	**2.667**	**.004**	**.007**

The respondents were asked to indicate if the auditor has agreed with the accounting policies used in the financial statements. Therefore, three options were provided: "Yes", "No", and "Do Not know". In order to examine whether or not there exist statistically significant differences between the five groups regarding the variable "has agreed with the accounting policies used in the financial statements", Chi-square test was used. The results of the Chi-square show that statistically significant differences do exist between the five groups in terms of the variable "has agreed with the accounting policies used in the financial statements" (Pearson Chi-square = 22.261, p = .005, 2-sided).

The result of Chi-Square test showed that there is agreement between the different auditor groups and financial statements user groups "the auditor has agreed with the accounting policies used in the financial statements". However, this significant difference between the perceptions of the auditors group and financial statements users groups due to the different degrees of agreement within the different groups, where the majority of the external private auditors group, financial statement prepares, private investors expressed more agreement with the statement, with a mean score of 2.740, 2.811 and 2.711 respectively, whereas the General auditing Bureau and lender groups scored a mean of 2.424 and 2.500 respectively. It is perhaps, not surprising that the external private auditors group, financial statement prepares agree more with the statement may be due to those groups are aware that this statement one of principle of auditing in Libyan private companies.

The results of the Chi-square test showed that there were statically significant differences between the five groups in term of two of the variables related to the Auditors' Responsibility Factor, namely; "the internal control structure of the entity is sound"; and "the auditor has agreed with the accounting policies used in the financial statements". However, the results of the Chi-square test showed that there were no statistically significant differences between the five groups in terms of three other variables related to the Auditors' Responsibility Factor, namely; "the auditor has prepared the financial statements"; "the auditor has assessed the good character of management"; and "the financial statements are free from bias".

5.3.5.3 Assurance of Future Viability Factor

Table 5:23 Perception of stakeholder groups toward the entity is run efficiently

			Group					Total
			1	2	3	4	5	
The entity is run efficiently	Yes	Count	23	8	27	5	1	64
		Expected Count	15.6	17.5	17.3	10.7	2.8	64.0
		% within Group	**34.8%**	**10.8%**	**37.0%**	**11.1%**	**8.3%**	**23.7%**
	No	Count	15	24	17	9	3	68
		Expected Count	16.6	18.6	18.4	11.3	3.0	68.0
		% within Group	**22.7%**	**32.4%**	**23.3%**	**20.0%**	**25.0%**	**25.2%**
	Do not know	Count	28	42	29	31	8	138
		Expected Count	33.7	37.8	37.3	23.0	6.1	138.0
		% within Group	**42.4%**	**56.8%**	**39.7%**	**68.9%**	**66.7%**	**51.1%**
Total		**Count**	**66**	**74**	**73**	**45**	**12**	**270**
		Expected Count	66.0	74.0	73.0	45.0	12.0	270.0
		% within Group	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

1= General Auditing Bureau (GAB), 2= financial statement prepares (FSP), 3= Private auditors (PA), 4= Private investors (PI), 5= Lender (L).

Chi-Square Tests

Statement	**Group means**					**Overall mean**	**Chi-square test**	**Fisher's Exact Test**
	1	**2**	**3**	**4**	**5**			
The entity is run efficiently	**2.076**	**2.460**	**2.027**	**2.578**	**2.583**	**2.274**	**.001**	**.(b)**

The respondents were asked to indicate if the entity is run efficiently. Therefore, three options were provided: "Yes", "No", and "Do Not know". In order to examine whether or not there exist statistically significant differences between the five groups regarding the variable "the entity is run efficiently", Chi-square test was used. The results of the Chi-square show that statistically significant differences do exist between the five groups in terms of the variable "the entity is run efficiently" (Pearson Chi-square = 27.212, p = .001, 2-sided). To investigate the reasons for the presence of a significant difference between the five groups, one notices a big difference between the expected count and the real count of those five groups (for instance the expected count was 17.3 whereas the actual count was 37). Regarding this statement, the external auditor in both groups and financial statements prepares answers were mostly hovered around the "Do not Know" option, while the other financial statement user group agree that one of the external auditors responsibility is to make sure the entity is run efficiently with mean scores of 2.076, 2.460, 2.027, 2.578 and 2.583 respectively.

Table5:24 Chi-square test: Perception of stakeholder groups toward the entity is well managed

Statement	Group means					Overall mean	Chi-square test	Fisher's Exact Test
	1	2	3	4	5			
The entity is well managed	**2.197**	**2.338**	**2.233**	**2.289**	**2.250**	**2.263**	**.667**	**.651**

The respondents were asked to indicate if the entity is well managed. Therefore, three options were provided: "Yes", "No", and "Do Not know". In order to examine whether or not there exist statistically significant differences between the five groups regarding the variable "the entity is well managed", Chi-square test was used. The results of the Chi-square show no statistically significant differences between the five groups in terms of the variable "the entity is well managed" (Pearson Chi-square = 5.825, p = .674, 2-sided). The response to this question revealed answers that mostly revolved around "Do Not know" option among the auditors and users groups that the external auditors are not responsible whether the entity is well managed, which is indicative of the fact that this responsibility is not clear to both groups.

Table 5:25 Chi-square test: Perception of stakeholder groups toward the entity is free from illegal acts

Statement	Group means					Overall mean	Chi-square test	Fisher's Exact Test
	1	2	3	4	5			
The entity is free from illegal acts	**2.015**	**2.392**	**2.178**	**2.267**	**1.917**	**2.200**	**.254**	**.(b)**

The respondents were asked to indicate if the entity is free from illegal acts. Therefore, three options were provided: "Yes", "No", and "Do Not know". In order to examine whether or not there exist statistically significant differences between the five groups regarding the variable "the entity is free from illegal acts", Chi-square test was used. The results of the Chi-square show no statistically significant differences between the five groups in terms of the variable "the entity is free from illegal acts" (Pearson Chi-square = 10.166, p = .254, 2-sided).

The response to this question revealed answers that mostly hovered around "Do Not know" option among the auditors and users groups that the external auditors are not responsible whether the entity is free from illegal acts, which is indicative of the fact that this responsibility is not clear to both groups.

Table 5:26 Chi-square test: Perception of stakeholder groups toward the entity is a going concern

Statement	Group means					Overall mean	Chi-square test	Fisher's Exact Test
	1	2	3	4	5			
The entity is a going concern	**2.546**	**2.460**	**2.547**	**2.478**	**2.433**	**2.504**	**.425**	**.408**

The respondents were asked to indicate if the entity is a going concern. Therefore, three options were provided: "Yes", "No", and "Do Not know". In order to examine whether or not there exist statistically significant differences between the five groups regarding the variable "the entity is a going concern", Chi-square test was used. The results of the Chi-square show no statistically significant differences between the five groups in terms of the variable "the entity is a going concern" (Pearson Chi-square = 8.086, p = .429, 2-sided). The majority of the General Auditing Bureau, the private auditor groups, financial statement prepares, private investors and lender groups are likely to agree with the notion that responsibility of external auditors to make sure the entity is a going concern, with a mean score of 2.546, 2.460, 2.547, 2.478 and 2.433.

Regarding the 'Assurance of Future Viability Factor', the results of the Chi-square test showed that there were statically significant differences between the five groups in term of one of the variables related to the 'Assurance of Future Viability Factor', namely; "the entity is run efficiently". However, the results of the Chi-square test showed that there were no statistically significant differences between the five groups in terms of three other variables related to the 'Assurance of Future Viability Factor', namely; "the entity is well managed"; "the entity is free from illegal acts"; and "the entity is a going concern". Therefore, it can be concluded that no statistically significant differences exist between the five groups in terms of the 'Assurance of Future Viability Factor'.

5.3.5.4 Reliability of the Financial Statements Factor

Table 5:27 Chi-square test: Perception of stakeholder groups toward the financial statements are free from error

Statement	Group means					Overall mean	Chi-square test	Fisher's Exact Test
	1	2	3	4	5			
The financial statements are free from error	**2.579**	**2.622**	**2.566**	**2.467**	**2.500**	**2.589**	**.756**	**.771**

The respondents were asked to indicate if the financial statements are free from error. Therefore, three options were provided: "Yes", "No", and "Do Not Know". In order to examine whether or not there exist statistically significant differences between the five groups regarding the variable "the financial statements are free from error", a Chi-square test was used. However, since there were 3 cells that had expected count less than 5 in the cross-tabulation contingency table (i.e. 20.0% of cells had expected count less than 5), Fisher's exact probability output was used instead of the output of the Chi-square. The output of the Fisher exact probability test shows that there were no statistically significant differences between the five groups in terms of the variable "the financial statements are free from error" (Fisher Exact value = 4.866, p = .771, 2-sided). The external auditors groups are in agreement with the financial statements user groups that one of the responsibilities of external auditors is to ensure if the financial statements are free from error, with overall mean score of 2.589, indicated that the respondents largely agreed with the above statement.

Table 5:28 Chi-square test: Perception of the participants on the financial statements are free from fraud

Statement	Group means					Overall mean	Chi-square test	Fisher's Exact Test
	1	2	3	4	5			
The financial statements are free from fraud	**2.182**	**2.441**	**2.260**	**2.400**	**2.167**	**2.337**	**.216**	**.194**

The respondents were asked to indicate if the financial statements are free from fraud. Therefore, three options were provided: "Yes", "No", and "Do Not know". In order to examine whether or not there exist statistically significant differences between the five groups regarding the variable “the financial statements are free from fraud”, Chi-square test was used. The results of the Chi-square show no statistically significant differences between the five groups in terms of the variable “the financial statements are free from fraud” (Pearson Chi-square = 10.758, p = .215, 2-sided).

The fraud issue constitutes a major element causing the expectations gap, because there is a widely held public perception that detecting fraud is an important part of the auditors’ role. However, the analysis of this question, it was evident that the five groups share similar perceptions towards this statement, where all groups response mostly revolved around the “Do not know” option. This indicates the unqualified audit report is not clearly communicates the responsibility of external auditors toward fraud with mean scores of 2.182, 2.441, 2.260, 2.400 and 2.167 respectively. These results were largely anticipated, as result of the absence of Libyan accounting and auditing standards. Thus, this statement causes confuse to groups which including the auditors group. The findings of this study are consistent with the results obtained by Schelluch, (1996) who found no expectation gap related to the auditor’s accountability for deception detection. This conforms to the findings of the current study whereby no evidence of an expectation gap was found in this area.

Table 5:29 Chi-square test: Perception of the participants on the auditor has verified the data in the financial statements

Statement	Group means					Overall mean	Chi-square test	Fisher's Exact Test
	1	2	3	4	5			
The auditor has verified the data in the financial statements	**2.712**	**2.892**	**2.822**	**2.911**	**2.683**	**2.919**	**.228**	**.163**

The respondents were asked to indicate if the auditor has verified the data in the financial statement. Therefore, three options were provided: “Yes”, “No”, and “Do Not Know”. In order to examine whether or not there exist statistically significant differences between the five groups regarding the variable “the auditor has verified the data in the financial statements”, a Chi-square test was used. However, since there were 7 cells that had expected count less than 5 in the cross-tabulation contingency table (i.e. 46.7% of cells had expected count less than 5), Fisher’s exact probability output was used instead of the output of the Chi-square. The output of the Fisher exact probability test shows that there were no statistically significant differences between the five groups in terms of the variable “the auditor has verified the data in the financial statements” (Fisher Exact value = 10.383, p = .163, 2-sided). According to the analysis of question, it was evident that the five groups share similar perceptions towards statement. Therefore, there is a clear consensus among the respondents about the responsibilities of the external auditors. However, the Lender group is more concerned with the external auditors’ responsibilities, whereas the investors group seemed to be less familiar with the responsibilities or they think auditors are quit so influential, possibly because they were not closely involved with working of external auditors as it can see from mean scores above.

Table 5:30 Chi-square test: perception of stakeholder groups toward the auditor is satisfied with the financial statements

Statement	Group means					Overall mean	Chi-square test	Fisher's Exact Test
	1	2	3	4	5			
The auditor is satisfied with the financial statements	**2.691**	**2.838**	**2.890**	**2.689**	**2.917**	**2.870**	**.094**	**.077**

The respondents were asked to indicate if the auditor is satisfied with the financial statements. Therefore, three options were provided: “Yes”, “No”, and “Do Not Know”. In order to examine whether or not there exist statistically significant differences between the five groups regarding the variable “the auditor is satisfied with the financial statements”, a Chi-square test was used. However, since there were 7 cells that had expected count less than 5 in the cross-tabulation contingency table (i.e. 46.7% of cells had expected count less than 5), Fisher’s exact probability output was used instead of the output of the Chi-square. The output of the Fisher exact probability test shows that there were no statistically significant differences between the five groups in terms of the variable “the auditor is satisfied with the financial statements” (Fisher Exact value = 13.062, p = .077, 2-sided). The external auditors group and financial statement user group come close to agreement that “The auditor is satisfied with the financial statements”. The all five groups equally supported this statement, with overall mean score of 2.870. Therefore, there is no significant difference between five groups.

Table 5:31 Chi-square test: Perception of stakeholder groups toward users can have absolute assurance that the financial statements are free from material misstatements

Statement	Group means					Overall mean	Chi-square test	Fisher's Exact Test
	1	2	3	4	5			
Users can have absolute assurance that the financial statements are free from material misstatements	**2.455**	**2.514**	**2.397**	**2.244**	**2.333**	**2.415**	**.292**	**.288**

The respondents were asked to indicate if the users can have absolute assurance that the financial statements are free from material misstatements. Therefore, three options were provided: “Yes”, “No”, and “Do Not Know”. In order to examine whether or not there exist statistically significant differences between the five groups regarding the variable “the users can have absolute assurance that the financial statements are free from material misstatements”, Chi-square test was used. The results of the Chi-square show no statistically significant differences between the five groups in terms of the variable “the users can have absolute assurance that the financial statements are free from material misstatements” (Pearson Chi-square = 9.629, p = .293, 2-sided).

Surprisingly, the findings of the Chi-square test demonstrated the non-existence of statically significant difference between the five groups with respect to all the variables connected with the trustworthiness of the financial statement factor. Based on the result of the Chi-square test, statistically significant differences were not noted between the groups’ perceptions for the above statement, where the majority of the respondents expressed disagreement with the statement, with overall mean score of 2.415.

5.3.5.5 Usefulness of Decision Making Factor

Table 5:32 Perception of stakeholder groups toward the audited financial statements are useful for making decisions

			Group					Total
			1	2	3	4	5	
The audited financial statements are useful for making decisions	Yes	Count	11	4	8	7	1	31
		Expected Count	7.6	8.5	8.4	5.2	1.4	31.0
		% within Group	**16.7%**	**5.4%**	**11.0%**	**15.6%**	**8.3%**	**11.5%**
	No	Count	10	6	17	5	0	38
		Expected Count	9.3	10.4	10.3	6.3	1.7	38.0
		% within Group	**15.2%**	**8.1%**	**23.3%**	**11.1%**	**.0%**	**14.1%**
	Do not know	Count	45	64	48	33	11	201
		Expected Count	49.1	55.1	54.3	33.5	8.9	201.0
		% within Group	**68.2%**	**86.5%**	**65.8%**	**73.3%**	**91.7%**	**74.4%**
Total		**Count**	**66**	**74**	**73**	**45**	**12**	**270**
		Expected Count	66.0	74.0	73.0	45.0	12.0	270.0
		% within Group	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

1= General Auditing Bureau (GAB), 2= financial statement prepares (FSP), 3= Private auditors (PA),
4= Private investors (PI), 5= Lender (L).

Chi-Square Tests

Statement	**Group means**					**Overall mean**	Chi-square test	**Fisher's Exact Test**
	1	**2**	**3**	**4**	**5**			
The audited financial statements are useful for making decisions	**2.515**	**2.811**	**2.548**	**2.578**	**2.833**	**2.630**	**.042**	**.045**

The respondents were asked to indicate if the audited financial statements are useful for making decisions. Therefore, three options were provided: “Yes”, “No”, and “Do Not Know”. In order to examine whether or not there exist statistically significant differences between the five groups regarding the variable “the audited financial statements are useful for making decisions”, Chi-square test was used. The results of the Chi-square show that statistically significant differences do exist between the five groups in terms of the variable “the audited financial statements are useful for making decisions” (Pearson Chi-square = 16.010, p = .042, 2-sided).

The major differences between the viewpoints of the five groups with regard to the statement that the audited financial statements are useful for making decisions, a close look at table 5:32 shows that the significance difference between the auditors group and overall user's perceptions results from the different degrees of agreements towards this statement with mean scores of 2.515, 2.811, 2.548, 2.578 and 2.833 respectively. It could be concluded that, therefore, that there is an audit expectation gap in existence in Libya within the unqualified audit report currently in use.

Table 5:33 Perception of stakeholder groups toward the audited financial statements are useful in monitoring the performance of the entity

			Group					**Total**
			1	**2**	**3**	**4**	**5**	
The audited financial statements are useful in monitoring the performance of the entity	Yes	Count	14	1	16	2	1	34
		Expected Count	8.3	9.3	9.2	5.7	1.5	34.0
		% within Group	**21.2%**	**1.4%**	**21.9%**	**4.4%**	**8.3%**	**12.6%**
	No	Count	14	10	9	10	2	45
		Expected Count	11.0	12.3	12.2	7.5	2.0	45.0
		% within Group	**21.2%**	**13.5%**	**12.3%**	**22.2%**	**16.7%**	**16.7%**
	Do not know	Count	38	63	48	33	9	191
		Expected Count	46.7	52.3	51.6	31.8	8.5	191.0
		% within Group	**57.6%**	**85.1%**	**65.8%**	**73.3%**	**75.0%**	**70.7%**
Total		Count	66	74	73	45	12	270
		Expected Count	66.0	74.0	73.0	45.0	12.0	270.0
		% within Group	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

1= General Auditing Bureau (GAB), 2= financial statement prepares (FSP), 3= Private auditors (PA),
4= Private investors (PI), 5= Lender (L).

Chi-Square Tests

Statement	**Group means**					**Overall mean**	Chi-square test	**Fisher's Exact Test**
	1	**2**	**3**	**4**	**5**			
The audited financial statements are useful in monitoring the performance of the entity	**2.364**	**2.838**	**2.438**	**2.689**	**2.667**	**2.582**	**.001**	**.(b)**

The respondents were asked to indicate if the audited financial statements are useful in monitoring the performance of the entity. Therefore, three options were provided: “Yes”, “No”, and “Do Not know”. In order to examine whether or not there exist statistically significant differences between the five groups regarding the variable “the audited financial statements are useful in monitoring the performance of the entity”, Chi-square test was used. The results of the Chi-square show that statistically significant differences do exist between the five groups in terms of the variable “the audited financial statements are useful in monitoring the performance of the entity” (Pearson Chi-square = 25.938, p = .001, 2-sided).

The result of Chi-square test revealed significant differences between the five groups. However, these significant differences indicate the presence of variety in the level of agreement responses, with most respondents from the FSP and user groups expressing stronger agreement with this statement with mean scores of 2.838, 2.689 and 2.667 respectively. Therefore, it can conclude that this report needs some improvement and this shows how vague the audit report is that the users could not judge it in a right way.

Table 5:34 Perception of stakeholder groups toward the entity is a good investment

			Group					Total
			1	2	3	4	5	
The entity is a good investment	Yes	Count	23	8	20	6	1	58
		Expected Count	14.2	15.9	15.7	9.7	2.6	58.0
		% within Group	**34.8%**	**10.8%**	**27.4%**	**13.3%**	**8.3%**	**21.5%**
	No	Count	13	23	19	11	5	71
		Expected Count	17.4	19.5	19.2	11.8	3.2	71.0
		% within Group	**19.7%**	**31.1%**	**26.0%**	**24.4%**	**41.7%**	**26.3%**
	Do not know	Count	30	43	34	28	6	141
		Expected Count	34.5	38.6	38.1	23.5	6.3	141.0
		% within Group	**45.5%**	**58.1%**	**46.6%**	**62.2%**	**50.0%**	**52.2%**
Total		**Count**	**66**	**74**	**73**	**45**	**12**	**270**
		Expected Count	66.0	74.0	73.0	45.0	12.0	270.0
		% within Group	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

1= General Auditing Bureau (GAB), 2= financial statement prepares (FSP), 3= Private auditors (PA), 4= Private investors (PI), 5= Lender (L).

Chi-Square Tests

Statement	**Group means**					**Overall mean**	**Chi-square test**	**Fisher's Exact Test**
	1	**2**	**3**	**4**	**5**			
The entity is a good investment	**2.106**	**2.473**	**2.192**	**2.489**	**2.417**	**2.307**	**.020**	**.(b)**

The respondents were asked to indicate if the entity is a good investment. Therefore, three options were provided: “Yes”, “No”, and “Do Not know”. In order to examine whether or not there exist statistically significant differences between the five groups regarding the variable “the entity is a good investment”, Chi-square test was used. The results of the Chi-square show that statistically significant differences do exist between the five groups in terms of the variable “the entity is a good investment” (Pearson Chi-square = 18.223, p = .020, 2-sided).The result showed the audit report can not clearly communicate whether the company is good investment or not, and this shows how vague is Libyan unqualified audit report that non-auditors could not judge the company is good investment.

In conclusion, the aim of this section was to poll respondents' perceptions regarding whether the external auditors and financial statements user groups have a good understanding of the qualified audit report as the main tool to communicate the result of audit work. The results suggest that an expectation gap was noticeably wide with respect to 9 out of 24 statements, so it can be concluded that the existence of a deficient standards gap in Libya. This difference was found regarding their strength of agreement about the factors examined that include: audit purpose; auditors' responsibilities; assurance of future viability; and usefulness for decision making. The expectation gap was found to be quite wide particularly on the issues of clarity of the purpose of auditing in the audit report. The extent of audit work performance is clear and the audit report is understandable. With respect to the responsibility statements, the results also indicate that significant differences in beliefs and opinions exist between auditors and subject groups, and subject groups tend to attach greater responsibility to external auditor toward 'soundness of internal control responsibility', towards 'accounting records of the entity are correct', and 'auditor agreement with accounting policies used in the financial statements'. To a lesser extent an expectation gap was found concerning assurance of future viability, whether the entity is run efficiently. In addition, an audit expectation gap was found to be quite wide regarding the factors of 'the usefulness of the audit report for making decision' and 'the usefulness of the audited financial statements for monitoring the performance of the entity'. It could be argued that based on the responses of Libyan stakeholders, the current audit report might causes confusion to all groups and might not meet the demands of the Libyan audit market. Also the views of external auditors showed some uncertainty as to the message being communicated in the Libyan audit report. Therefore, it is believed that the wording of audit reports needs to be simplified and enhanced, so that they become more understandable to all user groups, and the level of responsibility be more clearly communicated. Furthermore, the findings of this research study suggest that the adoption of international accounting or establishing of national audit regulations and standards of audit report, and the revision of national laws to comply with the adopted regulations, should no longer be ignored by decision makers in Libyan authority.

5.4 Summary

In this chapter, the descriptive analyses of this study were presented. The first section of analysis is related to the demographic information of the participants. The participants were divided into five groups, namely: the General Auditing Bureau; financial statement preparers; external auditors; private investors and loan officers (lenders). Table 5.1 shows the response rate where 495 questionnaires were distributed and 270 were returned, a response rate of 55%.

A number of demographic variables were afterwards analysed by obtaining the frequency distribution and the tendency measures for each variable. These variables are: nationality; type of the audit firm or organization; experience; position; level of education; country of final qualification; number of accounting courses taken by the respondents organized by the firm where they work or organized by the Libyan Accountants and Auditors Association; the average number of companies they audit each year; the type of sector; the company ownership; type of user group and level of interest in this study. Each variable is expected to have some implications for the participants' perceptions regarding the issues under investigation.

The role and nature of auditing were then investigated. Four issues were discussed. The first issue measured the participants' perceptions regarding auditors and the auditing process. The result indicated that some marked differences existed amongst the auditor and non-auditor groups for most of the statements, besides observing a significant difference between the two groups of auditors. This stems from the general auditing bureau prevailing over government provisions and resolutions.

The second issue was to investigate stakeholders' views on the audited financial statements and the twelve audited company statements which were used to measure perceptions regarding the audited financial statements and the audited company.

It was interesting to find that the major differences were discovered between The General Auditing Bureau and the private auditors with financial statement preparers' perceptions. The other interesting finding was that the financial statement preparers and the lenders have different perceptions concerning the ten statements concerning the audited financial statements and the audited company, revealing that the findings suggested the existence of an expectation gap between the auditors' group and non-auditors' perceptions. However, there was no expectation gap existing for the two following issues.

- Auditors should ensure that audited financial statements comply with international accounting standards.
- Auditors should ensure that internal controls are satisfactory.

The third issue investigated referred to the prohibitions and regulations in the audit environment in Libya. The results indicated a number of misunderstandings amongst interested groups. This part generated the largest differences in view among the five groups in the entire study. The largest differences related to the issue: "Auditors are appointed and removed by the shareholders at the annual general meeting".

The results indicate that, although most of the issues related to prohibitions and regulations in the audit environment in Libya show a very strong evidence of the differences between the groups, all five groups' responses to the questionnaire showed the same level of agreement with the remaining statements. Therefore, it is shown from the previous issue that there is not an existing auditing expectation gap in Libya related to these statements.

The fourth issue concerned the parties to whom auditors should be responsible; such a legal responsibility was not recognised by commercial law. However the civil law pointed in a general context to this responsibility without specifying the parts included. According to the descriptive statistics in Appendix D5 indicated that the majority of respondents in five groups reported the same level of agreement with all statements, with the exception of two issues related to auditors' legal responsibility, where a weak expectation gap existed between the participants. These differences in perception were in relation to whether external auditors should be responsible to government and potential lenders.

With regard to section C, the results achieved from applying the non-parametric statistical test, namely Pearson Chi-Square test, on the 24 statements in relation to the five factors related to the message communicated in the unqualified audit report, show that there are nine statistically significant differences among five groups surveyed in this questionnaire, where the statements were as follows;

- The purpose of the audit is clear in the audit report
- The extent of audit work performed is clear
- The audit report is understandable
- The internal control structure of the entity is sound
- The auditor has agreed with the accounting policies used in the financial statements
- The entity is run efficiently
- The audited financial statements are useful for decision making
- The audited financial statements are useful in monitoring the performance of the entity
- The entity is a good investment

The interesting point pertaining to the reliability of the Financial Statement Factor is that the results of the Chi-square test showed that there were no statistically significant differences between the five groups in terms of all the variables related to the reliability of the Financial Statement Factor. Therefore, it is concluded that there were no audit expectations gap existing between the five groups in terms of the reliability of the financial statement factor.

Chapter 6: Analysis of the Interviews

6.1 Introduction

The empirical investigation demonstrated in this thesis relies primarily on the analysis of both the quantitative and qualitative data; the former is analysed in the previous chapter. This chapter emphasises qualitative data analysis that are founded on the semi-structured interviews carried out on a sample of Libyan auditors, financial statement prepares and financial statement user groups. The objective of the interviews is to enhance the information attained from the questionnaire. The outcomes of interviews enable the researcher to examine the degree to which Libyan stakeholders, particularly the external auditor, conceived auditing in Libya, present audit practice, and the changes anticipated on the horizon, thereby exposing the causes existing in the gap. Thus, these interviews will assist in drawing a more comprehensive picture of the development in the auditing profession and the reasons behind the presence of the expectation gap in Libya.

While reporting the findings, the researcher adopted the Patton, (1990) technique whereby she separated the description from the interpretation, thus securing the reliability of data. Furthermore, the researcher only made a list of the responses obtained from the participants without attempting to interpret what the findings mean in this chapter. Some significant statements from the interviewees were quoted as appropriate to b oost the research findings. Additionally, the major comparison will take place between the auditors and the users groups; nevertheless, the preparers will be referred to whenever it is appropriate.

As stated earlier, the primary objective of the study is to explore the development of the auditing profession and the likely presence of the audit expectation gap. Thus, the guidelines for the interviews sought to explore the following:

- To discover an acceptable definition of the audit objective and its importance in the Libyan context.
- To examine the role and responsibilities of external auditors in Libya.

- To assess the level of guidance given to external auditors through Libyan law.
- To assess the current format and contents of audit report and how the audit report might be improved.
- To discover the challenges facing external auditors in the Libyan context and how to meet these challenges.
- To evaluate the development of auditing since the Libyan stock market was established.

Moreover, under each item above, the researcher made a list of questions to further confirm the finding of the questionnaire survey, and also to assist her in probing the fundamental motivations, feelings, values, attitudes, and perceptions concerning the auditing environment in Libya.

Table 6:1 Profile of participants

Group	No. of Participants
Private auditors	4
[15]GAB members	3
Financial statement prepares	3
Private investors	2
Lenders	3

As shown in table 6.1, the participants were split into five groups: private auditors[16] (4 auditors), GAB members (3 members), financial statement prepares (3 people) and ‘other users’ consisting of private investors (2 investors) and lenders (3 managers). Table 6.1 above shows the profile of participants. All the interviews were conducted in Libya by the researcher; it was decided to restrict the location of those being interviewed to Benghazi and Tripoli, the capital of the country, this location being relatively accessible to the researcher. Further, the biggest auditors’ offices and firms that have long

[15] General Auditing Bureau (GAB)

[16] In Libya, most of practitioners practice the auditing profession through accounting and auditing offices. Mostly, those offices are owned by one registered auditor who may employ other auditors with him. We may refer to those offices as firms when two or more registered auditors practice their profession under one name and through one office.

experience, and audit the accounts of most companies and economic enterprises, are located in Benghazi and Tripoli (Ghory, 1995).

6.2 The Audit Objectives

This question attempts to explore the extent to which the respondents understand audit purposes. Generally speaking, one can hypothesise that the findings of an interview can best be illustrated by contrasting the viewpoints expressed. A number of the auditors together with the preparers of the financial statements clarified that the objective of the interview is one of the legal requirements. One of the respondents from private auditors believes that the primary objective of the interview is to fulfil the requirements of the financial reports and to determine the validity of the financial statements and their legitimacy with respect to its exposure of the financial data.

Another respondent from Financial statement prepares (FSP) groups concluded that the auditor objectives are to deliver an independent perspective concerning the financial statements of the company. Still another participant states that he believes the purpose in the past and in the present is to discover sources of fraud and errors, and to examine the efficiency and the capability of the company to proceed with its activities. In fact, an auditor has to audit all the company auditing records to secure their validity and the soundness of the interactions it conducted during the financial year.

As to whether or not the respondents are acquainted with the importance of auditing in Libya, it has become evident that almost all of them are aware of the importance of auditing for the companies, and for the employees, everywhere in the world, and Libya is no exception. For instance, one of the participants said,

"*Auditing has gained more importance after the emergence of the private sector and the separation between the administration and the owners of the local private companies. Furthermore, the involvement of foreign companies has led to an increase in the auditing importance in Libya. Any trading entity has its own published financial statements and its own beneficiaries from inside and outside the company since the preparer is the* *administration. Thus, it is necessary to ensure the validity of the financial data and the degree of confidence the employee has in them, its reliability. This cannot be realised unless there is an independent source and that is the external auditor*" (PA).

In addition, the respondents think that auditing is important since it encourages foreign investment, delimits the degree of out-resourcing of the Libyan capital and improves the competitive capabilities among the companies especially at this stage, the stage of opening up the Libyan economy to the world and attracting foreign investments. For instance, one of the participants from the financial statements preparers group stated that

"one can determine the importance of auditing in that it improves the investors' confidence, attracts foreign investments, puts an end to out-resourcing the capital, and promotes the competitive capability among the companies via the declared data in the financial statements".

As expected, the purposes of auditing are not as clear to the users of the financial statements as it is to the auditors and the financial statement preparers. The responses produced by the auditors and financial statement preparers were more important accurate than those delivered by the investors and lenders. These responses are not a surprise to us since the level of the users' progress especially that of the investors, in their comprehension of the auditing process is not similar to that of the auditors and the preparers of the financial statements.

6.3 The Roles and Responsibilities of the External Auditors

In order to realise the research objectives and to better understand the role and responsibilities of the external auditor in Libya, a number of participants are asked about their opinion concerning the roles and responsibilities of the external auditor. As expected, there are contradictory responses. Their responses provide extra evidence supporting the fact that the role of the external auditor is still fragile. There are no rules that force him to comply with certain or definite procedures but there are general principles one should adhere to. Even though the state has no rules or criteria that control accounting or auditing in Libya, the auditors, when they audit, adopt certain criteria each in accordance with his academic background or with the criteria of the country where he studied. In this respect, one of the private external auditors (PA), for instance, pointed out that

"The external auditor in Libya when he audits any institution or company has to adopt any criteria whether they are international, American, British, Egyptian or Jordanian since there are general responsibilities known worldwide: thus, the auditor has to exert the required professional attention to detect errors and fraud".

The respondent himself went on to say,

"In fact, there is a text in the Civil Law stating that anyone who inflicts damage on others, shoulders the responsibility of the harm inflicted. Furthermore, there are certain articles in the Bank Law that clearly point to certain penalties on anyone who does not comply with the conditions stated in the law including those that the external auditor is responsible for. The fines imposed amount to crossing the name of the auditor from the External Auditors Record in Libya Central Bank together with other financial fines that amount to 50000 Libyan dinnars and six month imprisonment".

When the financial statement preparers are asked the same question, most of them are aware of the responsibilities of the external auditor. They said that the responsibility of the auditor is to exert the utmost professional care and to examine the Internal Control System to determine the strengths and weaknesses of the National Monitoring System in the company and subsequently the efficiency and competency of the company. One of the financial statement preparers (FSP) pointed out

"I believe that the external auditor is in charge of checking the Internal Monitoring System. On the bases of that, the sample size will be determined. He is also in charge of investigating the procedures he applied to realize this objective in his report. If he does not carry out this job, then his role will be limited to that of merely putting his signature on the report".

Regarding the responsibilities of the external auditor with respect to fraud, errors, and theft of the company assets performed by the officials and those in charge of the company, all the respondents from the auditors group and the preparers of the financial statements strongly feel that the external auditor is not responsible for detecting fraud and errors, if it is from out of statistical sample selected by auditors. In this respect, one of the respondents from private auditors group (PA) stated that

"The auditors have to fulfil their duties via exerting due professional care. This can be realized through the careful selection of the auditing sample. By careful, I mean that the size of the sample is determined in proportion to the strength or weakness of the internal auditing system. If errors occur later, the auditor is not responsible for them because he is not in charge of investigating fraud and deceit".

Concerning the users of the financial statements, all the respondents tend to shoulder the auditor the responsibility for detecting fraud and deceit. They say that he does not exert the necessary professional care while auditing, since he endeavours to maintain his personal ties with the company without paying any attention to the interests of the third party, whether it is the state or an individual.

As the analysis of the interviews demonstrated, most of the auditors think that it is not their responsibility to detect fraud and deceit and that reporting them is not one of the objectives of auditing. On the other hand, most of the financial statement users expect that the responsibility of the external auditor is to detect fraud and errors, and to report them. It is part of his duties and responsibilities to protect the beneficiaries. In fact, these differences in viewpoints between the two groups provide conclusive evidence for the existence of an expectation gap in auditing in Libya, and it is a wide gap.

From the discussion above, it can be concluded that the expectations of the financial statement users are not implemented yet by the auditors. This contradiction in expectations between the auditors and the users has important repercussions on the notion of the expectation gap. Thus, one can clearly note that there is a vivid and wide gap between the auditors and the users of the financial statements with respect to the role and responsibilities the external auditor in Libya.

6.4 The Level of Guidance Given to the Auditors by the Libyan Law to Assist them in Implementing their Roles and Responsibilities

Concerning whether the participants are aware of the level of guidance given by Libyan law to assist auditors in performing their roles and responsibilities properly, most of the respondents stressed that the Libyan laws and legislation concerning auditing make marginal reference, with no details that clarify the tasks and responsibilities of the external auditor, besides the absence of professional standards that the researcher has referred to earlier. The auditors follow the British and American standards as well as some international criteria though they do not apply them properly.

Most of the respondents believe that commercial law and tax law should specify the most important tasks and responsibilities of external auditors, and the reservations in the audit context, especially since they state that there are gaps in the Libyan law which allow the auditor to evade responsibility. Moreover, it fails to criminalise him when he commits error. For instance, another respondent from general auditing bureau (GAB) groups said,

"When Libya is transformed to the liberal economy and opened up on the international markets and its activities started to improve constantly, an urgent need arose to initiate drastic changes in our laws. Simultaneously, we need to develop the Accountant and Auditor Association law and activate its role. This weakness is evident in the quantity and quality of laws applied in Libya".

In the same context, another respondent from private auditors (PA) added,

"Yes, it is possible to say that there are weaknesses and shortage in some laws that govern and organize the profession in Libya due to the absence of certain laws such as the Company Law; but there are other laws that require revision and editing like the Commerce Law and the Tax Law. This weakness could be attributed to the dominance of

the State over the economy for a long time. Now after the State economy is transformed to the private sector, I think that this must be accompanied by promoting the laws, too."

Concerning the investors, all the participants tended not to address the related question, or they argue that they have no information concerning the level of guidance given to the external auditors in Libyan law. This indicates that the investors are not aware of the details of Libyan law, compared to the auditors and financial statement preparers. It can attribute that to the fact that the daily work of the latter requires that they should be acquainted with the details of the laws and the developments that took place.

The participants raised a new question concerning the latest developments in Libyan law. The objective of the question is to discover whether there are developments in Libyan law concomitant with the important economic developments witnessed by Libya lately, that might help develop and activate the role and responsibilities of the external auditor in Libya. One of the respondents from private auditors groups (PA) said,

"Lately, the Commerce Law and the Tax Law are updated after being carefully studied by the legal experts in a bid to avert the errors that other laws could not avert. I am pretty sure that the new laws will be obvious and will put an end to the interpretations practised by the auditors in the past."

6.5 Audit Report

The participants in the interview were asked about their opinion regarding the form and the content of the audit report as a means of communication between the auditor and the financial statement users, and whether or not it is easy to comprehend, and whether it can supply the user with adequate and transparent data. This requires studying the extent to which the external auditors and the financial statement preparers are confident that the audit report can successfully express their concerns. On the other hand, the important aspect here concerns whether there are differences in viewpoints between the three groups. According to the interview conducted with a member of the Libyan Audit and Accountant Association, the content and form of the audit report are reasonable and acceptable; they do not need any amendment but a number of auditors believe that they need minor amendments especially with respect to the paragraph that deals with defining the criteria applied. Reasons for this belief are explained in the following comments:

"I admit that the external audit report in Libya needs to be developed and unified in from and content but if we ask ourselves why, we can find several reasons; among which are that we have auditors who are behind in their academic standard, qualification and competency. Furthermore, the local criteria are absent. This has given room for personal interpretations with respect to formulating the audit report. As a result, the format of this report differs from one auditor to another".

Another auditor added that *"the report format is suitable. I am authorized by the inspection and control Department; it is the one that assigns auditors the task of auditing. Consequently, the auditors are in charge of forwarding their reports to the inspection and control Department. I do not think that we can initiate changes in the report communicated to the Apparatus since it is not the final report. There is another report issued by the Apparatus based of out report. Unexpectedly, an auditor from the Apparatus opposed them in his viewpoint. He described the audit report as ineffective and unreliable with respect to decision making since it reviews old data. Thus the users do not benefit from the data available in the report".*

He added, *"I think that the users whether they are a state or an individual do not benefit from the audit data. Our report is useless since the issues raised are outdated. Some of the budgets we audit are five or ten years old. Thus the reports issued by the Apparatus are futile".*

In an attempt to improve auditing and to keep abreast with the recent economic developments the country witnesses, and in a bid to gain foreign investors' confidence, a few members of the LAAA signed contracts with international companies. Accordingly, these international companies supply the local companies with the latest developments in the international standards including the criteria related to preparing the audit report. This company is considered one of the most professional ones. It has gained the confidence of investors in Libya since it operates at a level equivalent to that of the international companies. In this respect, a member of one of these companies (PA) stated,

"In the absence of a criteria report or a unified report since the local and unified criteria are absent, every auditor composes his own criteria. All agree that the report consists of three paragraphs but its formulation differs from one auditor to another. As you know our company is in partnership with another audit company which supplies us with the current developments in the international criteria. All the officials working in the company are academically and professionally qualified. Thus our company applies the final draft of the international audit report in form and content in accordance with the international standards when auditing the foreign companies but while auditing the local companies, we use the same report with the edition of certain terms in accordance with the local environment but I am pretty sure that 99% of our report is similar in the form and content to the international report whether it is a clean, a reserved or any other type".

On the other hand, all those from PI who adopt the audit report believe that the format of the Libyan report is unacceptable and that its language is ambiguous, where the auditor attempts to evade responsibility by playing with words. The following comment clarifies this point:

"I am not specialist in accounting but I can say that the external auditors' reports are difficult to comprehend since they are written in an abstract language in order to evade responsibility. Thus, I would like to see the form and content of the external reports plain in order to be fully comprehended by the users. They should be able to communicate the information that the external auditor would like to communicate to the users in his report".

In recent years, Libyan society has witnessed numerous economic developments. One of them is the tendency towards the privatisation of the public sector, encouraging both foreign and local investment and establishing the stock market, and then the adopting the international auditing and accounting criteria by the bank sector, article 26, Law No. 1,

2005. This was followed by the adoption of the same standards by the administration of the stock market, via the bylaw of the stock market for the year 2008. Such developments opened the door for the international auditing companies to enter Libya and resume their activities. This marks a new era for accounting in Libya, an era that may signal a challenge to the profession; otherwise it will lose the role it has played in the different economic fields while confronting the expertise of the international auditing companies.

One of the accountants (FSP) said,

"As you know Libya has recently set up its stock market after the companies moved from the public sector to the private one. It has allowed the biggest international investment companies to enter Libya. Thus, all these developments increased the demand for improving the quality of the services rendered. Simultaneously, they provided the auditors with new opportunities to develop the quality of their services but if the audit report is still ambiguous and does not enforce unified criteria on all the activities whether they are international or national, this report will then become useless and the concerned auditors will lose their role before the international audit companies which are characterized by professionalism and specialisation".

Concerning the role played by the external auditors in moving the Libyan economic vehicle forward in the coming stage, and averting the errors that occurred in the past in the general companies which led to their failure, one of the respondents from group of (FSP) said

"In my personal viewpoint, the failure of the general companies is caused by several reasons, among which is the inefficient role played by the external auditor, his incredibility and lack of transparency in the reports he submits. These reasons as well as others are among the main ones that led to the failure of the general companies; consequently, transfer is made to the private sector. In this case, if the bureaus do not improve their performance, then the private companies will face the same destiny encountered by the general companies in the past".

Another respondent who is the assistant director of the lending administration in a bank emphasised that

"The bank does not rely on the auditing reports. We use it for a legal purpose to fulfil the requirements. When a decision is made to lend a company, we secure guarantees like assets mortgage equivalent to 125% of the loan".

The results demonstrate big differences in the viewpoints between the auditors' group and the preparers of the financial statements regarding the content of the audit report. Most of the external auditors observe that the form and content of the audit report are adequate and meet the users' needs. On the other hand, most of the users and the financial statement preparers think that the form and content of the audit report are inadequate, inefficient or useless with respect to making investment decisions since these reports do not describe clearly the findings of the company business, nor the size of the sample used in the examination, nor the degree of confidence, neither are there practical recommendations in the report.

6.6 Challenges Facing the Libyan Auditing Profession

The participants in the interview were asked about their opinion concerning the challenges facing the external auditor in Libya. The researcher tried via the responses obtained to highlight some details concerning the obstacles that hinder the development of auditing in Libya. Most of the respondents from the five groups stated that there are many obstacles that hamper the auditing process. For instance, one respondent from the private auditors observes the following:

1. The absence of a theoretical basis for accounting or auditing
2. The absence of written criteria/standards whether they stem from the local environment or are adapted from the international standards in a way that facilitates their application
3. The legal provisions are outdated and sometimes contradictory.

4. The Libyan Accountant and Auditor Association does not implement the objectives it has stated initially; thus it has failed in organizing itself, realizing its objectives, performing its duties and shouldering its responsibilities towards the public.
5. The absence of on-going learning courses/programmes which enable the auditor to comprehend the contextual requirements or to update his knowledge of the recent technological developments.
6. The absence of laws that safeguard the auditor who performs his duties efficiently and professionally from getting into conflict with the administrative of the company when their economic interests are endangered, whether they are individuals, investors or even the state itself.
7. The unfair competition on prices in return for the efforts exerted
8. The great extent of the audit records: every sector has its own record; for instance, the Central Libyan bank has its own record, the Stock Market has its own, etc.
9. The use of the English language

Another respondent who works in the Inspection and Control Department said:

"I think that the challenges are varied and numerous, among which are the instability of State management as a result of the state administration weakness, the huge number of the Libyan laws and regulations, the dominance of professionals on the work of the company, the care for prices in order to gain the utmost profit rather than for the profession itself, the weakness of the internal supervision systems in the companies and establishments, the neglect of the general management of auditing with respect to offering awards and incentives for encouragement purposes".

Concerning the economic reforms and the transformation from the social economy to privatisation in the public sector, all the financial statement preparers who were interviewed pointed out that there is another problem that will face the Libyan economy if the auditors do not improve their performance in a manner that conforms to the economic transformation recently taking place in Libya. In this context, one of the respondents pointed to this problem. He said;

"The rapid transformation in the economy from a social economy to 50% private economy should be accompanied by development at all levels including auditing. In fact, if the external auditor does not develop his performance, then during the auditing process, he will apply the same measures as those applied in the public sector. In this case, he will confront numerous problems and differences in application. This will lead to a failure in the private sector as is the case with the public sector".

One of the auditors in the Inspection and control Department pointed to an important factor, a major one that hindered the development of auditing in Libya. He said,

"The Auditor and Accountant Association should get involved in drafting a law that controls the profession properly and stipulates a basic principle for practising the profession and that is dedication to the job, i. e. the profession will be his primary source of subsistence. He will then dedicate himself to it and develop himself accordingly. The auditors will form groups as is the case in the other countries". He added what is meant by grouping is auditing corporations.

One can conclude from the discussion above that most of the participants agreed that there are numerous impediments that hinder the development of auditing in Libya. The current practices of auditing are weak and ineffective. That is because of the absence of legal obligations for the auditing practices as well as the absence of certain standards or criteria for a code of behaviour for the profession in Libya. We should overcome these hindrances by adopting certain positive steps that help develop the profession from different perspectives, among which are:

- Stimulating local offices to develop their audit performance in a bid to maintain their current market share, and to develop it, because of the increased competition among the international audit companies.
- Pressing the legal bodies and the organizing organs of the audit profession in Libya to develop the audit profession, to be efficient and competent by legislating

provisions for the audit work, and professional and moral standards for the profession

- ➢ Pressing the Libyan auditors to develop themselves by enabling them to acquire the technological and professional skills required for working with the international audit companies when the competition becomes harder
- ➢ Improving the audit education in Libya which suffers many weaknesses, by developing educational programmes to keep abreast with the increasing demand for auditors who are highly qualified technically and professionally.
- ➢ Increasing the transparency of providing information via the reports and financial statements. This will contribute greatly to attracting foreign investment to Libya. The profession will contribute positively by speeding up the development vehicle.

6.7 The Development of Auditing since the Stock Market was set up

In developed countries like Britain and America, and in some developing countries like Egypt and Saudi Arabia, the stock market plays an effective role in developing accounting and auditing by the strict application of accounting principles in the financial statements of the stock market, increasing transparency, and determining the auditing methods which ensure dependability and credibility of the financial data dealt with in the stock market. However, the Libyan stock exchange is still weak in its performance and does not play the role expected in applying these special criteria with respect to preparing the financial statements and auditing them. Regarding this topic, the participants in the interview were asked whether auditing in Libya has developed since the stock market was established. All participants think that the stock market is still in the process of development, but it suffers from slow development, and this may be due to the state control over the market.

In this respect, one of the respondents from GAB, for example, stated

"In fact, the Libyan stock market is still young besides it is not the one that is responsible for issuing criteria that contribute to the development of the profession but it struggles to reinforce them. It is supposed to be a safety valve for all who use the financial statements

testing their validity but this measure is preceded by other measures such as preparing the financial statements in accordance with the accounting principles and laws. The role of the stock market is limited to ensuring the adoption and validity since the incorrect information bring about financial catastrophe if promulgated in the market; for instance, the exaggeration in profits brings about a change in the price of the shares though they are unreal changes".

Within the same context, another respond, a private auditor, said:

"The stock market does not clearly influence auditing since it is still until construction; though it has adopted the international standards, it cannot make all companies comply with them since it fully comprehends the Libyan environment and its conflicting nature with the laws. Thus, its role is still limited but it still has not a role".

What is exciting is that most of the participants in the interview stated that there are numerous obstacles that hinder the market from playing its role in developing the accounting profession and auditing in Libya. Among these obstacles are:

- The absence of a theoretical framework for accounting and auditing, or even an attempt to develop international standards in compliance with the national environment and with the local laws that organize the profession
- The rise in the cost of the training courses for the international criteria held by the stock market
- The absence of specialised courses that might train Libyan accountants in applying the international criteria in different economic fields

These factors among others have weakened the role supposed to be played by the market to develop the profession in Libya. Within this context, one of the respondents from (GAB) groups pointed out,

"In fact, the auditing profession has not developed over forty years; that is since establishing the Libyan Auditors and Accountants Association in 1973. It has done nothing with respect to preparing a theoretical framework for the accounting and auditing profession. It has not developed a guide for the conduct code of the profession.

This means that the association failed even in organizing itself and in realizing its objectives. Thus, the stock market cannot change anything; the market can change in the presence of strong professional organizations; but such organizations are not available till now".

In the same context, another participant from (FSP) group said that

"the problem is that the stock market promulgated the international standards without defining them and the training courses held for the companies enrolled in the market are general courses whose application in the different economical fields is not clarified due to the differences in their application from our field to another or from one activity to another. Besides, the rise in the cost of training made us stop sending the company officials to such courses; instead, we are now looking in the market for courses that cost less".

The participants in the interview were asked an additional question concerning their attitude towards the probability that the stock market might affect the development of auditing in the future. One of the respondents pointed out that

"Since the state continues to dominate the market, the market will play an effective role in developing the profession if it can determine two important factors: the first is specifying the nature of the data present in the financial statements and the people who use them. The second one determines the method of auditing that ensures dependability and credibility of the financial data exchanged inside the market but the market does not manage it unless it develops the concept of auditing in its broadest sense: teaching, profession and standards".

One of the users of the financial statements added,

"The stock exchange cannot emphasize the credibility and dependability of the data listed in the financial statements except via efficient auditors who are highly qualified academically and professionally working via strong and professional organizations within a written theoretical basis".

Another respondent added other factors that if realised would help develop the profession. Among them are:

- *"Privatisation of the general sector properly so that the shares are made known to the people to purchase"*
- *"The private companies are then listed in the stock market"*
- *"The concerned companies will comply with the market conditions with respect to clarity and transparency. Thus, the market will help develop the profession"*

From the discussion above, one can note that the stock market has not contributed towards developing the audit profession; it was not capable of reinforcing its application on the companies registered in the market since its standards contradict Libyan legislation, commercial law and tax law. Thus, we can conclude that the Libyan stock market requires accompanying factors that can optimise its role, like adopting factors compatible with the Libyan environment, and the presence of strong professional organizations that commit themselves to assist in applying these standards.

6.8 A Summary

The objective of the interviews in this study is to explore the views and attitudes of a group of auditors, preparers and financial statement users, concerning six topics related to the concept of auditing. These are: the objectives of auditing, the tasks and responsibilities of the external auditor, the level of guidance in Libyan law that assist the external auditor to determine his role and responsibilities, the format and components of the external auditor report, the challenges facing the external auditor, and finally the role played by the stock market to improve auditing.

The findings of the interviews revealed that the majority of those interviewed from the target groups claimed that the profession is still in its initial stages, though it was established 38 years ago. This stagnation may be due to the control by the State over the economy in transforming it to the public sector. Besides, the auditing and accounting profession suffers from disorganization, inactivity and a severe lack in legislation, together with the absence of the required standards. The stock market is still in its initial stage and its growth is very slow.

The findings arrived at from interview analysis demonstrated that there are big differences between the external auditors and the financial statement users with respect to a number of topics among which are the objectives of auditing. The interviews revealed that the objectives of auditing are not as clear to the financial statement users as they are to the auditors and the financial statement preparers.

The analysis of the participants' viewpoints concerning the roles and responsibilities of the external auditor as related to disclosing fraud and errors and reporting them displayed huge differences between the auditors group and financial statement preparers on the one hand and the financial statement users on the other hand. It is found out that most of the auditors evade shouldering the responsibility for disclosing fraud and errors and reporting them, except within the limits of the selected sample. Furthermore, they attributed the responsibility for that to the company administration. On the other hand, the great majority of the financial statement users believe the opposite. They believed that that was the prime legal responsibility of the external auditor.

As the findings demonstrated, getting a job in the audit market depends greatly on social relationships rather than on qualifications and expertise, besides the absence of rules that protect the external auditor who performs his duties efficiently and professionally from the company administration. This stresses the fact that social and tribal relations in Libya, rather than professional standards, greatly affect the professional performance of Libyan auditors. The results of the interview analysis also revealed that there are different forms for formulating the content of the external auditor report and that there is no unified and standardised report format, except some who follow form of international audit report. Furthermore, some of the reports are personally written by the auditor.

It is the researcher's conviction that the proper practice of the profession in Libya may be absent to a great extent. Libya may be behind compared to its neighbours, Egypt and Tunisia, with respect to practising the profession. The reason may be due to the fact that the state did not get involved in organising the profession, besides the absence of a comprehensive law and of auditing and accounting criteria and standards. In such a situation the state needs to play a prime role in developing and promoting the profession.

Chapter 7: Discussion of the Main Findings of the Questionnaire, Interviews and Conclusion

7.1 Introduction

This chapter's aim is to summarise and discuss the findings and conclusions of Chapters Two, Five and Six with respect to the research aims stated in Chapter One. This study has attempted to discuss the development of company reporting and auditing regulations in the Libyan setting, and to investigate the extent to which Libyan auditing regulations are compliant with international standards from available literature. A discussion centres on summarising the findings, with links to the research literature. It also compares the perceptions of the five Libyan stakeholder groups, namely, private external auditors, General Auditing Bureau (GAB), financial statement prepares (FSP), private investors (PI) and lenders (L). The similarities or differences of the perceptions of external auditors and financial statement user groups is one the central issues that will be highlighted. In doing so, the discussion will evaluate the extent of similarities or differences of the findings from the perceptions expressed in the literature on the expectation gap (see Chapter Three), in order to identify the contribution of this thesis, with its focus on the audit expectation gap and its components. In addition to the main conclusions regarding the audit expectation gap, the findings are used to make implications and recommendations about the possible future development of the audit market and audit expectations gap in Libya. Also, the limitations of the study, and suggestions for further research in relation to the audit expectation gap and its components, are discussed at the end of this concluding chapter.

7.2 Participants' perceptions of the Role and Nature of Auditing

This section provides a summary and discussion of the key findings emerging from the analysis from the questionnaire and interview surveys of the study relating to perceptions of auditors and the auditing process, the audited financial statements and the audited company, prohibitions and regulations in the audit environment, and auditors' legal responsibility, held by the participants from General Auditing Bureau (GAB), private auditors (PA), financial statement prepares (FSP), private investors (PI) and lenders (L), reported in Chapters Five And Six.

7.2.1 Objective One: Auditors and the Auditing Process

Humphrey (1997) observed that auditing is not a unified phenomenon since it means different things to different people. The understanding of the audit function could be considered an important factor for a proper understanding of the nature of auditing. External auditors 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 responses of participants indicate that there is disparity between the auditors and users in understanding auditors and the auditing process.

This section provides the main findings regarding the perceptions of Libyan stakeholder groups in relation to auditors and the auditing process in Libya. The findings from both the questionnaire (see Table 5:6) and the analysis of the semi-structured interviews demonstrated that an audit expectation gap exists between the auditor and non-audit groups; it concerns the role and the nature of auditing at all three significance levels. For instance, there was very strong evidence that supports the existence of a gap between the external auditors and non auditors groups regarding the statement "Auditors are too concerned with keeping company management satisfied", between G1-2, G1-3, G1-4, G1-5 and G3-4. The result indicates that external auditors from GAB believe they are independent of the company management, whilst FSP, PA, PI and L believe that the external auditors are not independent of the management of the company that they audit. This appeared to be the area of greatest difference in perceptions between the groups in Libya.

This result was consistent with prior studies such as (Humphrey et al., 1993; Hussain, 2003; Al-Qarni, 2004; Lee, Mohamad, Mohamad Yusof, & Ojo, 2007); reported in their study that the financial statement user group in both developed and developing countries were also found to believe that external auditors are not independent enough from company management which they audited. This result may reflect some potential disappointment with private corporation financial statements in Libya.

This outcome can be accounted for on the basis that the legal system in Libya is not understood as either not being satisfactory or as being obsolete and requiring revision. This also applies to laws and regulations that govern the audit profession. This defect might have become visible after the government alleviated its grip on business activities, proceeding towards an open market.

More specifically, the participants in the interview pointed out that the external auditor who executes his duties proficiently and efficiently has encountered several problems with the corporation management, particularly when s/he discovers deceit and fraud in a corporation. Moreover, in most such cases the corporation management dismisses the external auditor without consulting the shareholders. Thus, these reasons led some auditors to be biased in favour of the managers in order not to lose their work; such a condition can be ascribed to the absence of laws and regulations that protect the auditor from the corporation management. Further, the findings of interviews revealed that the Libyan government did not help to develop auditing and the audit profession since established, even after having established the Libyan stock market. Thus, more attention should be paid to the systems, laws and regulations that control the audit practice and corporations, and maintain the independence of external auditors.

The study adds to the evidence of the expectation gap by examining it in more depth in an emerging economy than previous works by scholars such as, Humphrey, Moizer, & Turley (1993) and Al-Qarni (2004), which deal with the components of the audit performance gap model (Porter, 1993). Therefore, the result of the statement “Auditors are too concerned with keeping company management satisfied” revealed that Libyan external auditors lack independence, which was evidenced by the deficient performance or the absence of rules which led to the deficiency in standards.

That improving the auditing will help to increase foreign investment in Libya, however, is an additional statement where there is significant difference in perception between the Libyan stakeholders. This implies that respondents acknowledge the value of improving auditing by adopting international accounting and auditing standards in the Libyan stock market and banks sector by LAAA, but this improvement was not adequate to reach the level of developed countries. For this reason GAB groups were less in agreement with private auditors and financial statement user group. However, this statement was not reported by Humphrey, Turley, & Moizer's study (1993).

The possible reason for such responses could be due to fact that the respondents from General Auditing Bureau (GAB), may have known better that the public accountant plays a significant role in the development of auditing. As mentioned earlier in Chapter Six, Libya has constantly been a unique place for foreign investment; this has widened the audit market and reinforced the weight of the profession and its rendered services. The LAAA in Libya, on the other hand, poses the risk of losing the credibility of the audit profession when it lags in adopting unified international standards and practices. When tackling this problem, the LAAA has to increase awareness and launch an education campaign aimed at promoting the expertise of local practitioners. Also, it needs to educate the user groups about new regulations. The study adds to the evidence of the expectation gap by examining it in more depth in an emerging economy than previous works by the Humphrey, Moizer, & Turley (1993) and Al-Qarni (2004), which deal with the components of the audit performance gap model (Porter, 1993). Therefore, this statement concerned the competence of external auditors, which in turn links to deficient performance, the absence of regulations which led to the deficiency in standards.

The third significant difference was revealed from the statement "Too much is expected of auditors by the investing community", close looking to a mean value where four groups approximately agree with the statement, but the general auditing bureau (GAB) groups were less in agreement. On average, this significant difference is created from different agreement mostly with this group (GAB). The feeling was strongest on the part of the financial statements preparers, private auditors and private investors. This result was consistent with prior studies (that the auditees and audit beneficiaries expected the external auditors to perform more duties than most auditors would consider normal) such as (Humphrey et al., 1993; Leung & Chau, 2001; Hussain, 2003; Lin & Chen, 2004; Chowdhury et al., 2005; Dixon et al., 2006). In their study Moizer, Humphrey, & Turely (1996) who studied the existence of an audit expectation gap in a different context, came to the conclusion that similar divergences of view existed on this topic in a range of different environments such as the UK, USA, Spain and Japan. (Hussain, 2003), claimed that education is the best means to minimise the audit expectation gap, adding that detailed explanation of the external auditor function should be included in the introductory accounting course “informed user”. In addition, Porter (1993) reported that expectations could only be considered reasonable if they are consistent with the auditor's role in society and cost-effective to carry out.

This result implies that the Libyan stakeholder groups except GAB hold unreasonable expectation toward the audit function. It argued for the inclusion of detailed explanation of the external auditors’ role and responsibility in accounting. Therefore, as mentioned earlier in Chapter Two, the education system (curriculum) in Libya needs to be improved to cope with the recent development in order to improve the knowledge of auditors and users. Another possible explanation may be that the Libyan accounting and auditing profession did not pay any attention to training their auditors regarding expectation gap issues. The present study adds to the evidence of the expectation gap by examining it in more depth in an emerging economy than previous works by scholars such as Al-Qarni (2004), which consist with the component of the audit performance gap model (Porter, 1993). Therefore, this gap arises from a lack of social and technological sophistication, and clarification of auditor role, which in turn links to unreasonable expectations as mentioned by Porter (1993). In this regard Gray & Manson (2008) in their review of the audit expectation gap and corporate governance literature came to the conclusion that an unreasonable expectation gap may close, depending upon the sophistication level of society.

The fourth significant difference was found in relation to the statement “Auditors are more interested in collecting fees than in doing a rigorous professional job”. To sum up, the external auditors from private practice and the general auditing bureau together with the financial statement preparers did not accept the statement. However, the user groups have a tendency to accept such a statement. Thus, such responses from both groups of external auditors and financial statement prepares may be due to their practical experience, which allows them to have a more realistic view on the objective of auditing than the users groups. However, this statement was not reported by Humphrey, et al. (1993).

The reason why respondents evaluated this statement differently might be as a result of the legal system in Libya that is not fully developed; thus, one needs to develop a legal system which includes explanation in details of the duties and responsibilities of the external auditor when s/he performs his/her job, and clarifies the type of penalty facing him/her in the event of discovering any error in the work.

The results of the interviews tend to explain the differences in the perceptions, due to numerous challenges such as the absence of a functional LAAA to arrange and manage accounting and auditing practices, several audit corporations auditing fewer audit clients, the lack of necessary regulations, and the scarcity of qualified and experienced auditors. In addition, aspects such as these made the interviewees concerned that the audit firms, in their attempt to maintain their present audit customers or to get new ones, might decrease the quantity of audit work carried out or assume less thorough audit procedures. The study adds to the evidence of the expectation gap by examining it in more depth in an emerging economy than previous works by scholars such as Gramling, Schatzberg, & Wallace (1996), which deal with the components of the audit performance gap model suggested by Porter (1993). Therefore, this gap arises from lack of social and technological sophistication and clarification of auditor role, which in turn links to unreasonable expectations as mentioned by Porter (1993). Therefore, this statement concerned competence of external auditors which in turn links to deficient performance, and the absence of regulations which led to the deficiency in standards.

There was an interesting result concerning the quality of company audits, and if it has increased in recent years. The examined Libyan stakeholder groups slightly agreed with this statement, while the GAB group agreed less, as they believe that the quality of company audits has not increased enough in recent years; however, the analysis indicates a significant difference in the level of agreement between the GAB group and PA and FSP. This result does not mean that the quality of company audits has not increased yet but did not reach the desired goal, compared with developing and developed countries. This result is consistent with the findings of Humphrey et al. (1993), as they found that a potential audit expectation gap existed in Spain; however the respondent groups were in agreement that the quality of company has increased in recent years in Britain.

In their study, Ali, Lee, Yusof, & Ojo (2008) also found the audit course caused student groups agreed a greater conviction that the quality of audit has increased in recent years. This result might indicate that the GAB is not educated or trained enough regarding the regulation of the private sector, due to this group being closer to the audit procedures which applied in the public sector rather than private sector. Another possibility is that the Libyan private auditors and the financial statement preparers are much more knowledgeable with respect to the audit procedures and the regulations in private sector than the GAB group. It can be concluded that the private auditors and the financial statement preparers are not in complete agreement with this statement, and that they are better informed than the GAB group.

This issue was supported by interviews which were conducted with target groups where a number of issues relating to the development of auditing were raised by the interviewees. Among these issues, for instance, one respondent pinpointed the response to the question: How has the Libyan government contributed to the development of auditing? The respondents affirmed that they did not obtain any apparent help to develop auditing apart from the acceptance of international accounting and audit standards in the banking sectors (Article 82 of the Banking Law). In addition, listed companies must adhere to international accounting and audit standards when they prepare and when the external auditor audit the financial statements. The study adds to the evidence of the expectation gap by examining it in more depth in an emerging economy than previous works by scholars such as Salehi, Mansoury, & Azary (2009), which consist with the components of the audit performance gap model suggested by Porter (1993). Therefore, this statement concerned with the competence of Libyan external auditors which in turn links to the absence of accounting and auditing regulations of private sector in Libya, which led to the deficiency in standards gap existing in the Libyan private sector.

Regarding to the statement concerning the length of an audit process, the financial statement prepares disagree with the statement and external auditors collectively present a neutral view, while the financial statement user groups relatively agree with this statement. This differentiation indicates that external auditors and the financial statement preparers are aware that in general it does not take a long time, but in some cases it will take time. This disparity in opinions led to the significant difference between the private external auditors and the financial statement prepares on one hand and the financial statement user groups on the other hand. This outcome is inconsistent with several previous empirical studies which investigated the audit expectation gap in different countries, such as (Humphrey et al., 1993). Also, the result supports the study of Hussain (2003), which used a similar questionnaire to examine the existence of an audit expectation gap in Oman as a developing country, and he found that students are neutral about the length of the audit process. He suggests that the absence of imprecise standards could be one possible explanation of this result. This result seems to be true for the Libyan stakeholders who participated in this study, who had no knowledge of the standards of the audit process.

During the second part of the empirical work in which semi-structured interviews was held, a number of issues relating to auditing process were raised by interviewees. Amongst these issues, for instance, one of the respondents highlighted that in the case of

Libya it is possible in some cases for the audit process to take more than three years for some institutions such as Central Banks of Libya, due to the complexity of accounting systems in these banks. The auditors have not sophisticated enough skills to deal with the Information Technology which used in this bank. The study adds to the evidence of the expectation gap by examining it in more depth in an emerging economy than previous works by scholars such as Salehi (2011), which deal with the components of the audit performance gap model suggested by Porter (1993). Therefore, this statement concerned the Libyan external auditors' competence which in turn links to the existence of a deficient performance gap and the absence of clear written audit process regulations, which resulted in the existence of deficient standards gaps in the Libyan private sector.

In conclusion, the results of this study indicated substantial evidence of an expectation gap in Libya particularly in relation to issues of auditors and the auditing process. The expectation gap was found to be particularly wide on the issue of auditors' independence. To a lesser extent, a significant difference in perceptions was found concerning the statements "Providing credible data through better auditing would increase foreign investment in Libya", "Too much is expected of auditors by the investing community", "The quality of company audits has increased in recent years" and "Audits generally take too long to complete". The significant difference in perception was clear between GAB groups and other user groups. The results indicate serious concerns about formal laws and the Libyan Accounting and Auditing Association. As regards Porter's study (1993) perceiving the expectation gap and its elements, it can be concluded that a significant "unreasonable", "deficient standards" and "deficient performance" gap is the case for Libya. The study analysed the expectations gap in more depth than other studies which had been conducted in some developing and developed countries, and was consistent with the components of the audit performance gap model suggested by (Porter, 1993). Therefore, the dominant gap was the deficient standards gap. However, this gap was not significant as have been found in both developing and developed countries.

7.2.2 The Auditor's Role with respect to the Audited Financial Statements of Companies

The role of external auditors with respect to audited financial statements and audit clients is considered in the auditing literature as one of the factors that might have caused the audit expectation gap (Humphrey et al., 1993). The survey results of this study indicated that the expectation gap exists between external auditors groups and financial statement user groups.

The results depicted in Chapter Five found that all five groups present the same perception on the statement regarding the fact that 'Auditors should ensure that audited financial statements comply with the tax law'; 'Auditors should ensure that audited financial statements comply with the LAAA rule' and 'Auditors should ensure that the financial statements contain no deliberate distortions'. This survey on the responsibility of external auditors helps to conclude that the agreement amongst the groups was reasonable. On average, this gap was mostly between General Auditing Bureau (GAB) groups with financial statement prepares (FSP) and private auditors (PA), due to the GAB reported lesser agreement preceding statements. It was expected that financial statement user groups as well as external auditors would indicated a high level of agreement with these statements. On average, this gap was strongest between GAB group, and FSP and PA. In their study, Ali, Lee, Yusof, & Ojo (2008) have found a significant difference in opinion on the issue of the auditor's role with respect to the company audit.

However, these finding are contrary to the findings of in other studies (e.g.Humphrey et al., 1993; Gramling et al., 1996; Hussain, 2003), who found that respondent groups were in agreement on the issue of accounting policy and regulation.

The possible explanation for this result, as expressed by the interviewees, was that the GAB might has not understand the role and requirement of the private sector, because this group followed the regulations of the public sector which has different objectives from the private sector. However, the view of private auditors (PA) and financial statement prepares (FSP) could be credited to understanding of the requirements of the

Libyan Commercial Code and tax legislation, which require all business enterprises operating in Libya (local or international) to provide their annual reports to the tax authorities every year (see Chapter Two).

On the bases of the above findings, it appears that the legal system and its regulations in Libya are conceived of as not being sufficient, since they require additional laws and regulations to manage accounting and auditing. This shortcoming might have been observed in the above result where most of the statements yielded significant differences. That might be due to the respondents' lack of comprehending the legal system along with the role that the (LAAA) plays in developing accounting and auditing. This role is weak or absent, as the interviewees observed.

Respondents indicated during the interviews that the law governing accounting and auditing is weak and outdated; therefore, the development needs to keep pace with current changes in the economy. Moreover, they believed that the law should contain the general principles governing accounting and auditing practice, since they considered that there is a lacuna in Libyan legislation which affects the practice of auditing.

The study adds to the evidence of the expectation gap by examining it in more depth in an emerging economy than previous works by scholars such as (Humphrey et al., 1993; Gramling et al., 1996; Hussain, 2003; Al-Qarni, 2004), which deal with the components of the audit performance gap model suggested by Porter (1993). Therefore, the performance of the Libyan external auditors is linked to the deficiency in performance of private external auditors in the same country.

7.2.3 The Auditor's Role with respect to the Company Audited

The aim of this subsection is to discuss the key findings of the research relating to the attitudes of the Libyan stakeholder groups about the auditor's role with respect to the company audited. The survey results revealed that there was no consensus among the responses of the participants from the five groups with regard to three of five roles of the Libyan external auditors with respect to the company audited, such as auditors should inform the regulatory authorities of any significant malpractices at their clients, auditors should ensure that the company is being run efficiently, and auditors should ensure that the balance sheet provides a fair valuation of the company. The significant difference was found to be particularly wide between general auditing bureau in one hand and financial statement preparers; private auditors and user group in other hand, on the issue of auditors' role for the responsibility of external auditors to inform the regulatory authorities of any significant malpractices at their clients.

This difference in response is probably due to the fact that the auditors from the inspection and control department (GAB) are more organised and they perform this role when auditing corporations in the public sector. The inspection and control department (GAB) has experts specialised in investigating any problems encountered by the auditors while performing their duties. For instance, when the auditor detects any fraud, distortion or deception in the account records held by a company audited by him/her, s/he then prepares a report and forwards it to the concerned Apparatus for investigating and pursuing the problem. Concerning the auditors registered with the Libyan Accountant and Auditors Association, they have no high authority to report the problems or the fraud. The only method available for the auditor is to report the faults and the fraud to the company management. In such cases, the company management dismisses the auditor and appoints another one who executes the management's orders. This is what one of the auditors has pointed out in the interviews. This is the most important problem the auditors face when they do their job professionally and efficiently.

The second main reasons for adopting such a view, as clarified by the interviewees, could be attributed to the belief that auditors' reliance on one or few customers will put them at the mercy of their audit customers who view themselves as providers of the auditors' revenue protecting them from bankruptcy. Such a viewpoint was formerly expressed by many academics (Mautz & Sharaf, 1961; Flint, 1988) who regarded the auditors' economic reliance on their audit customers as a serious threat to their independence. For example, Flint (1988) observed that if an audit company's main source of income was supplied by one customer, the audit company could encounter grave financial difficulties.

Moreover, Hoitash, Markelevich, & Barragato (2007) maintained that the huge amounts of money paid to auditors, making them economically reliant on their customers, may result in a relationship whereby the auditor becomes hesitant to make proper inquiries during the audit process in order not to lose those fees.

More information was gained from interviews in terms of the external auditors' responsibility. The auditors from small firms (offices) were facing several problems when performing their responsibilities, such as the absence or lack of common standards of accounting and auditing, and code of ethics in Libya; auditors face problems due to lack of cooperation from management. This raises questions about the Libyan profession's auditing authorities. It may be expected that the external auditors, when detecting any fraud or substantial error, do not feel themselves capable of acting as a fair judge, perhaps due to there being no authority to protect the right of external auditors from the management of the company, which may expect to prevent him from continuing his work. In addition, the auditors in some cases are unable to perform some auditing procedures, as in the case of annual reports presented for auditing long after the financial year to which they relate, and such as attendance at stock-taking at the end of each financial year. In addition, in many cases management who were in post at the end of the financial year would have left the company and auditors often cannot determine the responsibility for any fraud or errors discovered during the auditing process (this case in public companies). This leads us to the conclusion that the audit profession in Libya is so weak that it could not maintain the rights of auditors against the management of the company being audited; at the same time this prevents the development of auditing in Libya.

This result is consistent with the findings of Gramling et al. (1996), who concluded that the students believe that the auditing profession takes on increased responsibly with respect to the audited company. There was a significant difference among the students and auditors regarding the auditors' responsibly with respect to the audited company.

The study adds to the evidence of the expectation gap by examining it in more depth in an emerging economy than previous works by scholars such as Hussain (2003), which deal with the components of the audit performance gap model suggested by (Porter, 1993). Therefore, this statement concerned the competence of Libyan external auditors, which in turn links to the absence of accounting and auditing regulations of the private sector in Libya, which led to the deficiency in standards gap existing in the Libyan private sector.

The quantitative results (Table 5:8) present a statistically significant difference in terms of the view to "Auditors should ensure that the company is being run efficiently". The external auditors collectively present a neutral view, while the financial statement user groups relatively agree with the above statement. Management are responsible for the financial statement and management of the company. It seems that some users view the auditors' role as one of managing the company. This is an incorrect view as auditors are independent. This result is consistent with the findings of (Humphrey et al., 1993), which used a similar questionnaire to examine the existence of an audit expectation gap in Britain, and found that of auditors and accountants less agreed with this issue, compared to the directors and the users, this difference in agreement resulted significant difference in point of view among the response group.

The possible explanation for this case was that both groups of auditors were not highly agreed to an expansion of their responsibly to evaluating the efficiency of the company management. However, there is high agreement from the non-auditor groups (financial statement user groups) to the expansion of the responsibility of the auditor, expecting auditor groups to satisfy their needs regardless of the responsibility of auditors as determined by the law and auditing standards.

The study adds to the evidence of the expectation gap by examining it in more depth in an emerging economy than previous works by scholars such as Gramling, Schatzberg, & Wallace (1996) and Hussain (2003), which deal with the components of the audit performance gap model suggested by Porter (1993). Therefore, this statement concerned the Libyan external auditors' competence, which in turn links to the existence of a deficient performance gap and the absence of clear written audit process regulations, which resulted the existence of a deficient standards gap in the Libyan private sector.

Based on both the Kruskal-Wallis test and the Mann-Whitney test results, statistically significant differences were noted between the groups' perceptions for the "Auditors should ensure that the balance sheet provides a fair valuation of the company". This statement leads us to question the very nature of balance sheets whether someone with less technical knowledge of accounting such as a investors could see a balance sheet as a measure of values rather than a residual statement. This finding points out that those three groups (i.e. general auditing bureau, private auditors and financial statements preparers) understood better the audit regulations and the role of the auditor than the user groups.

This result is owing to the weakness of the knowledge of the users about the auditing process, which differs from one user to the other. Generally, the external auditor in a private company or the one who is working at the inspection and control department (GAB) seems to understand better than other users, though not as evidently as the auditors. The deficiency in understanding among the audit report users in this research study may mirror 'the extent of the relative "knowledge gap" of the user groups' (Porter, 1993). This result is in line with that of Porter (1993); in her study of the audit expectation gap in the private sector in New Zealand, where she found that the auditors' financial community and that of the public have inadequate knowledge regarding the auditors' obligations and tasks. She referred to the difference in knowledge between the auditors and user groups with respect to the auditors' obligations and responsibilities as the 'knowledge gap'. Similar to the conclusion Porter arrived at, this study also proved the presence of this 'knowledge gap' among the participants. It is thought that this 'knowledge gap' to a certain degree would influence the sensibleness expectation by the users concerning the performance of the auditors. The possible explanation of this case is that the private sector is new in Libya due to the dominance of the public sector.

Furthermore, this study affirms the conclusion arrived at by Chowdhury and Innes (1998) which states that auditor's responsibility for detecting fraud is one of the factors that add to the audit expectation gap in the private sector. Thus, as the present evidence indicates, it is rational to conclude that the users coming from the private sectors conceived that the responsibility for detecting fraud should be shouldered by the auditors.

Thus, one can clearly note that the study adds to the evidence of the expectation gap by examining it in more depth in an emerging economy than previous works by scholars such as Humphrey, Moizer, & Turley (1993), Al-Qarni (2004), Gramling, Schatzberg, & Wallace (1996) and Hussain (2003), which deal with the components of the audit performance gap model suggested by Porter (1993). Therefore, this statement concerned the Libyan external auditors' competence, which in turn links to the existence of a deficient performance gap and the absence of clear written audit process regulations, which resulted in the existence of deficient standards gaps in the Libyan private sector.

7.2.4 Prohibitions and Regulations in the Libyan Audit Environment

It has been argued in auditing literature that the Libyan accounting and auditing profession has been established since 1973 and the main objective was to set up the accounting and auditing principle. However, the study found it has played a very limited role in achieving its objectives relating to developing accounting and auditing regulations (El-Firjani, 2010). Most recently it has only tried to set up the national accounting standards following and translating IASs in 2006, however, these are still inactive as a result of weakness of the LAAA's enforcement activity. There are no accounting recommendations, announcements on where accounting and auditing regulation or practice is lacking and relating to specific controversial accounting and auditing issues.

With respect to the prohibitions and regulations in the Libyan audit context, the findings of the analysis of the questionnaire responses demonstrated that an expectation gap was identified among the General Auditing Bureau, private auditors and financial statements preparers and user groups. The findings of the Kruskal-Wallis test as illustrated in Table (5:9) showed that only three cases were yielded as statistically significant differences among the participants' responses to "Auditors are appointed and removed by the shareholders at the annual general meeting". Also, this statement resulted the greatest significant difference between the groups in the questionnaire. This finding is contrary to the findings of Al-Qarni (2004), who found no significant difference to exist between response groups in Saudi Arabia concerning the preceding statement.

The reasons why the inspection and control department (GAB) has not fully supported this statement are due to the differences in the responses which may be attributed to the differences in the roles performed by the two types of auditors; those working in the inspection and control Department and those registered with the Libyan Accountants and Auditors Association (LAAA). The former audit the accounts of the companies that are totally or partially owned by the State. Thus, in such companies, the property cannot be separated from the management; the owner and the user of the company financial statements is the state. These companies are non-profit making, but they aim at realising economic growth. Thus, the one who appoints the auditor is the state represented by the inspection and control department, since it is the owner and the manager simultaneously.

Concerning the auditors registered with the Libyan Accountants and Auditors Association, they audit the private companies' accounts whose bylaws state that the shareholders have the right to appoint or remove the external auditor in the annual meeting, but some violations occur. The management may dismiss or appoint an auditor without consulting the shareholders. Such cases are quite common in Libyan companies since the Libyan Accountants and Auditors Association assumes no role regarding accountability in the absence of laws and regulations. They thus cannot safeguard the auditor who encounters such problems with the company management. Thus, the external auditor is dependent rather than independent. The differences in the types of companies audited have led to the differences in the responses given by the respondents as confirmed by the interviewees.

Regarding to statement "Audit firms should have their appointments and fees determined by an independent third party". The Libyan stakeholder groups disagree with this statement while GAB groups agree with it. The differentiated results of the GAB from the other groups, resulting in the overall significant difference, indicates the effect of out-of-date laws, which needs to be remedied by enacting new laws to take into account such cases. Furthermore, the result was also due to the absence of rules.

This result is compatible with many previous empirical studies that aimed to examine the existence of audit expectation gaps in the USA, the UK, and a comparative study between the UK and Spain (Humphrey et al., 1993; Gramling et al., 1996). The possible explanation for the high support from private auditors to the statement may be due to the awareness of private auditors of the audit regulations and audit independence as general.

The third significant difference was found in relation to the statement "Auditors should not provide internal audit services to their audit clients" and "Auditors should not provide computing services to their audit clients". The Mann-Whitney multiple comparison was applied in this research study. This section of the questionnaire marks the largest significant difference in the whole questionnaire as related to the statement "Auditors are appointed and removed by the shareholders at the annual general meeting" and the difference was observed among the general auditor bureau with private auditors, financial statement prepares and private investors, and between financial statement prepares in one hand and private auditors and lenders in the other hand. This finding points out that the stakeholder groups in Libya do not have a clear understanding of the auditing regulations since these statements were prepared on the basis of the general guidelines. This result is due to the absence of rules which in turn arises due to the deficient standards gap.

With respect to the first statement, the reasons why the inspection and control department (GAB) has not fully supported this statement are due to the differences in the responses, which may be attributed to the differences in the roles performed by the two types of auditors: those working in the inspection and control Department and those registered with the Libyan Accountants and Auditors Association (LAAA). The former audit the accounts of the companies that are totally or partially owned by the state. Thus, in such companies, the property cannot be separated from the management; the owner and the user of the company financial statements is the state. These companies are non-profit making, but they aim at realising economic growth. Thus, the one who appoints the auditor is the state represented by the inspection and control department since it is the owner and the manager simultaneously.

Concerning the auditors registered with the Libyan Accountants and Auditors Association, they audit the private companies' accounts whose bylaws state that the shareholders have the right to appoint or remove the external auditor in the annual meeting, but some violations occur. The management may dismiss or appoint an auditor without consulting the shareholders. Such cases are quite common in Libyan companies since the Libyan Accountants and Auditors Association assumes no role regarding accountability in the absence of laws and regulations. They thus cannot safeguard the auditor who encounters such problems with the company management. Thus, the external auditor is dependent rather than independent. The differences in the types of companies audited have led to the differences in the responses given by the respondents.

The findings of the interviews indicated that the absence of national accounting and auditing standards, additionally, the laws and regulations prior to 2005 did not determine which accounting and auditing standards or principles should be applied by auditors or companies when prepare the financial report, resulted in the difficulties in comparability of their financial reports by users (Buzied, 1998). These difficulties could be sorted out by adopting IAS. Thus, it can conclude that there is a huge gap existing pertaining to prohibitions and regulations in the audit environment. This divergence could be traced back to the absence of written accounting and auditing standards and ethical code, or it may be concerned with the absence of rules which in turn contributes to deficient standards. Future research is needed to see whether these differences are likely based on these regulations or not.

The study adds to the evidence of the expectation gap by examining it in more depth in an emerging economy, which deals with the components of the audit performance gap model (Porter model). Therefore, this statement is concerned with the Libyan accounting and audit regulations, which in turn links to the absence of accounting and auditing regulations in the private sector in Libya. This in turn led to the deficiency in standard gap existing in the Libyan private sector. Furthermore this is linked to the variation of rules which are adopted by private auditors.

In conclusion, the results with respect to prohibitions and regulations in the Libyan audit environment showed substantial evidence of an expectation gap (the deficiency in standards gap existed in the Libyan private sector) in relation to some aspects of the regulations of auditing. This result provides an indication that there is a need for a comprehensive and effective Libyan law and regulation in order to strengthen the audit practice in Libya. In addition, the results indicate that the prohibitions and regulations gap in the Libyan audit environment is weaker than those observed in the UK, USA, Spain, Japan, Britain, Oman, Malaysia, and Saudi Arabia. However, this gap was less severe than others which have been found in both developing and developed countries. The study adds to the evidence of the expectation gap by examining it in more depth in an emerging economy such as, Al-Qarni (2004), and Hussain (2003), which deal with the components of the audit performance gap model suggested by Porter (1993). This in turn led to the conclusion that a deficiency in standard gap strongly exists in the Libyan private sector.

In terms of the responsibility of external auditors, those who had given a wrong audit opinion should be liable to particular groups: present shareholders, potential shareholders, present lenders, potential lenders, present suppliers, present employees and government. None of these parties except the government is explicitly recognized by statutory obligation (see Chapter Two). However, the majority of the participants tend to agree that external auditors should be responsible not only to shareholders but also to other stakeholders. The vital finding of this research study with respect to the auditors' legal responsibility indicated that there was no difference among the opinions of the stakeholder groups, including both external auditors groups. All the parties' auditors should be responsible. However, the descriptive statistics implied preference for an agreement made by all groups with respect to the auditors' responsibility to the present shareholders, present lenders, present suppliers, present employees and government. Cumulatively, the analysis of the perceptions of the respondents reveals some statistical difference between the groups (auditor and non auditors groups); this result was inconsistent with the results of Humphrey et al. (1993), Gramling et al. (1996) and Hussain (2003), who found in a survey that the responsibility of external auditor is clearly defined by statutory obligation in developed and developing countries. Therefore, the students pre-audit shoulder more responsibility to the external auditors for the parties such as existing shareholders, existing creditors and potential shareholders.

Gramling et al. (1996) maintain that under the common law and law of tort, auditors may be responsible to parties such as audit clients and primary beneficiaries such as lenders and foreseen and limited classes (e.g. parties entitled to receive an audit report in fulfilment of some business transaction; shareholders and bondholders are not included), and foreseeable parties (e.g. investors).

Supporting these results, the majority of interviewees indicated that even though rights of some stakeholders, such as government, are stated and protected by the legal system, the lack of laws and enforcement are still major problems facing third parties for protecting and maintain their right when invest in the companies. On this point, respondents argued that, in general, the rights of stakeholders have not reached a satisfactory level.

The study adds to the evidence of the expectation gap by examining it in more depth in an emerging economy than previous works by scholars such as Humphrey, Moizer, & Turley (1993), Al-Qarni (2004), which deal with the components of the audit performance gap model suggested by Porter (1993). Therefore, this issue was concerned with the external auditor's responsibility which arises due to deficient standards gap in this part of questionnaire (because the responsibility of Libyan external auditors is rather limited with respect to third parties) that needs to be narrowed by renewal of statutory obligation and the adoption of national audit standards, to clarify the responsibility of external auditors toward third parties.

In conclusion, the results indicate that the perception of Libyan stakeholder groups toward groups to whom auditors should be responsible was different from those which have been found in the UK, USA, Spain and Japan, as developed countries, as well as Oman, Malaysia and Saudi Arabia as developing countries, because the law in these countries clearly determined the responsibility of external auditor toward those group. Legal action can be taken by those groups against private external auditors in Libya in cases where external auditors violate the civil law, as confirmed in Chapter Six. However, there is no statistically significant difference in perceptions between stakeholder groups. Surprisingly, the deficient standards gap was an issue in Libya because the weakness of the law.

The next section presents the findings of the study as related to the efficiency of the unqualified audit report communicated in the Libya context.

7.3 The Research Objective Two: the Effectiveness of Unqualified Audit Report Communication use in Libya.

IFAC (2007, p. 215), observed that the audit report is the final component in the audit process. It is here that the auditors articulate their opinion. In case of financial auditing, the accounting data are prepared by the management team with respect to whether or not it has considered 'the material in accordance with an applicable financial reporting framework'. The users have constantly considered the audit report as a vital source of information. Further, the auditors have always regarded the audit report as the prime means of communication to the stakeholders. In Libya, for instance, laws like the commercial law (2004) and/or the tax law require that the audit report be tackled; an opinion should be provided to the shareholders. With respect to the content of information and the format of the audit report, the auditors essentially pursue the UK and US Auditing Standards (for further information see chapter Two) (El-Firjani, 2010). However, the study found that after adopted international accounting and auditing standards by Libyan Stock market and banks. Both bodies recommended that use the international form of audit when audit banks and listed company, with necessary amendments to comply with the Libyan business environment.

The third objective is related to the assessment of the message communicated in the current audit report in Libya. Additionally, the study investigates the respondents' perception regarding the quality and the utility of the auditors' report that mirrors the effectiveness of an auditors' report as a communication medium between auditors and users. The findings obtained from employing the non-parametric statistical test, that is Pearson Chi-Square test, on the 24 statements as related to the five factors of the evaluation of the message that is communicated in the unqualified audit report presently used in Libya, exhibited ten statistically significant differences among the five groups in this questionnaire, whereby the statements concerned the four factors.

What is interesting with respect to the reliability of the financial statement factor is that the findings of the Chi-square test demonstrated no statically significant differences among the five groups regarding the variables that are related to the reliability of the financial statement factor. Thus, it is concluded that no significant difference in opinion exists among the five groups regarding the reliability of the financial statement, which means that the audit report is obviously communicated concerning the reliability of the financial statement. The following subsections supply extra discussion on these results.

7.3.1 Audit Purpose

One of the objectives of this study was to illustrate the unqualified audit report communication recently employed in Libya. Numerous statements were handed to the Libyan stakeholder to assess the message(s) that is/are (or is/are not) conveyed in the unqualified audit report. Evidence for the expectation gap emerged between the stakeholders groups, regarding the audit objective in three out of six statements that make a major difference between the groups related to the intelligibility of the delivered purpose of the audit in the audit report. The clarity of communication concerning the extent of the audit work carried out and; whether or not the audit report is a understandable one.

The direction and the level of the responses from descriptive analysis (see Appendix D5) to the statement concerning the purposes of auditing are evident in the audit report, which states that the majority of the target groups hold a strong belief that the objective of an audit is clearly presented; except GAB group who believe that the purpose of the audit report is not evidently communicated in the current audit report that is used in Libya. This would tend to suggest that there is some room for improvement in clarifying the message of the audit report in terms of audit report purpose. Evidence for the expectation gap emerged concerned this statement. This outcome is partly in line with preceding results studies (Hatherly et al., 1991; Innes et al., 1997; Manson & Zaman, 2001).

The finding of the Chi-square test concerning the extent of the audit work performed clearly indicated that the bulk of the subject groups think that the extent of the audit work performed is apparent from the audit report. Interestingly, the external auditors that belong to both groups with lenders got the highest percentage; their answers do not reveal who is even higher than that of the users group. Evidence for the expectation gap emerged concerned this statement. This may signify that they need to improve the audit report regarding the amount of the work performed. This finding is in line with the previous results such as those arrived at by Schelluch (1996); furthermore, it supports the other interview findings.

The survey exhibits important differences in the respondents' viewpoints regarding the statement "the audit report is understandable". Therefore, evidence of the expectation gap emerged concerned this statement. This finding is likely since Libya lacks any standard form of the auditor's report. This has resulted in several violations regarding the implementation of the reporting standards by the auditors in Libya. Less attention is accorded to the normally accepted and agreed upon standards. Evidently, the auditing reports which are issued by Libyan auditors do not comply with the standards of reporting. The LAAA has not supplied its members with a standard audit report form. This has helped to make the auditors' education and experience the only background which determines the report form and content. Consequently, these reports were different and varied in form; they cause confusion to both auditors and users.

The conducted interviews appeared to back the opinion of the questionnaire respondents in that it would be helpful if the audit report expanded to incorporate information related to the results of the audit. Furthermore, they believed that the audit report should reveal the accounting regulations that the audit customers followed. The responses to the questionnaire indicate that the wording of the audit report is not taken into consideration by the respondents; it does not noticeably point to the auditors' accountability for detecting fraud and illegal acts. The outcome may mirror the fact that the form and content of the audit report in Libya is not adequate and requires further development. Also, it can be argued that for a change from non-standard audit report to the standard audit report. This call for change should no longer be ignored. This finding is not in line with many preceding empirical research studies that investigated the audit report communicative function such as those conducted by Manson and Zaman (2001), who found out in a survey that the user groups think an audit report is more comprehensible than the auditor group do. In this research, the user groups are less willing to make an agreement on the issue than the auditor group.

7.3.2 Perception about Auditors' Responsibility

The auditors' responsibility is known to be one of the major factors that might create the expectations gap among the auditors, the financial statement preparers and the user groups, an audit expectation gap existed with respect to the three statements of the external auditors' accountability, which is whether the internal control structure of the entity is sound, the auditor has agreed with the accounting policies used in the financial statements, and the external auditor has agreed with the accounting policies used in financial statements. Moreover, the findings indicate that the auditor is not accountable for such issues, because preparing the financial statements is the responsibility of the company. The responsibility of external auditors for assessing the good character of management; examine whether the accounting records of the entity are correct; and to assess the financial statements are free from bias.

Because the interview provides deeper analysis, the findings point out that the auditors may think they have little responsibility for the tasks represented by this factor, whereas the users and preparers seemed to shoulder the external auditors' considerable responsibility for these tasks. This would seem to be an area demonstrating an audit expectation gap in Libya which in turn contributes to the deficient standards gap. It concludes that this is due to the absence of regulations related to the audit report, and the shortage of qualified and experienced auditors. Thus, these findings involve action to undertake the required corrective intervention to boost the lucidity of the message that is related by the auditors.

With respect to the statement of the auditor's responsibility for the internal control structure of an entity is safe and sound. An audit expectation gap was pinpointed between the external auditors and the three other stakeholder groups. The GAB group agree on this statement of responsible for the internal control structure, while the other stakeholder groups stated that the auditors need not be responsible for the internal control structure; this resulted in significant difference. Consequently, the wording of the Libyan audit report does not plainly communicate such a responsibility. This result was in line with the findings of Best et al. (2001), Fadzly & Ahmad (2004) and Dixon, Woodhead, & Sohliman (2006), who reported that the investors in Singapore, Malaysia and Egypt were found to believe that external auditors are responsible for ensuring sound internal control in the audit company.

The findings of Schelluch (1996) indicated that the acceptance of the long-form audit report in Australia helped in minimizing the audit expectation gap on all of the above stated issues except for the auditor's responsibility concerning fraud prevention.

The chief reasons for this viewpoint, as clarified by the interviewees, could be attributed to numerous issues like the failure of the LAAA to manage and control the accounting and auditing practices. This result is consistent with previous empirical studies such as Schelluch (1996) who indicated that the acceptance of the long-form audit report helped in minimizing the audit expectation gap.

Likewise, the different groups disagree with respect to the responsibility of the auditor towards the accounting policies applied in the financial statement. Thus, the wording of the audit report does not evidently communicate such responsibility. This result would contribute to deficient standards gap. Therefore, findings contradict those of Schelluch (1996) who found out that the respondent groups agreed on the issue of accounting policies and the scope of assurances. Each group held strong beliefs that the responses of the interviewees supported the result of the questionnaire survey concerning the auditors. The auditors expressed their agreement with the accounting policies applied in the financial statement, since they considered the paragraph on accounting policy and standards unclear in the audit report. To resolve this issue the Libyan companies need to adopt specific criteria, and also need an authority such as LAAA or tax authority to force this company to apply these criteria, whether the external auditor is able to agree with the criteria or not.

A difference in perception was also discovered between external auditors and non auditor groups in relation to auditor's responsibility for ensuring that the accounting records of the company are correct, where the non auditors group shoulder more responsibility to the auditor than auditors do. This result would contribute to the deficient standards gap in Libya. Thus, the wording of the audit report does not evidently communicate such responsibility. Therefore, this result ensures that there is an existing problem with the message conveyed by the audit report to the different non-auditor groups. These findings contradict those of Schelluch (1996) and Adeyemi & Kolawole Olowookere (2011), who pointed out that the acceptance of the long-form audit report helped in minimizing the audit expectation gap on all the issues related to external auditors' responsibility, except the auditor's responsibility for fraud avoidance.

To sum up, the five stakeholder groups were tested with respect to their perceptions of the external auditor's responsibility towards the tasks represented by this factor. An area of substantial difference emerged in perceptions among the five groups with respect to the above statements. The major difference appeared to be an area of the expectation gap where it is possible that one could refer to a deficient standards gap that exists in Libya, meaning that there is an important difference in perception among the groups concerning the intelligibility of the communicated internal control structure of the entity that is sound; the lucidity of the communication of the auditor who has complied with the accounting policies used in the financial statements of the audit report. Such a viewpoint could be accounted for in terms of the presentation and the form of the real auditor's report. These views are consistent with those expressed by a number of researchers, such as Bailey III et al. (1983) and Epstein & Geiger (1994), who adopted the view that the difference in conception between the sophisticated users (financial directors) and the auditors was smaller than that between the simple users and the auditors. However, the researcher from a developing county, such as Schelluch (1996), pointed out that the acceptance of the long-form audit report in Australia helped in minimizing the audit expectation gap on all issues except the auditor's responsibility for fraud avoidance.

7.3.3 Perception about Assurance of Future Viability

One of the issues related to future viability is that an expectation gap was found among auditors, financial statement preparers, the private investors, and lenders, concerning the assurance of future viability; only one statement in this section produced an important difference, namely whether the entity was run efficiently. Descriptive analysis revealed that the auditors' group holds the lowest percentage toward agreement with this statement, in contrast with other stakeholder groups. The results of these scales are consistent with expectations that the audit opinion and financial statements make no explicit assertion about management of the entity concerned (King & Higson, 1994; Schelluch, 1996). Therefore, this result confirms that there is an existing problem with the message conveyed by the audit report to the different non-auditors groups. In line with the auditing profession, the users may deduce that the unqualified audit report is an assurance related to the future feasibility of the entity since all the reports' intended messages are not plainly stated.

The study adds to the evidence of the expectation gap by examining it in more depth in an emerging economy than previous works by scholars such as Al Otaibi (2003), Fadzly

& Ahmad (2004), which deal with the components of the audit performance gap model suggested by Porter (1993). Therefore, this statement concerned the competence of Libyan external auditors, which in turn links to the absence of accounting and auditing regulations regarding the content and format of the external audit report in Libya, which led to the deficiency in standards gap in the Libyan private sector.

The findings also pointed out that several issues produced no significant differences among the five groups: it seems that private investors and lenders share the auditors' belief with respect to the high level of assurance of future viability of the entity, with respect to numerous issues such as that the entity is well managed, the entity is free from illegal acts, and the entity is a going concern.

7.3.4 Reliability of the Financial Statements

The audit tradition in Western countries maintained that one of the major factors that might lead to the presence of the audit expectation gap is the lack in the user's comprehension of the nature of auditing and the work undertaken by auditors. The relationship between the trustworthiness and verifiability of the financial information is postulated by well-known financial accounting theorists like Chamber (1966) and Higson (2003).

Astonishingly, the findings of the Chi-square test demonstrated the non-existence of statically significant difference between the five groups, with respect to all the variables connected with the trustworthiness of the financial statement factor. Thus, it can be concluded that there was no statically significant difference among the five groups with respect to the reliability of the financial statement factor present in Libya (i.e. no significant difference exists between the groups) regarding the level of assurance maintained by the financial statements. The financial statements are free from error and from fraud; the findings of this study are consistent with the results obtained by Schelluch (1996) who found no expectation gap related to the auditor's accountability for deception detection. This conforms to the findings of the current study whereby no evidence of an expectation gap was found in this area. In their study, Pourheydari & Abousaiedi (2011) also found similar results, especially no significant difference between users and external auditors regarding the reliability and utility of audited financial statements in Iran. The insignificant results in terms of audit reliability could be attributed to the culture of trust between auditors and stakeholders in both Iran and Libya. It can be concluded that the wording of the present unqualified audit report employed in Libya successfully conveys the trustworthiness of the audited financial statements. On the other hand, responses of interviewees did not support the result of the questionnaire survey regarding the reliability of the audited financial statements, since the five groups' interviewees show big differences in the viewpoints when they are asked to express their opinion regarding the content of the audit report. Most of the external auditors observe that the form and content of the audit report are adequate and meet the users' needs. On the other hand, most of the users and the financial statement preparers think that the form and content of the audit report are inadequate, inefficient or useless with respect to making investment decisions due to the technical audit terms used by external auditors in free form audit reports. This view was in line with the ICAEW (2007) in its report, which criticised the present audit report on the basis that it is too long and has a 'boilerplate and standardised wording' (p.6). As a result, the audit report is seen as identical from one company to another and rarely understood by many shareholders due to the technical audit terms used.

The study adds to the evidence of the expectation gap by examining it in more depth in an emerging economy than previous works by scholars such as Al Otaibi (2003), Fadzly & Ahmad (2004), which deal with the components of the audit performance gap model suggested by Porter (1993). Therefore, this statement is not required by the Libyan Law which in turn links to the absence of accounting and auditing regulations regarding the content and format of external audit report in Libya, which led to the deficiency in standards gap, existed in the Libyan private sector.

7.3.5 Usefulness for Decision Making

The results of the Chi-square test showed that there were statically significant differences between the five groups in terms of two of the variables related to usefulness for decision making "The audited financial statements are useful for making decisions" and "The audited financial statements are useful in monitoring the performance of the entity", though all the examined groups agree on this issue. However, there is a significant difference between the overall non-auditors groups and the auditor group due to the different degrees of agreement among the different groups, which means that there were statically significant differences between the five groups in terms of the usefulness for decision making factor. Thus, this result would contribute to the conclusion that a deficient standards gap does exist in relation to auditor reports' usefulness for decision making. These results therefore invite action in undertaking the necessary corrective intervention to enhance the clarity of the message related to the auditors.

Related to the issue of whether the audited financial statements are useful for making decisions, table 5:32 indicate that a significant difference exists between auditors and other stakeholder groups. The findings indicates the effect of the lack of accounting qualification and experience, which needs to be overcame by the detailed audit report being directed to the different users with the different needs and qualifications. This finding is contrary to the findings of (Schelluch, 1996; Best et al., 2001; Fadzly & Ahmad, 2004) and reinforces the potential disillusionment with financial statements in Libya.

With respect to the statement that "The audited financial statements are useful in monitoring the performance of the entity", the result of Chi-Square Tests reveals that a significant difference exists between auditors and other stakeholder groups. The responses of external auditors were more sceptical about the usefulness of audit financial statement in monitoring the performance of the entity, reflecting their perceived lack of value of the audit report to auditors and users for monitoring the performance of the entity. Therefore, the finding supports the evidence of an expectation gap existing in

Libya. This result is in line with the findings of Dixon, Woodhead, & Sohliman (2006), who found that a potentially strong audit expectation gap existed on this issue in Egypt. However, this finding is contrary to the findings of Best et al. (2001), Fadzly & Ahmad, (2004), Ahmad & Gao (2004) and Schelluch (1996). Therefore, the overall result of this factor indicates that there are significant differences between the target groups in their responses. This would appear to be an area where it is possible that one could refer to the deficient standards gap being in existence in Libya. This may possibly indicate that the words used in the audit report are not explicit enough to denote that the entity is a good investment in audit report. That are significant differences between the auditors group and the rest of the groups, however, is an indication that the current unqualified audit report used in Libya is not a valuable means of monitoring and making decision on a company being audited. Therefore, the study adds to the evidence of the expectation gap by examining it in more depth in an emerging economy than previous works by scholars such as Al Otaibi (2003), Fadzly & Ahmad (2004), and Dixon, Woodhead, & Sohliman (2006), which deal with the components of the audit performance gap model suggested by Porter (1993). Therefore, this statement is not required by the Libyan Law and Libyan audit profession which in turn link to the absence of accounting and auditing regulations regarding the content and format of external audit reports in Libya, which led to the deficiency in standards gap, in the Libyan private sector.

Generally, the findings of this section point out that the audit expectation gap is quite huge in Libya, principally in the area of auditor's audit purpose, and the area of auditor's responsibilities; to a lesser extent an expectation gap was also found concerning auditor's assurance of future viability for the entity is run efficiently. The finding displays that the deficient standards gap is quite big in Libya mainly in the area of the usefulness for decision making. This seems to be the area of the greatest expectation gap in Libya. Because of the diverse qualifications and experiences of the various groups, significant differences emerge between the auditors group and the non-auditors. Previous research findings pointed out that much of this expectation gap is likely to be significantly minimized with a change in the wording and the form of the audit report that is required to be initiated in the audited financial statements and/ or in the ongoing education of the users regarding financial reporting and auditing processes.

The main reasons for this perception, as explained by the interviewees, were due to the big differences in the viewpoints between the auditors group and the preparers and users of the financial statements regarding the content of the audit report. Most of the external auditors observe that the form and content of the audit report are adequate and meet the users' needs. On the other hand, most of the users and the financial statement preparers think that the form and content of the audit report are inadequate or vague, where the external auditors use some complex word to escape from their responsibilities. The users believed that the Libyan audit report inefficient or useless for making investment decisions since, these reports do not describe clearly the findings of the company business nor the size of the sample used in the examination, neither the degree of confidence nor the absence of the practical recommendations in the report. This will lead audit report lose its value.

This dissimilarity in opinions was astonishing and unanticipated regarding the audit expectation gap literature in the private sector. It revealed that the long form audit report was supposed to decrease or eradicate the audit expectation gap. For instance, Nair & Rittenberg (1987) concluded that an extended audit report altered the user's awareness regarding the comparative responsibilities of both the management and auditors. Meanwhile, in a study conducted by Miller, Reed, & Strawser (1990) the respondents found out that extended audit reports are more beneficial and understandable to bankers than the short form audit reports.

However, this study supported the findings of a study carried out by Hatherly (1997) and Leung & Chau (2001), which demonstrated that the extended audit report has a useful but rather restricted influence on the expectation gap. Their paper found out that the extension of an audit report leads to widening the expectation gap with respect to the yield of the audit, though there was evidence supporting the view that the audit report extension improved the user's insights with respect to the audit process and audit milieu.

7.4 Conclusions

This section provides conclusions and a summary of the main findings of the research relating to the three main research questions. These are the recent stage of the development of the financial statement and audit report in the Libyan setting and to what extent do Libyan financial statements and auditing regulations match international standards.

The questionnaire survey was carried out in order to explore views and perceptions amongst stakeholder groups in Libya regarding many features and aspects related to, inter alia, the audit expectation gap. The stakeholders comprised private external auditors, government officials, financial managers, bank credit managers, and investors. Therefore, the survey sought to examine views and perceptions regarding several questions:

The first part of the questionnaire was concerned with general information about the participants in the study such as their nationality, type of audit firm, level of education, subject of study and experience, and professional training. Based on the analysis of data gathered from the questionnaires and interview, it was found that the vast majority of participants in the current study were Libyan. They possessed a high level of education, specialised in accounting and other business subjects, and were experienced enough to understand the purpose of the study and were able to participate in it in a responsible manner. However, the external auditors from both groups did not perceive proper professional training in audit that may have effect on the perceptions of these groups and this would contribute to the performance gap. The second part of the questionnaire examined perceptions about the role and the nature of audit practice held by the participants from the five target groups, and the third part of the questionnaire explored the perceptions of groups regarding the five factors related to the message that may or may not communicated in the unqualified audit report currently used in Libya, and how these factors or parts contribute to the components of the gap as defined by Porter (1993).

7.4.1 The Questionnaire Survey Findings

This section answers the following research question:

What are the external auditors, financial statement preparers and user groups' perceptions of the role and the nature of auditing in Libya and how contributes to the components of audit expectations gap?

This question covers the following questions:

What should be the duties of auditors and the auditing process?

The second part of the questionnaire and first two questions of the interview guide sought to investigate the perceptions of the participants from five target groups about the auditor and auditing process. The findings indicate that the main drivers for the expectation gap are the absence of audit framework, professional training and the procedure of audit process. Users and general auditing bureau groups perceive the procedure of the auditing process to be below their expectations. This perception is acknowledged by auditors (i.e. deficient performance gap and deficient standards gap). Hence, it is important for the regulatory body in the new Libya to establish an audit framework and clearly define the role of external auditor in law, as well as the LAAA having to adopt a new programme (quality control programme) aimed at improving auditors' compliance with professional standards, to narrow the audit expectation gap. If this problem is not addressed in the future, it may hinder the reputation of the Libyan audit profession and deter the Big Four from entering the country. In addition, the interviews revealed that a great portion of Libyan financial user groups still does not understand what is meant by the audit process or what is its role in Libyan society. The results provide evidence that "deficient performance gap", "deficient standards gap" and "unreasonable expectations gap" exist in relation to current auditing practice in the Libyan context.

What should be the role of the auditor with respect to audited financial statements and audit clients?

As mentioned earlier, in the context of Libya the profession is not well established and the professional body regulatory framework is immature. However, the role of external auditor is important to the new Libya. There is some evidence regarding the importance of the external auditors' role from the developed economies, (for example, Humphrey, Turley et al., 1991; Hatherly et al., 1992; Humphrey et al., 1993), and developing economies such as (Haniffa & Hudaib, 2003; Hussain, 2003; Dixon et al., 2006; Adeyemi & Uadiale, 2011; Pourheydari & Abousaiedi, 2011). Auditing contributes to the financial market, and will help lead Libya to where it wants to be. The result of this study has provided evidence of an audit expectation gap. Although financial statements user groups expect auditors to perform such role, (audited financial statements and audit clients), auditors are reluctant to do so due to the absence of the official auditing standards and continuing professional training. Moreover, the lack of national accounting and auditing standards, absence of the Companies Acts, ambiguity of commercial law regarding the auditor's role, and auditors who do not have the competence to perform such a role in some sectors such as banks, impinge on audit performance. Rank 1 as shown in table: 7.2, shows that the greatest number of significant differences (the extent of the gap) arise in relation to the responses of GAB-FSP (6 sub-items) followed by FSP-L (4 sub-items) the position of the G1and G2 could be attributed to their greater knowledge of the auditing practices and its role and responsibility than the other groups. In addition, external auditors (GAB), usually perceive themselves as qualified professional practitioners who can protect and maintain the government or third party rights while the third ranking was that between GAB-PA (2 sub-items); and finally, the least differences accrued between GAB-L,FSP-PA and PI-L (1 sub-items). These results of the audit expectation gap contribute to the deficient performance and deficient standards gaps. This findings was similar to other developing countries such as (Sidani & Olayan, 2007) in Lebanon.

What should be the prohibitions and regulations placed on audit firms?

The third part of the questionnaire and third questions of the interview guide sought to investigate the perceptions of the participants from five target groups about the prohibition and regulation in the audit environment, and different views were found to be held. This part of the questionnaire produced the largest significance in the entire questionnaire (Chi- square = 44.98) (P=.000). The private auditors, financial statements preparers and users expect the regulation of "Auditors are appointed and removed by the shareholders at the annual general meeting", performed in the Libyan audit market, auditor from GAB are reluctant to apply this regulation, also, all groups tend to reject the statements regarding to non-audit service because they thought that they can do so since Law 116/1973 does not prevent such service. This gap may contribute to the education gap and deficient standards gap; for example Almalhuf (2009) in his study found over half of the aggregate responses believed that the accounting and auditing curriculum in the Libyan education system is not sufficient to train auditors.

Who are the third parties to whom auditors should be responsible?

The questionnaire results indicate no significant differences in the opinions of the five groups concerning whether the external auditor of a corporation with significantly misstated financial statements should be liable to seven groups if the audit report fails to disclose the true position. The result from the analysis of the responses to the questionnaire revealed that a general consensus among the participants was achieved, that the external auditors are liable to all seven groups. However, stakeholders' opinions are significantly stronger about auditors being liable to present shareholders, present lenders, present suppliers and government. In addition to their agreement with the questionnaire respondents' opinion, the interviewees believed that despite the changes that the Libyan political and economic systems have witnessed in the last few years, the official laws are silent on such responsibility, except for the responsibility of external auditors to the government. It can be argued that there is gap in this area which may contribute to deficient standards gap. However, the responsibility of external auditor is clearly defined in laws in both developed and emerging economy. This has been evident in all studies such as Hatherly et al. (1991, 1992) and Gramling et al. (1996). However, in Libya it is not yet defined.

What are the differences in perceptions of the message(s) that is/are (or is/are not) communicated in the current unqualified audit report used in Libya between the external auditors, financial statement preparers and users groups in Libya and how this contributes to the components of audit expectations gap?

As pointed out above, the third section in the questionnaire and Q5 and Q6 in the interview guide sought to investigate the perceptions of the participants from five target groups about the effectiveness of unqualified audit report communication. In this section 24 statements were presented related to five factors which are: audit purpose, auditors' responsibility, assurance of future viability, reliability of the financial statements, usefulness for decision making. The statistical tests and descriptive analysis (see appendix D5) revealed that significant differences in opinion about auditors' performance were found for nine statements; according to the descriptive statistics in appendix C there was a slight tendency towards agreement by all groups that the current Libyan audit report successfully communicated the result of audit work. This difference was regarding their strength of agreement about the factors examined that include: audit purpose; auditors' responsibilities; assurance of future viability; and usefulness for decision making. The expectation gap was found to be quite wide particularly on the issues of clarity of the purpose of auditing. The extent of audit work performance is clear and the audit report is understandable. With respect to the responsibility statements, the results also indicate that significant differences in beliefs and opinions exist between auditors and subject groups, and subject groups tend to attach greater responsibility to external auditors for 'soundness of internal control responsibility', 'accounting records of the entity are correct', and 'auditor agreement with accounting policies used in the financial statements'. To a lesser extent an expectation gap was found concerning assurance of future viability, and whether the entity is run efficiently. In addition, an audit expectation gap was found to be quite wide regarding the factors of usefulness for decision making: 'the usefulness of the audit report for making decision' and 'the usefulness of the audited financial statements for monitoring the performance of the entity'. It could be argued that based on the responses of Libyan stakeholders, the current audit report might cause confusion to all the groups and might not meet the demands of the Libyan audit market. The views of external auditors showed some uncertainty as to the message being communicated in the Libyan audit report. This gap may be evidence of the deficient standards gap, due to the weakness of LAAA and therefore the standards by which a profession would be guided. However, another possible explanation is that the adoption of the unqualified international audit report style as a new form of audit report may not have been fully understood by financial statements user groups. The issue could be that it is not just technical auditing language, but also the differences that stem from the culture prevailing in the West and Libya.

Therefore, it is believed that the wording of audit reports needs to be simplified and enhanced, so that they become more understandable to all user groups, and the level of responsibility is more clearly communicated. Furthermore, the findings of this research study suggest that the adoption of international accounting and auditing standards, or establishing of national audit regulations and standards of audit report, and the revision of the national laws to comply with the adopted regulations, should no longer be ignored by decision makers in Libyan authority.

Table (7.2): Summary of the differences between the five groups from the questionnaire relating to their attitude about the role and the of audit practice,

Examined factors	No-of statements	GAB -FSP			GAB-PA			GAB-PI			GAB-L			FSP-PA			FSP -PI			FSP -L			PA-PI			PA-L			PI-L			No-of significant cases	Rank 2
		0.1%	1%	5%	0.1%	1%	5%	0.1%	1%	5%	0.1%	1%	5%	0.1%	1%	5%	0.1%	1%	5%	0.1%	1%	5%	0.1%	1%	5%	0.1%	1%	5%	0.1%	1%	5%		
The auditors and the auditing process	13	1	4	0	0	0	3	4	0	1	0	1	0	0	0	0	0	1	1	0	1	0	0	1	1	0	0	1	0	0	1	8	2
The audited financial statements of companies	7	1	2	3	0	1	1	0	0	0	0	0	1	0	0	1	0	0	0	0	0	4	0	0	0	0	0	0	0	0	1	6	3
The auditor's role with respect to the company audited	5	1	2	0	1	0	1	0	1	0	1	1	0	0	0	1	0	0	0	0	1	1	0	0	0	0	1	0	0	0	0	4	4
The prohibition and regulation in the audit environment	15	1	0	1	2	0	3	1	0	2	0	0	0	1	0	1	0	1	1	0	2	1	1	1	4	0	0	1	0	0	1	10	1
The auditors' legal responsibility	7	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	1	0	0	0	0	0	0	0	0	2	0	0	1	2	5
Total	47	4	8	4	3	1	8	5	1	3	1	2	1	1	1	3	0	2	3	0	4	6	1	2	5	0	1	4	0	0	4	30	
Total		16			12			9			4			5			5			10			8			5			4				
Rank 1		1			2			4			7			6			6			3			5			6			7				

GAB –FSP auditor from the inspection and control Department and financial statement prepares, **GAB-PA auditor from** the inspection and control Department and private auditors, **GAB-PI auditor from** the inspection and control Department and private investors, **GAB-L auditor from** the inspection and control Department and lender, **FSP-PA** financial statement prepares and private auditors, **FSP –PI** financial statement prepares and private investors, **FSP –L** financial statement prepares and lender, **PA-PI** private auditors and private investors, **PA-L** private auditors and lender, **PI-L** private investors and lender.

7.5 Research Implications

Numerous implications arise from the findings of the research, as follows. First, the literature review in Chapter Two demonstrated that some weaknesses appear in relation to the Libyan accounting and auditing profession when evaluating the official laws in Libya, such as commercial law and tax law, in addition to the accounting and auditing profession law, since there is an absence of Libyan accounting and audit regulation. In view of that, an official code of ethics must be created again to meet the Libyan need; in addition, a thorough evaluation and renewal of all laws relating to the management of the audit profession must be made, to facilitate the adaptation of updated developments in the area of auditing.

Second, the audit expectation gap is detrimental to the auditing profession as it affects the perceived value of auditing and the reputation of auditors. Researchers, for example Haniffa & Hudaib (2007) and Dixon, Woodhead, & Sohliman (2006), reported that the audit expectation gap existed in Saudi Arabia and Lebanon as a result of failure by the external auditors' group, the professional body, and the government to meet financial statement user group anticipations; both studies recommended the need for more research to examine the elements of the gap, to gain better understanding of the audit expectation gap within the context of different countries. Hence, this study aims to examine the gap in more depth, to understand it better in the context of different countries and to suggest the way to narrow this gap within the Libyan business environment. Because previous studies in emerging economies blindly adopt the approach of a developed economy to reduce the audit expectation gap this is useless without locating it within the context of the different countries (Haniffa & Hudaib, 2007).

Third, within a developing country such as Libya, the findings demonstrate the existence of an audit expectation gap between external auditor and financial statements user group regarding the auditor and audit process, which in turn links to a deficient performance gap, or in the absence of written rules it also arises due to a deficient standards gap. This may suggest that financial statements user groups should be enlightened more on the auditors' work; therefore the government or a regulatory body such as LAAA may initiate rules that should govern the procedures of audit work. Also, formal education of users appears to be a potential tool for reducing the reasonableness gap.

Fourth, the findings also revealed that an audit expectation gap exists regarding the auditor's role with respect to audit financial statements and audit clients. It suggests that developing the professional body will also enhance accounting and audit education, to support, enhance and develop education in universities. This is important because the literature shows that education in universities alone is not sufficient to create an effective external auditor (Almalhuf, 2009). Moreover, the respondents in this study confirm that external auditors are uncertain about their role and purpose. The results also indicated that GAB group is more likely to have misunderstanding about financial statements audit regulations in the private sector; this may suggest that further education through the Inspection and Control Department be required of all existing GAB members in respect to their roles and responsibilities.

Fifth, the findings also revealed the existence of an audit expectation gap regarding current prohibitions and other regulations in the audit environment, as this regulation may not clear for both GAB and user groups. Therefore, a regulatory body such as LAAA and Control Department would initiate national accounting and auditing regulations, or update the Libyan laws, to take into consideration international standards which at the moment are in conflict. The findings also show that there is gap between GAB group and other user groups with respect to non-audit service, owing to the fact that Law 116/1973 does not prohibit any type of non-audit services. Therefore, in order to overcome this problem the auditing profession in Libya may want to consider what steps to take to enhance the independence of external auditors.

Sixth, the results of examining the message communicated in the current audit report used in Libya suggest that the audit report has been unsuccessful in communicating the result of audit work: the challenge facing auditors is that of how to attract the users' attention to the output of their work. Currently, both the layout and the content of the audit reports are strongly criticised by all the user groups. To overcome this problem, the audit profession has to approve the standards of the audit report in its layout and content to eliminate any vagueness or misunderstanding in the report.

As mentioned earlier the study found that the expectation gap in Libya is due to lack of standards and poor performance by auditors. The analysis of the expectation gap components would allow the LAAA to take corrective action to narrow the audit expectation gap more effectively (see Chapters Five and Six), as knowledge of the structure and composition of the expectation gap provides insight into how the gap may be narrowed, this making my study more valuable and original (Porter et al., 2009). However, this gap and the reason behind the existence of the components of the gap were different from those in developed countries due to the difference in economic and education conditions, and the cultural context, (for example, Humphrey, 1991; Gramling et al., 1996; Schelluch, 1996; Best et al., 2001; Hussain, 2003; Haniffa & Hudaib, 2007; Ali et al., 2008).

Seventh, the findings also demonstrate that accounting education is not proportionate with the recent developments in the Libyan setting; hence, it needs to be promoted to satisfy the requirements of the Libyan milieu. Also, the professionals and academics have to exert the required efforts to enhance their cognisance of the vital role the auditing profession plays. Besides, auditors should be made aware of their tasks and responsibilities towards society. Therefore, auditors must exert extra efforts to realise the needs of the community and to maintain and develop the auditing profession.

It is hoped that the implications of this thesis would benefit the accounting and audit profession in Libya; especially with regard to the development of accounting and auditing framework and a code of ethic in the country. The Libyan regulators, policy-makers and politicians should take serious action to regulate the audit profession and bring it more effectively into line with the international accounting and auditing. For example, the LAAA should clarify the role of the external auditor to aid stakeholder groups, by adopting international auditing standards, as developed countries have done. Moreover, the LAAA should adopt quality control programmes in audit firms. This would enhance the quality of the audit service in Libya.

Finally, this study argues for adopting different types of evidential approaches (e.g. the triangulation approach) for researching auditing in its context. Approaches designed to corroborate and triangulate can overcome the weaknesses present in a single form of data collection, improving the validity and robustness of the researcher's judgement and conclusions. Indeed, using a questionnaire survey combined with semi-structured interviews enabled this study to generate a rich and comprehensive view of the Libyan stakeholder's opinions regarding the audit expectation gap. This multiple method approach can make a substantial contribution to the study of the auditors' perceptions towards specific professional issues.

7.6 Expected Contribution to Knowledge

This study has generally contributed to the literature of auditing and particularly to the audit expectations gap, besides it has specific implications for researchers and practitioners. These aspects can be summarised as follows:

Firstly, it has made its case for economic and regulatory reform, which includes observance of the International Accounting Standards (IASs) and the International Standards on Auditing (ISAs) incorporated within the banking sector (CBL 2005) and the Libyan stock market. There are in Libya new issues that need in-depth examination, particularly those that are caused by the absence of empirical literature and an apparent view of the development of accounting and auditing. To the best of the researcher's knowledge, no study was conducted in the past to investigate the attitudes of the auditors, the financial statement preparers and users in the milieu of the Libya private sector. The current study may give researchers enhanced understanding of the relevance of these parameters on the attitudes of auditors and users of the audit reports. Consequently, the present literature on the audit expectation gap will be considerably improved.

Secondly, Libyan economists have already started encouraging the private sector, an attempt which corresponds to the re-organisation process of the auditing profession in Libya. The accounting profession in Libya still requires further study and analysis, thus this research will be helpful in future studies, since it contributes to re-organising and promoting accounting in Libya.

Thirdly, the audit expectation gap is due to different perceptions between the financial statement user groups (including clients) and auditors with respect to issues of auditors and the auditing process, the role that should be played by auditors, prohibitions and regulation on an audit firm, parties to whom auditor should be responsible (Humphrey et al., 1993). In addition, Fadzly & Ahmad (2004), confirmed the existence of an audit expectation gap in Malaysia. A significant difference was found regarding responsibilities in the field of fraud detection and prevention, preparation of financial statements and accounting records and internal controls, the actual roles of auditors, the services provided by the auditors, and questions about independence of auditors. They suggested education as a means of reducing the audit expectation gap (Monroe & Woodliff, 1993; Gramling et al., 1996; Ali et al., 2008). However; no study has yet been conducted to examine both the role and the nature of auditing, with the effectiveness of audit report communications and analysis of the components of the audit expectation gap. Hence, this study aims to provide such contribution to the auditing literature. Evidence of the audit expectation gap and its components has been provided. For example the result of this study indicated the existence of audit expectations as general; deficient standards of auditing in Libya; and deficient performance of the external auditors in both groups, private and government, were found in this study, as well as, on the part of financial statement user group

Fourthly, this study has provided the first wide-ranging, detailed and complete investigation of the respondents' perceptions of the audit expectation gap and its components in Libya. Such analysis could serve as a wide base for other researchers to build their research on. Moreover, the findings of this study could be contrasted with other Arabic and non-Arabic studies in developing and developed countries that have similar socio-economic environments.

Fifthly, the study has outlined numerous reasons that explain why the accounting and auditing profession in Libya is still regarded as one that does not have a high professional position. Some of these reasons embrace the failure of the LAAA in carrying out its theoretical role in promoting accounting and auditing and safeguarding the interests of its members, the presence of incompetent practitioners, the entire deficiency of any type of code of conduct for the accounting and auditing profession in the Libyan setting, the unrestrained process of auditor employment and payment, dominance of public corporation, the absence of an active Libyan stock market, and the lack of knowledge among the Libyan society members concerning the accounting and auditing profession and the role it plays.

Sixthly, while the results of this study are restricted by the milieu of the research, they are documented by similar findings in other studies carried out in diverse countries, principally in the United States and the United Kingdom, Malaysia, Egypt, and Oman. Such helpful substantiation makes the results of this study valuable for duplication in a lot of different settings.

Seventhly, the current literature that is related to the study of the existence of the audit expectation gap and to the message communicated in the incompetent audit report has stressed the importance of auditors and MBA students (Hatherly et al., 1991; Innes et al., 1997). Therefore, there is, as King & Higson (1994) observed, a need for more research that compares the managers' responses. By gathering data from managers and users and comparing their attitudes with those of the auditors, the researcher has, thus, filled an obvious gap in the literature.

Eighthly, studies regarding the development of accounting and auditing generally and the audit expectations gap particularly in both emerging and transitional economics did not receive the required attention; they are still few compared with those undertaken in developed countries. Thus, one of the key contributions made by this study concerns the audit expectation gap in one of the developing countries which is viewed as a transition economy. The findings of this study reveal the weakness of the enforcement mechanisms which resulted to lack of commitment to the application of international accounting auditing standards as well as, the presence of the audit expectation gap. This gap exists between stakeholders (the financial user groups) on one side, and the auditors on the other side. The stakeholders anticipate that the auditor, while carrying out the auditing procedures, supplies them with total assurances that the financial statements represent the corporation's financial condition reasonably and truthfully. The problem arises from the stakeholder's over-expectation concerning the auditor's obligations and responsibilities, since there is a certain degree of error that might occur owing to the reliance on samples while conducting the audit procedures together with other analytic tasks undertaken by the auditor. Consequently, the present auditing tasks and responsibilities cannot meet the stakeholders' prospects, reflected on the existence of an audit expectation gap (Humphrey et al., 1993; Gay et al., 1998; Frank et al., 2001; Fadzly & Ahmad, 2004; Porter & Gowthorpe, 2004; Chowdhury et al., 2005; Dixon et al., 2006).

Ninthly, the study findings could be useful to interested parties on the audit expectation gap as they shed light on the most major factors that cause the existence of the audit expectation gap in the Libyan milieu. For instance, Libyan academics, practitioners and any other private companies that relate to the audit profession could make use of these findings when making or modifying their policies with respect to the accounting and auditing profession generally and the audit expectation gap particularly.

Tenthly, more than forty empirical studies concerning the existence of the audit expectation gap and the development of the audit report communication carried out between 1974 and 2012 were reviewed in this study. This contributes greatly to the literature of the audit expectation gap since it updates and renews the two preceding all-inclusive reviews (see chapter Three). This will supply researchers with an insight necessary for comprehending the quality of auditing and for understanding the meaning of unqualified of audit report communication use in Libya context.

Finally, this study has applied a mixed research methodology by adopting and uniting two methods of gathering data, i.e. self-administered questionnaires and semi-structured interviews. The study managed to highlight issues of concern in a manner that adds a new dimension to the research on the attitudes of the audit expectation gap. Studies that employ only one method are more susceptible to mistakes linked to that certain method than studies that use multiple methods (triangulation) whereby diverse kinds of data provide cross-data validity checks; it can also explore a variety of aspects of the same topic by examining it from diverse sides or angles. Additionally, the findings of the interviews aimed to confirm the findings of this study.

7.7 Limitations and Future Research

There are several limitations characteristic of this research study: they should be taken into account in any schema for further research. These limitations can be summarized as follows:

Concerning the second and third sections of the questionnaire, all the respondents were Libyans; thus, the findings are restricted only to the Libyan context since it only mirrors the perspectives of the participants residing in Libya. Such views are affected by the culture, regulations and the structure of the country. Consequently, the findings cannot be extended or over-generalised to other countries.

The research is based on a questionnaire: the main data were collected and analysed statistically; thus, the drawbacks of using this method of data collection together with the statistical techniques increased the limitations of this research. Therefore, to overcome this limitation the interview was utilized aimed to enhance the degree of confidence in the findings.

With respect to the third part of the questionnaire, this research circulated a copy of the unqualified audit report along with the instruments and then required the subject to read it. The research findings may thus be influenced by the issue of external validity in case the audit report was not read carefully and in detail, or if it is treated as a code or symbol (Innes et al., 1997).

The absence of similar studies in Libya has barred the researcher from assimilating her findings with other findings. Though this is a constraint, it is, simultaneously, one of the assets of this study: as stated earlier this may be the first attempt to explore the existence of the audit expectation gap on the basis of the audit report and the efficacy of supplementary improvements of such a document. Therefore, the findings of this study invite other researchers to utilize and extend them.

In addition, the second method used in this study was the interviews. Owing to the time pressure, all interviews were carried out with participants who worked and resided in Tripoli, except one interview which was conducted with a participant from Benghazi. Furthermore, the researcher was unable to interview numerous private investors, similar to the auditors, lenders and financial statement preparers, due to time and cost constraints.

The absence of written duties and responsibilities of external auditors in national Libyan laws led to an inability to study the components of the expectation gap (performance gap in details). Thus this study was restricted to investigating the perception gap and how these gaps contribute to performance gap and the reasons behind the existence of this gap.

Moreover, several questions have emerged from the findings and the related discussions, which indicated the need for more empirical research studies to be undertaken in this area. Many possibilities for future research are proposed in this study.

- Since Libya has lately adopted the International Auditing Standards, it is advisable to study whether these standards are entirely harmonious with the Libyan accounting milieu.
- Since the data was collected for this study, the political and economic setting in Libya has begun to reshape itself. The necessary measures are being taken to allow the country to integrate completely with the global economic community. When these changes are implemented successfully, it would be useful to

commence further research to determine whether the current developments have influenced the Libyan auditing profession.

- Some of the limitations of this thesis stated in the limitation section could direct future research endeavour in certain directions.
- Similar studies might be undertaken in the setting of other developing countries generally, and the Arab countries particularly, to pinpoint both similarities and differences when they are compared with this study. Such comparison may also lead to further research studies concerning the expectation gap or other areas of research in these states.
- Since this study endeavoured to examine the attitudes of external private auditors, general auditing bureau, preparers and financial statement user groups, the findings obviously suggest the existence of an audit expectation gap in Libya. Considering such a situation, further research could scrutinise the effectiveness of alternative mechanisms to decrease the expectation gap in Libya. The solutions proposed in other countries may be explored in more detail to find out how well they could fit the Libya milieu. Narrowing the expectations gap, could, for instance, be achieved by encouraging the users of the financial statements to change their perceptions as related to the commitments and responsibilities of auditors and the current Libyan audit report communication. Likewise, the auditors could modify their perceptions regarding their tasks and responsibilities and the present Libyan audit report communication.
- Since the 1970s researchers have extensively discussed the audit expectation gap between the auditors and the financial statements' users. This research expands the present discussion of the expectation gap to comprise five groups: general auditing bureau, financial statement preparers, external private auditors, lenders, and private investors. Furthermore, future research may take into consideration whether an expectation gap exists between the practising auditors and the accounting scholars in countries such as Libya. Such research should pinpoint

whether accounting students, particularly those who take part in academic courses, work in auditing and differ considerably from auditors.

- Taking into consideration the scarcity of the audit expectation gap research across the Arab world (see chapter Three), and the significant role the external auditor plays, particularly within private companies, more research is required concerning the area of the audit expectation gap generally, and the role and responsibility of external auditors factors effectiveness of the audit report communication in particular. It would also be advantageous to compare the audit expectations gap in different sectors, such as private companies, banks and public sector.

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Appendices

University of HUDDERSFIELD

Appendices/ Appendix A: The Questionnaire

Appendix A1: External Auditor questionnaire survey

I am a doctoral student at the University of Huddersfield, UK currently undertaking a piece of research entitled: "The Development of Auditing and the Possible Existence of an Expectations Gap in Libya" which aims to investigate and examine the perceptions of external auditors, financial statement preparer, and user groups towards the role and responsibilities of the auditors as well as external auditors' and users' understanding of the value of audit reports.

In order to achieve successfully the aim of the study, an empirical work should be carried out in the context of Libya using a research questionnaire as a data collection tool. The questionnaire will be targeting five different groups of people: external auditors, investors, financial statement preparers, lenders and government officials. Therefore, your cooperation is required in order to enable the researcher to obtain adequate and proper data needed for the research. You are kindly requested to complete all sections of the questionnaire and if you have any further comment you are welcome to include them.

For the purpose of confidentiality, your response will only be used for the purpose of this study. It will not be disclosed to third parties or used for the purpose of other studies. If you require any further clarification for any item included in the questionnaire, please do not hesitate to contact the researcher at the address shown at the bottom of this page. Finally, you are kindly requested to pass the questionnaire to any other personnel who is directly in charge of audit practice if you believe it is his/her responsibility.

Definitions Audit expectations gap: "The difference between what the public expects or needs and what auditors can and should reasonably be expected to accomplish" (AICPA, 1978, p. xi).

Instructions for completing this questionnaire

Please answer all the survey questions to the best of your ability.
All of the statements in part two in the questionnaire are scaled using a number from 1 to 5 as 1 represent (strongly disagree) and 5 represent (strongly agree) please complete the survey by Circling the number that you think is most appropriate for each statement.
All of the statements in part two in the questionnaire are scaled using Yes, No and Do Not Know please complete this section by Circling answer that you think is most appropriate for each statement.
Please write what you would like to add to this survey in the space provided in the end of the questionnaire and advise me if you wish to receive a copy of the aggregated results of this study

Yours sincerely,

Samira Abonawara, Mobile No. # 092 5524210.
E-mail U0775694@hud.ac.uk, samira682006@yahoo.com
Po. Box: 2112 Tripoli Tripoli / Libya.

Section A: General information: the auditors

The data which is given in this section will only be used as background to the answers given in other sections of the questionnaire. Please provide the following data:

A1. Your nationality:
Libyan ☐ Other Arab countries ☐
European ☐
Other, please specify ……………………

A2. The audit firm or organization you work for:
National / local firm ☐ General Auditing Bureau ☐
International firm ☐

A3. Please indicate your years of experience:
Less than 3 years ☐ 3-5 years ☐
6-10 years ☐ More than 10 years ☐

A4. Your present position:
Owner/ Partner ☐ Audit staff ☐
Manager ☐ Other ☐
Exact title, please specify. ………………………………………………………

Education
Complete the details of the highest qualification that you have:

Level of education	Major	Place of study
Below bachelor degree		
Bachelor		
Master		
PhD		
Professional qualification (please specify)		

A6. Does your firm/office organize any programs for professional training in auditing?
Yes ☐ No ☐ I do not know ☐
If yes, how often do you attend these programs?
Never ☐ Once every 3 months ☐ Once every 6 months ☐
Once a year ☐ Other (please specify) …………………………….

A7. Does the Libyan Accountants and Auditors Association organize any programs for professional training in auditing e.g. Professional updates?
Yes ☐ No ☐ I do not know ☐
If yes, how often do you attend these programs?
Never ☐ Once every 3 months ☐ Once every 6 months ☐
Once a year ☐ Other (please specify) …………………………….

A8. List the courses you have attended in the last 12 months:
………………………………………………………………………………………………………
………………………………………………………………………………………………………
………………………………………………………………………………………………………

Section B: The role and nature of auditing

Part 1: Auditors and the auditing process

Please indicate your level of agreement with the following statements by circling the appropriate number that most closely reflects your personal opinion.

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
5	4	3	2	1

The quality of company audits has increased in recent years	**5**	**4**	**3**	**2**	**1**
Auditors should report to shareholders on the efficiency of management	**5**	**4**	**3**	**2**	**1**
Auditors should identify ways to improve management efficiency	**5**	**4**	**3**	**2**	**1**
Too much is expected of auditors by the investing community	**5**	**4**	**3**	**2**	**1**
Auditors are too concerned with keeping company management satisfied	**5**	**4**	**3**	**2**	**1**
Auditors are more interested in collecting fees than in doing a rigorous professional job	**5**	**4**	**3**	**2**	**1**
Audits are of very little benefit to a company	**5**	**4**	**3**	**2**	**1**
Auditors do not understand the problems of business	**5**	**4**	**3**	**2**	**1**
Audits generally take too long to complete	**5**	**4**	**3**	**2**	**1**
Audits provide significant protection against fraud	**5**	**4**	**3**	**2**	**1**
Providing credible data through better auditing would increase foreign investment in Libya	**5**	**4**	**3**	**2**	**1**
The auditing process is seriously weakened by imprecise auditing standards	**5**	**4**	**3**	**2**	**1**
The quality of audit work is adequately regulated by the audit profession	**5**	**4**	**3**	**2**	**1**

Part 2: The audited financial statements and the audited company

Please indicate your level of agreement with the following statements by circling the appropriate number that most closely reflects your personal opinion.

	Strongly Agree 5	Agree 4	Neutral 3	Disagree 2	Strongly Disagree 1
Auditors should ensure that the financial statements contain no significant errors	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that audited financial statements comply with the LAAA rule	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that audited financial statements comply with International Accounting Standards	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that audited financial statements comply with the Commercial Code	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that audited financial statements comply with the tax law	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that the financial statements contain no deliberate distortions	**5**	**4**	**3**	**2**	**1**
The main purpose of the audit is to lend credibility to the company's financial statements	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that the company is being run efficiently	**5**	**4**	**3**	**2**	**1**
Auditors should inform the regulatory authorities of any significant malpractices at their clients	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that the future viability of the company is not in doubt	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that the balance sheet provides a fair valuation of the company	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that internal controls are satisfactory	**5**	**4**	**3**	**2**	**1**

Part 3: Prohibitions and regulations in the audit environment

Please indicate your level of agreement with the following statements by circling the appropriate number that most closely reflects your personal opinion.

Strongly Agree 5 | Agree 4 | Neutral 3 | Disagree 2 | Strongly Disagree 1					
Auditors are appointed and removed by the shareholders at the annual general meeting	**5**	**4**	**3**	**2**	**1**
Auditors should verify every business transaction entered into by an auditee company	**5**	**4**	**3**	**2**	**1**
Auditors should give early warning about the possibility of business failure	**5**	**4**	**3**	**2**	**1**
Auditors should guarantee the accuracy of a company's financial statements	**5**	**4**	**3**	**2**	**1**
Auditors should not provide advisory services to their audit clients	**5**	**4**	**3**	**2**	**1**
Audit firms should have their appointments and fees determined by an independent third party	**5**	**4**	**3**	**2**	**1**
Audit firm should have a maximum period for auditing clients	**5**	**4**	**3**	**2**	**1**
Audit firms should prohibit their staff from owning shares in their audit clients	**5**	**4**	**3**	**2**	**1**
Audit firms should not act primarily to make a profit	**5**	**4**	**3**	**2**	**1**
Auditors should not provide tax services to their audit clients	**5**	**4**	**3**	**2**	**1**
Auditors should not provide internal audit services to their audit clients	**5**	**4**	**3**	**2**	**1**
Auditors should not provide computing services to their audit clients	**5**	**4**	**3**	**2**	**1**
Auditors should not provide investment advice to their audit clients	**5**	**4**	**3**	**2**	**1**
The auditors should be liable for damages sustained by shareholders as a result of professional errors in the performance of their work	**5**	**4**	**3**	**2**	**1**
Audit firm should have limited liability determined by law	**5**	**4**	**3**	**2**	**1**

Part 4: Auditors' legal responsibility

If a company's audited financial statements are significantly misstated and the audit report fails to disclose that error, to what extent do you agree that the company's auditors should have a legal liability to the following parties for any loss arising from their reliance on the audited financial statements?
Please circle the number that most closely reflects your personal attitude.

Strongly Agree 5 | Agree 4 | Neutral 3 | Disagree 2 | Strongly Disagree 1					
Present shareholders	**5**	**4**	**3**	**2**	**1**
Potential shareholders	**5**	**4**	**3**	**2**	**1**
Present lenders	**5**	**4**	**3**	**2**	**1**
Potential lenders	**5**	**4**	**3**	**2**	**1**
Present Suppliers	**5**	**4**	**3**	**2**	**1**
Present Employees	**5**	**4**	**3**	**2**	**1**
Government	**5**	**4**	**3**	**2**	**1**

Section C: The effectiveness of audit report communications

This part presents several statements to examine the perception of auditors and users group regarding of the effectiveness of communications in the current Libyan audit report. Please read attach Libyan audit report carefully.

Brothers the Members of the General Committee

We have audited the accompanying balance sheet of the company as of 31/12/2008, and its income statement for the year ended on that date and obtained all the information and clarifications which we considered necessary for the performance of our task.

The balance sheet of the company as of 31/12/2008, and its income statement for the year ended on that date and the documents in support of the values stated are the responsibility of the company management committee, whilst our responsibility is to comment on them, with accordance to the process of our audit.

These statements have been reviewed, according to generally accepted auditing standards which require the completion of the audit to ensure whether the financial information included in the company's financial statements are free of substantial misstatement, and have been audited on the basis of the review of the documents that support the amounts in the financial statements and their disclosure. The audit included an assessment of the accounting principles adopted and significant estimates and the overall presentation of such data. The audit process has further included the investigation of the existence and reliability of the company valuation of the assets and liabilities as well as other necessary audit procedures. Thus we believe that the audit work we accomplished provides a reasonable basis for our opinion on them.

We found that the company holds accounting records that comply with relevant laws and regulations and are consistent in the accompanying financial statements.

In our view, the balance sheet and income statement, respectively and fairly, express the financial position of the company as at 31.12.2008 and the outcome of its activities for the year ended on that date. Moreover, they have been prepared in accordance with accepted accounting standards and followed the current legislations adopted by the company.

Libyan Accountants and Auditors Association Certification of registration Signature

Date

Association of Accountants and Auditors Libyans Certification under

Now that you have read the audit report please indicate the extent to which you can give information about these following statements.			
Statements	**Yes**	**No**	**Do not know**
Questions relating to Audit Purpose			
The purpose of the audit is clear in the audit report			
The financial statements are presented fairly			
The extent of audit work performed is clear			
The audit report is understandable			
The audit report enhances the credibility of the financial statements			
Users of the audit report would understand better if the audit report was standard for all companies			
Questions relating to Auditors' Responsibility			
The internal control structure of the entity is sound			
The auditor has prepared the financial statements			
The auditor has assessed the good character of management			
accounting records of the entity are correct			
The financial statements are free from bias			
The auditor has agreed with the accounting policies used in the financial statements			
Questions relating to Assurance of Future Viability			
The entity is run efficiently			
The entity is well managed			
The entity is free from illegal acts			
The entity is a going concern			
Questions relating to Reliability of the Financial Statements			
The financial statements are free from error			
The financial statements are free from fraud			
The auditor has verified the data in the financial statements			
The auditor is satisfied with the financial statements			
Users can have absolute assurance that the financial statements are free from material misstatements			
Questions relating to Usefulness of Decision Making			
The audited financial statements are useful for making decisions			
The audited financial statements are useful in monitoring the performance of the entity			
The entity is a good investment			

Please tick the box if you wish to receive a copy of the aggregated results of this study ☐

In order to achieve the objectives of this research, and to improve the quality of the data, I hope to interview some of the respondents to this questionnaire, probably in / / 010. Your help would be greatly appreciated. If you are willing to be interviewed, please fill in the section below: Company's name: …..……………………………………………………… Your name: ………………………………………………………….. Your telephone no: ………………………………………………………….. Your email: …………………………………………………………... Please refer to the next page for any additional comments

Thank you very much for your assistance in completing this questionnaire. We would appreciate any comments or suggestions you may care to make about any issue mentioned in the questionnaire. You may use the space below, or use a separate sheet and return it with the competed questionnaire or separately. …………………………………………………………………………………………………………

Appendices/ Appendix A: The Questionnaire

Appendix A1: External Auditor questionnaire survey

I am a doctoral student at the University of Huddersfield, UK currently undertaking a piece of research entitled: “The Development of Auditing and the Possible Existence of an Expectations Gap in Libya” which aims to investigate and examine the perceptions of external auditors, financial statement preparer, and user groups towards the role and responsibilities of the auditors as well as external auditors’ and users’ understanding of the value of audit reports.

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Instructions for completing this questionnaire

Please answer all the survey questions to the best of your ability.

All of the statements in part two in the questionnaire are scaled using a number from 1 to 5 as 1 represent (strongly disagree) and 5 represent (strongly agree) please complete the survey by Circling the number that you think is most appropriate for each statement.

All of the statements in part two in the questionnaire are scaled using Yes, No and Do Not Know please complete this section by Circling answer that you think is most appropriate for each statement.

Please write what you would like to add to this survey in the space provided in the end of the questionnaire and advise me if you wish to receive a copy of the aggregated results of this study

Yours sincerely,

Samira Abonawara, Mobile No. # 092 5524210.

E-mail U0775694@hud.ac.uk, samira682006@yahoo.com

Po. Box: 2112 Tripoli Tripoli/ Libya.

Section A: General information: the financial statement preparers

The data which is given in this section will only be used as background to the answers given in other sections of the questionnaire. Please provide the following data:

A1. Your nationality:

Libyan ☐ Other Arab Countries ☐

Other, please specify ☐

A2. The sector to which your firm belongs:

Industrial ☐ Banking ☐

Services ☐

Other, please specify ……………………………………………………………………………………….

A3. Your present position:

Chief executive officer ☐ Financial director ☐

Financial controller ☐ Accountant or chief accountant ☐

Internal auditor ☐

Other, please specify…………………………………………………………………………………………

A4. Please indicate your years of experience:

Less than 3 years ☐ 3-5 years ☐

6-10 years ☐ More than 10 years ☐

A5. Education:

Complete the details of the highest qualification that you have:

Level of education	Major	Place of study
Less than high school level	……………………………………	…………………………….
High school level	……………………………………..	
Bachelor	……………………………………..	…………………………….
Post graduate (e.g. MSc, MBA, PhD…)	……………………………………..	…………………………….
Professional qualification(please specify)	……………………………………..	……………………………

A6. Please tick one box to indicate your company's ownership type:

Private company (100%owned by the private sector) ☐

Joint venture (shared ownership between the state and a foreign partner) ☐

Joint venture (shared ownership between the private sector and the a foreign partner ☐

Section B: The Role and Nature of Auditing

Part 1: Auditors and the Auditing Process

Please indicate your level of agreement with the following statements by circling the appropriate number that most closely reflects your personal opinion.

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
5	4	3	2	1

The quality of company audits has increased in recent years	5	4	3	2	1
Auditors should report to shareholders on the efficiency of management	5	4	3	2	1
Auditors should identify ways to improve management efficiency	5	4	3	2	1
Too much is expected of auditors by the investing community	5	4	3	2	1
Auditors are too concerned with keeping company management satisfied	5	4	3	2	1
Auditors are more interested in collecting fees than in doing a rigorous professional job	5	4	3	2	1
Audits are of very little benefit to a company	5	4	3	2	1
Auditors do not understand the problems of business	5	4	3	2	1
Audits generally take too long to complete	5	4	3	2	1
Audits provide significant protection against fraud	5	4	3	2	1
Providing credible data through better auditing would increase foreign investment in Libya	5	4	3	2	1
The auditing process is seriously weakened by imprecise auditing standards	5	4	3	2	1
The quality of audit work is adequately regulated by the audit profession	5	4	3	2	1

Part 2: The Audited Financial Statements and the Audited Company

Please indicate your level of agreement with the following statements by circling the appropriate number that most closely reflects your personal opinion.

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
5	4	3	2	1

Auditors should ensure that the financial statements contain no significant errors	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that audited financial statements comply with the LAAA rule	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that audited financial statements comply with International Accounting Standards	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that audited financial statements comply with the Commercial Code	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that audited financial statements comply with the tax law	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that the financial statements contain no deliberate distortions	**5**	**4**	**3**	**2**	**1**
The main purpose of the audit is to lend credibility to the company's financial statements	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that the company is being run efficiently	**5**	**4**	**3**	**2**	**1**
Auditors should inform the regulatory authorities of any significant malpractices at their clients	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that the future viability of the company is not in doubt	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that the balance sheet provides a fair valuation of the company	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that internal controls are satisfactory	**5**	**4**	**3**	**2**	**1**

Part 3: Prohibitions and Regulations in the Audit Environment

Please indicate your level of agreement with the following statements by circling the appropriate number that most closely reflects your personal opinion.

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree		
5	4	3	2	1		

Auditors are appointed and removed by the shareholders at the annual general meeting	5	4	3	2	1
Auditors should verify every business transaction entered into by an auditee company	5	4	3	2	1
Auditors should give early warning about the possibility of business failure	5	4	3	2	1
Auditors should guarantee the accuracy of a company's financial statements	5	4	3	2	1
Auditors should not provide advisory services to their audit clients	5	4	3	2	1
Audit firms should have their appointments and fees determined by an independent third party	5	4	3	2	1
Audit firm should have a maximum period for auditing clients	5	4	3	2	1
Audit firms should prohibit their staff from owning shares in their audit clients	5	4	3	2	1
Audit firms should not act primarily to make a profit	5	4	3	2	1
Auditors should not provide tax services to their audit clients	5	4	3	2	1
Auditors should not provide internal audit services to their audit clients	5	4	3	2	1
Auditors should not provide computing services to their audit clients	5	4	3	2	1
Auditors should not provide investment advice to their audit clients	5	4	3	2	1
The auditors should be liable for damages sustained by shareholders as a result of professional errors in the performance of their work	5	4	3	2	1
Audit firm should have limited liability determined by law	5	4	3	2	1

Part 4: Auditors' Legal Responsibility

If a company's audited financial statements are significantly misstated and the audit report fails to disclose that error, to what extent do you agree that the company's auditors should have a legal liability to the following parties for any loss arising from their reliance on the audited financial statements?

Please circle the number that most closely reflects your personal attitude.

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree		
5	4	3	2	1		

Present shareholders	5	4	3	2	1
Potential shareholders	5	4	3	2	1
Present lenders	5	4	3	2	1
Potential lenders	5	4	3	2	1
Present Suppliers	5	4	3	2	1
Present Employees	5	4	3	2	1
Government	5	4	3	2	1

Section C: The Effectiveness of Audit Report Communications

This part presents several statements to examine the perception of auditors and users group regarding of the effectiveness of communications in the current Libyan audit report. Please read attach Libyan audit report carefully.
Brothers the Members of the General Committee We have audited the accompanying balance sheet of the company as of 31/12/2008, and its income statement for the year ended on that date and obtained all the information and clarifications which we considered necessary for the performance of our task. The balance sheet of the company as of 31/12/2008, and its income statement for the year ended on that date and the documents in support of the values stated are the responsibility of the company management committee, whilst our responsibility is to comment on them, with accordance to the process of our audit. These statements have been reviewed, according to generally accepted auditing standards which require the completion of the audit to ensure whether the financial information included in the company's financial statements are free of substantial misstatement, and have been audited on the basis of the review of the documents that support the amounts in the financial statements and their disclosure. The audit included an assessment of the accounting principles adopted and significant estimates and the overall presentation of such data. The audit process has further included the investigation of the existence and reliability of the company valuation of the assets and liabilities as well as other necessary audit procedures. Thus we believe that the audit work we accomplished provides a reasonable basis for our opinion on them. We found that the company holds accounting records that comply with relevant laws and regulations and are consistent in the accompanying financial statements. In our view, the balance sheet and income statement, respectively and fairly, express the financial position of the company as at 31.12.2008 and the outcome of its activities for the year ended on that date. Moreover, they have been prepared in accordance with accepted accounting standards and followed the current legislations adopted by the company. Libyan Accountants and Auditors Association Certification of registration Signature Date Association of Accountants and Auditors Libyans Certification under

Now that you have read the audit report please indicate the extent to which you can give information about these following statements.			
Statements	**Yes**	**No**	**Do not know**
Questions relating to Audit Purpose			
The purpose of the audit is clear in the audit report			
The financial statements are presented fairly			
The extent of audit work performed is clear			
The audit report is understandable			
The audit report enhances the credibility of the financial statements			
Users of the audit report would understand better if the audit report was standard for all companies			
Questions relating to Auditors' Responsibility			
The internal control structure of the entity is sound			
The auditor has prepared the financial statements			
The auditor has assessed the good character of management			
accounting records of the entity are correct			
The financial statements are free from bias			
The auditor has agreed with the accounting policies used in the financial statements			
Questions relating to Assurance of Future Viability			
The entity is run efficiently			
The entity is well managed			
The entity is free from illegal acts			
The entity is a going concern			
Questions relating to Reliability of the Financial Statements			
The financial statements are free from error			
The financial statements are free from fraud			
The auditor has verified the data in the financial statements			
The auditor is satisfied with the financial statements			
Users can have absolute assurance that the financial statements are free from material misstatements			
Questions relating to Usefulness of Decision Making			
The audited financial statements are useful for making decisions			
The audited financial statements are useful in monitoring the performance of the entity			
The entity is a good investment			

Please tick the box if you wish to receive a copy of the aggregated results of this study ☐

In order to achieve the objectives of this research, and to improve the quality of the data, I hope to interview some of the respondents to this questionnaire, probably in / / 010. Your help would be greatly appreciated. If you are willing to be interviewed, please fill in the section below: Company's name: …..………………………………………………………………………………… Your name: ……………………………………………………………………………………... Your telephone no: ……………………………………………………………………………………. Your email: ……………………………………………………….. Please refer to the next page for any additional comments

Thank you very much for your assistance in completing this questionnaire. We would appreciate any comments or suggestions you may care to make about any issue mentioned in the questionnaire. You may use the space below, or use a separate sheet and return it with the competed questionnaire or separately. ………………………………………………………………………………………… ………………………………………………………………………………………… ………………………………………………………………………………………… ………………………………………………………………………………………… ………………………………………………………………………………………… ………………………………………………………………………………………… ………………………………………………………………………………………… ………………………………………………………………………………………… ………………………………………………………………………………………… ………………………………………………………………………………………… ………………………………………………………………………………………… ……………………………………………………………………………………... ………………………………………………………………………………………… ………………………………………………………………………………………… ………………………………………………………………………………………… ………………………………………………………………………………………… ………………………………………………………………………………

Section A: General information: the financial statement user group

Appendices/ Appendix A: The Questionnaire

Appendix A1: External Auditor questionnaire survey

I am a doctoral student at the University of Huddersfield, UK currently undertaking a piece of research entitled: "The Development of Auditing and the Possible Existence of an Expectations Gap in Libya" which aims to investigate and examine the perceptions of external auditors, financial statement preparer, and user groups towards the role and responsibilities of the auditors as well as external auditors' and users' understanding of the value of audit reports.

In order to achieve successfully the aim of the study, an empirical work should be carried out in the context of Libya using a research questionnaire as a data collection tool. The questionnaire will be targeting five different groups of people: external auditors, investors, financial statement preparers, lenders and government officials. Therefore, your cooperation is required in order to enable the researcher to obtain adequate and proper data needed for the research. You are kindly requested to complete all sections of the questionnaire and if you have any further comment you are welcome to include them.

For the purpose of confidentiality, your response will only be used for the purpose of this study. It will not be disclosed to third parties or used for the purpose of other studies. If you require any further clarification for any item included in the questionnaire, please do not hesitate to contact the researcher at the address shown at the bottom of this page. Finally, you are kindly requested to pass the questionnaire to any other personnel who is directly in charge of audit practice if you believe it is his/her responsibility.

Definitions Audit expectations gap: "The difference between what the public expects or needs and what auditors can and should reasonably be expected to accomplish" (AICPA, 1978, p. xi).

Instructions for completing this questionnaire

Please answer all the survey questions to the best of your ability.

All of the statements in part two in the questionnaire are scaled using a number from 1 to 5 as 1 represent (strongly disagree) and 5 represent (strongly agree) please complete the survey by Circling the number that you think is most appropriate for each statement.

All of the statements in part two in the questionnaire are scaled using Yes, No and Do Not Know please complete this section by Circling answer that you think is most appropriate for each statement.

Please write what you would like to add to this survey in the space provided in the end of the questionnaire and advise me if you wish to receive a copy of the aggregated results of this study

Yours sincerely,

Samira Abonawara, Mobile No. # 092 5524210.
E-mail U0775694@hud.ac.uk, samira682006@yahoo.com

Po. Box: 2112 Tripoli Tripoli/ Libya.

Section A: General information: the financial statement user group

The data which is given in this section will only be used as background to the answers given in other sections of the questionnaire. Please provide the following data:

A1. Your nationality

Libyan ☐ Other, please specify ……………………………………………

A2: Type of users group

Lander ☐ Investor ☐

A3: Years of experience

Less than 3 years ☐ 3-5 years ☐

6-10 years ☐ More than 10 years ☐

Lander ☐ Investor ☐

A4: Education:

Complete the details of the highest qualification that you have:

Education:

Complete the details of the highest qualification that you have:

Level of education	Major	Place of study
Less than high school level		
High school level		
Bachelor		
Post graduate (e.g. MSc, MBA, PhD…)		
Professional qualification(please specify)		

A5.The sector to which you're firm belongs or invest in:

Industrial ☐ Commercial ☐ Banking ☐

Services ☐

Other, please specify ………………………………………………………………………………….

Section B: The role and nature of auditing

Part 1: Auditors and the Auditing Process

Please indicate your level of agreement with the following statements by circling the appropriate number that most closely reflects your personal opinion.

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
5	4	3	2	1

The quality of company audits has increased in recent years	5	4	3	2	1
Auditors should report to shareholders on the efficiency of management	5	4	3	2	1
Auditors should identify ways to improve management efficiency	5	4	3	2	1
Too much is expected of auditors by the investing community	5	4	3	2	1
Auditors are too concerned with keeping company management satisfied	5	4	3	2	1
Auditors are more interested in collecting fees than in doing a rigorous professional job	5	4	3	2	1
Audits are of very little benefit to a company	5	4	3	2	1
Auditors do not understand the problems of business	5	4	3	2	1
Audits generally take too long to complete	5	4	3	2	1
Audits provide significant protection against fraud	5	4	3	2	1
Providing credible data through better auditing would increase foreign investment in Libya	5	4	3	2	1
The auditing process is seriously weakened by imprecise auditing standards	5	4	3	2	1
The quality of audit work is adequately regulated by the audit profession	5	4	3	2	1

Part 2: The audited financial statements and the audited company

Please indicate your level of agreement with the following statements by circling the appropriate number that most closely reflects your personal opinion.

Strongly Agree 5 | **Agree** 4 | **Neutral** 3 | **Disagree** 2 | **Strongly Disagree** 1

Auditors should ensure that the financial statements contain no significant errors	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that audited financial statements comply with the LAAA rule	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that audited financial statements comply with International Accounting Standards	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that audited financial statements comply with the Commercial Code	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that audited financial statements comply with the tax law	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that the financial statements contain no deliberate distortions	**5**	**4**	**3**	**2**	**1**
The main purpose of the audit is to lend credibility to the company's financial statements	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that the company is being run efficiently	**5**	**4**	**3**	**2**	**1**
Auditors should inform the regulatory authorities of any significant malpractices at their clients	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that the future viability of the company is not in doubt	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that the balance sheet provides a fair valuation of the company	**5**	**4**	**3**	**2**	**1**
Auditors should ensure that internal controls are satisfactory	**5**	**4**	**3**	**2**	**1**

Part 3: Prohibitions and regulations in the audit environment

Please indicate your level of agreement with the following statements by circling the appropriate number that most closely reflects your personal opinion.

Strongly Agree 5	Agree 4	Neutral 3	Disagree 2	Strongly Disagree 1		
Statement	**5**	**4**	**3**	**2**	**1**	

Auditors are appointed and removed by the shareholders at the annual general meeting	**5**	**4**	**3**	**2**	**1**
Auditors should verify every business transaction entered into by an auditee company	**5**	**4**	**3**	**2**	**1**
Auditors should give early warning about the possibility of business failure	**5**	**4**	**3**	**2**	**1**
Auditors should guarantee the accuracy of a company's financial statements	**5**	**4**	**3**	**2**	**1**
Auditors should not provide advisory services to their audit clients	**5**	**4**	**3**	**2**	**1**
Audit firms should have their appointments and fees determined by an independent third party	**5**	**4**	**3**	**2**	**1**
Audit firm should have a maximum period for auditing clients	**5**	**4**	**3**	**2**	**1**
Audit firms should prohibit their staff from owning shares in their audit clients	**5**	**4**	**3**	**2**	**1**
Audit firms should not act primarily to make a profit	**5**	**4**	**3**	**2**	**1**
Auditors should not provide tax services to their audit clients	**5**	**4**	**3**	**2**	**1**
Auditors should not provide internal audit services to their audit clients	**5**	**4**	**3**	**2**	**1**
Auditors should not provide computing services to their audit clients	**5**	**4**	**3**	**2**	**1**
Auditors should not provide investment advice to their audit clients	**5**	**4**	**3**	**2**	**1**
The auditors should be liable for damages sustained by shareholders as a result of professional errors in the performance of their work	**5**	**4**	**3**	**2**	**1**
Audit firm should have limited liability determined by law	**5**	**4**	**3**	**2**	**1**

Part 4: Auditors' legal responsibility

If a company's audited financial statements are significantly misstated and the audit report fails to disclose that error, to what extent do you agree that the company's auditors should have a legal liability to the following parties for any loss arising from their reliance on the audited financial statements?
Please circle the number that most closely reflects your personal attitude.

Strongly Agree 5 — Agree 4 — Neutral 3 — Disagree 2 — Strongly Disagree 1

Present shareholders	**5**	**4**	**3**	**2**	**1**
Potential shareholders	**5**	**4**	**3**	**2**	**1**
Present lenders	**5**	**4**	**3**	**2**	**1**
Potential lenders	**5**	**4**	**3**	**2**	**1**
Present Suppliers	**5**	**4**	**3**	**2**	**1**
Present Employees	**5**	**4**	**3**	**2**	**1**
Government	**5**	**4**	**3**	**2**	**1**

Section C: The Effectiveness of Audit report Communications

This part presents several statements to examine the perception of auditors and users group regarding of the effectiveness of communications in the current Libyan audit report. Please read attach Libyan audit report carefully.
Brothers the Members of the General Committee We have audited the accompanying balance sheet of the company as of 31/12/2008, and its income statement for the year ended on that date and obtained all the information and clarifications which we considered necessary for the performance of our task. The balance sheet of the company as of 31/12/2008, and its income statement for the year ended on that date and the documents in support of the values stated are the responsibility of the company management committee, whilst our responsibility is to comment on them, with accordance to the process of our audit. These statements have been reviewed, according to generally accepted auditing standards which require the completion of the audit to ensure whether the financial information included in the company's financial statements are free of substantial misstatement, and have been audited on the basis of the review of the documents that support the amounts in the financial statements and their disclosure. The audit included an assessment of the accounting principles adopted and significant estimates and the overall presentation of such data. The audit process has further included the investigation of the existence and reliability of the company valuation of the assets and liabilities as well as other necessary audit procedures. Thus we believe that the audit work we accomplished provides a reasonable basis for our opinion on them. We found that the company holds accounting records that comply with relevant laws and regulations and are consistent in the accompanying financial statements. In our view, the balance sheet and income statement, respectively and fairly, express the financial position of the company as at 31.12.2008 and the outcome of its activities for the year ended on that date. Moreover, they have been prepared in accordance with accepted accounting standards and followed the current legislations adopted by the company. Libyan Accountants and Auditors Association Certification of registration Signature Date Association of Accountants and Auditors Libyans Certification under

Now that you have read the audit report please indicate the extent to which you can give information about these following statements.			
Statements	**Yes**	**No**	**Do not know**
Questions relating to Audit Purpose			
The purpose of the audit is clear in the audit report			
The financial statements are presented fairly			
The extent of audit work performed is clear			
The audit report is understandable			
The audit report enhances the credibility of the financial statements			
Users of the audit report would understand better if the audit report was standard for all companies			
Questions relating to Auditors' Responsibility			
The internal control structure of the entity is sound			
The auditor has prepared the financial statements			
The auditor has assessed the good character of management			
accounting records of the entity are correct			
The financial statements are free from bias			
The auditor has agreed with the accounting policies used in the financial statements			
Questions relating to Assurance of Future Viability			
The entity is run efficiently			
The entity is well managed			
The entity is free from illegal acts			
The entity is a going concern			
Questions relating to Reliability of the Financial Statements			
The financial statements are free from error			
The financial statements are free from fraud			
The auditor has verified the data in the financial statements			
The auditor is satisfied with the financial statements			
Users can have absolute assurance that the financial statements are free from material misstatements			
Questions relating to Usefulness of Decision Making			
The audited financial statements are useful for making decisions			
The audited financial statements are useful in monitoring the performance of the entity			
The entity is a good investment			

Please tick the box if you wish to receive a copy of the aggregated results of this study ☐

In order to achieve the objectives of this research, and to improve the quality of the data, I hope to interview some of the respondents to this questionnaire, probably in / / 010. Your help would be greatly appreciated. If you are willing to be interviewed, please fill in the section below:

Company's name: ………………………………………………………………………………………….

Your name: ……………………………………………………………………………………………

Your telephone no: ……………………………………………………………………………………………

Your email: ………………………………………………………………………………………………………

Please refer to the next page for any additional comments

Thank you very much for your assistance in completing this questionnaire. We would appreciate any comments or suggestions you may care to make about any issue mentioned in the questionnaire. You may use the space below, or use a separate sheet and return it with the competed questionnaire or separately.

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Appendices/ Appendix B: The Interview

Appendix B1: Auditor of the Financial Statements Interview Questions

Auditor of the Financial Statements

Personal information

Name of interviewee ………………………………………………… Date / / 10

Organization name……………………………………………………

Type of company…………………………………………………….

Position………………………………………………………………..

Telephone………………………………… E-mail …………………….

Q1. Tell me about your understanding of the objective of an audit in Libya?
How do you perceive auditing in Libya?
What do you think auditing is for?
Why do you think auditing is important?
- Who do you think will use the audit report?
- What do you think other people think audit is about?
-How can we help them understand what auditing is about?
Q2. What do you think are the challenges for the auditor in Libya?
In your view what are the barriers that prevent the development of auditing in Libya?
If there are difficulties how can these challenges be addressed?
Q3. What are your views about the roles and responsibilities of auditors in Libya?
- On the auditors responsibility in terms of fraud?
On the auditors responsibility on errors?
On the auditors responsibility towards events such as the theft of corporate assets by company officers?
- Any other issues you think are likely to be a concern when it comes to the audited financial statements and the audit company?

Q4. How has the Libyan government helped auditing develop?
What support from the government?
How has this been useful?
Can you give me some specific examples of the support?

Q5. Tell me your views on the level of guidance given to auditors through Libyan law that would assist the auditor in his role and responsibilities?
Prohibitions
Regulation
Current developments in Libyan law

Q6. Tell me your views on the current format of the Libyan audit report as a communication to users of the financial statements?
Length Style
Clarity of description of auditors and directors role
Technical language
And how might the audit report be improved?

Q7. How much has audit developed since the stock market was set up?
How exactly has is developed?
Was that development successful or not? Why?
Finally, Please tell me your views about, how the stock market will have an impact in the future on the development of auditing?

Appendices/ Appendix B: The Interview

Appendix B2: Preparer and Users of the Financial Statements Interview Questions

Personal information

Name of interviewee …………………………………………………. Date / / 10

Organization name……………………………………………………

Type of company…………………………………………………….

Position……………………………………………………………..

Telephone………………………………… E-mail …………………….

Q1. Tell me about your understanding of the objective of an audit in Libya?
How do you perceive auditing in Libya?
What do you think auditing is for?
Why do you think auditing is important?
- Who do you think will use the audit report?
- What do you think other people think audit is about?
-How can we help them understand what auditing is about?
Q2. What do you think are the challenges for the auditor in Libya?
In your view what are the barriers that prevent the development of auditing in Libya?
If there are difficulties how can these challenges be addressed?
Q3. What are your views about the roles and responsibilities of auditors in Libya?
- On the auditors responsibility in terms of fraud?
On the auditors responsibility on errors?
On the auditors responsibility towards events such as the theft of corporate assets by company officers?
- Any other issues you think are likely to be a concern when it comes to the audited financial statements and the audit company?

Q4. How has the Libyan government helped auditing develop?
What support from the government?
How has this been useful?
Can you give me some specific examples of the support?

Q5. Tell me your views on the level of guidance given to auditors through Libyan law that would assist the auditor in his role and responsibilities?
Prohibitions
Regulation
Current developments in Libyan law

Q6. Tell me your views on the current format of the Libyan audit report as a communication to users of the financial statements?
Length Style
Clarity of description of auditors and directors role
Technical language
And how might the audit report be improved?

Q7. How much has audit developed since the stock market was set up?
How exactly has is developed?
Was that development successful or not? Why?
Finally, Please tell me your views about, how the stock market will have an impact in the future on the development of auditing?

Appendix C

Appendix C 1: Auditors and the auditing process

Statement	Group means					Overall mean
	1	2	3	4	5	
The quality of company audits has increased in recent years	3.242	3.770	3.630	3.644	3.667	3.578
Auditors should report to shareholders on the efficiency of management	3.348	3.473	3.219	3.156	3.417	3.319
Auditors should identify ways to improve management efficiency	3.212	3.270	3.151	3.089	3.000	3.182
Too much is expected of auditors by the investing community	3.364	3.784	3.685	3.956	3.250	3.659
Auditors are too concerned with keeping company management satisfied	2.606	3.243	3.055	3.511	3.583	3.0963
Auditors are more interested in collecting fees than in doing a rigorous professional job	2.606	2.730	2.740	3.356	3.083	2.822
Audits are of very little benefit to a company	2.848	2.392	2.644	2.822	2.750	2.659
Auditors do not understand the problems of business	2.515	2.446	2.521	2.667	3.000	2.544
Audits generally take too long to complete	3.197	2.892	3.000	3.311	3.750	3.104
Audits provide significant protection against fraud	3.545	3.500	3.822	3.800	3.250	3.637
Providing credible data through better auditing would increase foreign investment in Libya	3.848	4.284	4.204	4.400	3.833	4.156
The auditing process is seriously weakened by imprecise auditing standards	2.455	2.716	2.726	2.933	2.500	2.682
The quality of audit work is adequately regulated by the audit profession	3.667	3.838	3.740	3.867	3.917	3.778

Appendix C2: The audited financial statements and the audited company

Statement	Group means					Overall mean
	1	**2**	**3**	**4**	**5**	
Auditors should ensure that the financial statements contain no significant errors	3.273	3.676	3.589	3.578	3.500	3.529
Auditors should ensure that audited financial statements comply with the LAAA rule	3.167	3.676	3.219	3.467	3.833	3.400
Auditors should ensure that audited financial statements comply with International Accounting Standards	3.348	3.500	3.288	3.400	3.333	3.382
Auditors should ensure that audited financial statements comply with the Commercial Code	3.590	3.865	3.534	3.778	3.250	3.667
Auditors should ensure that audited financial statements comply with the tax law	3.606	4.014	3.981	3.822	3.250	3.822
Auditors should ensure that the financial statements contain no deliberate distortions	3.409	3.932	3.863	3.689	3.333	3.719
The main purpose of the audit is to lend credibility to the company's financial statements	4.076	4.378	4.788	4.356	3.917	4.256
Auditors should ensure that the company is being run efficiently	3.061	3.554	3.192	3.356	3.583	3.304
Auditors should inform the regulatory authorities of any significant malpractices at their clients	3.455	2.919	2.767	2.822	2.417	2.971
Auditors should ensure that the future viability of the company is not in doubt	3.318	3.432	3.356	3.289	2.500	3.319
Auditors should ensure that the balance sheet provides a fair valuation of the company	3.606	3.973	3.863	3.711	3.333	3.782
Auditors should ensure that internal controls are satisfactory	3.500	3.689	3.671	3.533	3.500	3.604

Appendix C3: Prohibitions and regulations in the audit environment

Statement	Group means					Overall mean
	1	2	3	4	5	
Auditors are appointed and removed by the shareholders at the annual general meeting	3.000	4.270	3.781	4.000	3.417	3.744
Auditors should verify every business transaction entered into by an auditee company	3.288	3.392	3.452	3.478	2.667	3.348
Auditors should give early warning about the possibility of business failure	3.227	3.203	3.356	3.222	2.750	3.233
Auditors should guarantee the accuracy of a company's financial statements	3.561	3.770	3.753	3.489	3.583	3.659
Auditors should not provide advisory services to their audit clients	2.621	2.676	2.699	3.178	3.167	2.774
Audit firms should have their appointments and fees determined by an independent third party	3.167	2.797	2.370	2.844	2.583	2.770
Audit firm should have a maximum period for auditing clients	3.545	3.689	3.808	3.800	3.417	3.693
Audit firms should prohibit their staff from owning shares in their audit clients	3.333	3.676	3.753	3.556	3.583	3.778
Audit firms should not act primarily to make a profit	3.139	3.108	3.014	2.822	2.583	3.0186
Auditors should not provide tax services to their audit clients	2.924	2.689	2.548	3.067	2.917	2.782
Auditors should not provide internal audit services to their audit clients	3.106	2.905	2.753	3.489	3.167	3.022
Auditors should not provide computing services to their audit clients	3.076	3.054	2.795	3.400	2.750	3.033
Auditors should not provide investment advice to their audit clients	2.939	2.986	2.836	3.311	2.917	2.985
The auditors should be liable for damages sustained by shareholders as a result of professional errors in the performance of their work	3.333	3.649	3.342	3.644	3.500	3.482
Audit firms should have their liability capped by law	4.046	4.365	4.082	4.044	3.917	4.137

Appendix C4: Auditors' legal responsibility

Statement	Group means					Overall mean
	1	**2**	**3**	**4**	**5**	
Present shareholders	3.742	4.135	3.877	4.111	4.000	3.959
Potential shareholders	3.242	3.297	3.027	3.311	2.750	3.189
Present lenders	3.667	3.797	3.712	3.844	4.000	3.759
Potential lenders	3.227	3.284	2.904	3.356	3.000	3.167
Present Suppliers	3.424	3.568	3.397	3.756	3.500	3.515
Present Employees	3.182	3.378	3.247	3.467	3.167	3.300
Government	3.833	3.757	3.685	4.044	4.250	3.826

Appendix C5: The Effectiveness of Audit Report Communications

Statements	GAB			FSP			PA			PI			L			Chi-square test
	yes	NO	Do not Know	yes	NO	Do not Know	yes	NO	Do not Know	yes	NO	Do not Know	yes	NO	Do not Know	
Questions relating to Audit Purpose **The purpose of the audit is clear in the audit report**	7.6	13.6	78.8	91.9	6.8	1.4	87.7	9.6	2.7	82.2	15.6	2.2	75	25	0	.024*
The financial statements are presented fairly	81.8	9.1	9.1	94.6	2.7	2.7	84.9	5.5	9.6	80	13.3	6.7	100	0	0	.204
The extent of audit work performed is clear	66.7	21.2	12.1	85.1	6.8	8.1	82.2	11	6.8	64.4	15.6	20	58.3	33.3	8.3	.024*
The audit report is understandable	57.6	31.8	10.6	86.5	9.5	4.1	79.5	12.3	8.2	77.8	17.8	4.4	75	25	0	.013*
The audit report enhances the credibility of the financial statements	83.3	12.1	4.5	94.6	4.1	1.4	84.9	9.6	5.5	93.3	4.4	2.2	83.3	8.3	8.3	.369
Users of the audit report would understand better if the audit report was standard for all companies	50	31.8	18.2	51.4	20.3	28.4	58.9	21.9	19.2	55.6	15.6	28.9	75	8.3	16.7	.376

Statements	GAB			FSP			PA			PI			L			Chi-square test
	yes	NO	Do not Know	yes	NO	Do not Know	yes	NO	Do not Know	yes	NO	Do not Know	yes	NO	Do not Know	
Questions relating to Auditors' Responsibility **The internal control structure of the entity is sound**	53	28.8	18.2	51.4	8.1	40.5	53.4	17.8	28.8	53.3	20	26.7	16.7	16.7	66.7	**.004***
The auditor has prepared the financial statements	28.8	50	21.2	8.1	24.3	67.6	28.8	61.6	9.6	28.9	57.8	13.3	16.7	75	8.3	**.343**
The auditor has assessed the good character of management	43.9	36.4	19.7	25.7	33.8	40.5	28.8	34.2	37	31.1	40	28.9	25	50	25	**.204**
accounting records of the entity are correct	62.1	22.7	15.2	87.8	4.1	8.1	83.6	8.2	8.2	88.9	2.2	8.9	91.7	8.3	0	**.004***
The financial statements are free from bias	63.6	25.8	10.6	75.7	13.5	10.8	68.5	21.9	9.6	68.9	22.2	8.9	75	25	0	**.363**
The auditor has agreed with the accounting policies used in the financial statements	65.2	22.7	12.1	86	5.4	8.1	82.2	8.2	9.6	75.6	4.4	20	75	25	0	**.007***

Statements	GAB			FSP			PA			PI			L			Chi-square test
	yes	NO	Do not Know	yes	NO	Do not Know	yes	NO	Do not Know	yes	NO	Do not Know	yes	NO	Do not Know	
Questions relating to Assurance of Future Viability **The entity is run efficiently**	42.4	34.8	22.7	56.8	10.8	32.4	39.7	37	23.3	68.9	11.1	20	66.7	8.3	25	.001*
The entity is well managed	47	27.3	25.8	47.3	13.5	39.2	46.6	23.3	30.1	48.9	20	31.1	50	25	25	.651
The entity is free from illegal acts	37.	36.4	25.8	55.4	16.2	28.4	46.6	28.8	24.7	53.3	26.7	20	33.3	41.7	25	.254
The entity is a going concern	66.7	12.1	21.2	64.9	18.9	16.2	54.8	30.1	15.1	57.8	20	22.2	58.3	25	16.7	.4.8

Statements	GAB			FSP			PA			PI			L			Chi-square test
	yes	NO	Do not Know	yes	NO	Do not Know	yes	NO	Do not Know	yes	NO	Do not Know	yes	NO	Do not Know	
Questions relating to Reliability of the Financial Statements																
The financial statements are free from error	63.6	25.8	10.6	75.7	13.5	10.8	68.5	21.9	9.6	68.9	22.2	8.9	75	25	0	.771
The financial statements are free from fraud	51.5	33.3	15.2	68.9	14.9	16.2	56.2	30.1	13.7	62.2	22.2	15.6	58.3	41.7	0	.194
The auditor has verified the data in the financial statements	84.8	13.6	1.5	93.2	4.1	2.7	89	6.8	4.1	95	4.4	0	8.3	16.7	75	.163
The auditor is satisfied with the financial statements	75.8	16.7	7.6	90.5	6.8	2.7	91.8	2.7	5.5	80	11.1	8.9	91.7	0	8.3	.077
Users can have absolute assurance that the financial statements are free from material misstatements	68.2	22.7	9.1	68.9	17.6	13.5	60.3	20.5	19.2	51.1	26.7	22.2	66.7	33.3	0	.288

Statements	GAB			FSP			PA			PI			L			Chi-square test
	yes	NO	Do not Know	yes	NO	Do not Know	yes	NO	Do not Know	yes	NO	Do not Know	yes	NO	Do not Know	
Questions relating to Usefulness of Decision Making																
The audited financial statements are useful for making decisions	68.2	16.7	15.2	86.5	5.4	8.1	65.8	11	23.3	73.3	15.6	11.1	91.7	8.3	0	**.045***
The audited financial statements are useful in monitoring the performance of the entity	57.6	21.2	21.2	85.1	1.4	13.5	65.8	21.9	12.3	73.3	4.4	22.2	75	8.3	16.7	**.001***
The entity is a good investment	45.5	34.8	19.7	58.1	10.8	31.1	46.6	27.4	26	62.2	13.3	24.4	50	8.3	41.7	**.020**

Appendix D

Development of audit regulations in the Libyan private sector

There was no precise law which requested the financial statements of business to be authorised by an external auditor before 1973 (Bait-El-Mal et al., 1973; Kilani, 1988). Diverse tax laws have only demanded financial statements from the taxpayer along with the other enclosed documents that need to be signed by the legal representative of the taxpayer who might be a chartered accountant (State, 1973). Therefore, the Libyan companies were asked to provide the recently founded divisions of foreign banks with their financial statements confirmed by independent examiners if they would like to get a loan. What's more, the enlarged expansion of accounting corporations in both quantity and capacity, and the increase of irregularities in the practices of accounting and auditing created a huge need for forming a specialised organisation that could bring in a common outline for accounting. Law Nr. 116 of 1973[17] was enacted by the Libyan government to solve these issues on the 20th December 1973. This law aimed at establishing the Libyan Accountants and Auditors Association (LAAA) and at organising the Libyan accounting profession. This law is unparalleled in terms of the fields it covers; counting accountancy and related topics. The law Nr 116 comprises eight chapters to manage the following issues:

1. Founding the LAAA.
2. Enlisting the accountants.
3. Exercising the profession.
4. Charges.
5. Income and contribution finance.
6. Accountants' and auditors' responsibilities.
7. Punishments and penalties.

[17] Law 116/1973 is the Act by which the LAAA was established in order to organise the accounting profession in Libya. Since then the LAAA has played very limited role in developing the profession. However, in 2006 LAAA has submitted an exposure draft entitled Libyan Accounting Standards. Until the date of this paper, this draft has not come into practice yet (The Accountants, 2007).

8. Common and intermediate provisions.

The objectives of the LAAA which are presented in this law in June 1975 are:

- To systematise and develop the conditions of the auditing profession and to lift the standards of accountants and auditors professionally, academically, culturally and socially.
- To issue local statements of accounting practices. For that purpose, it recommended the adoption of International Accounting Standards.
- To hold conferences and seminars internally and externally and to participate in those conferences and seminars in order to keep abreast with the new events, scientific periodicals, lectures, and so on.
- To institute assistance and pension funds for its members.
- To attain consensus between accountants and auditors and to protect their rights.
- To punish those who breach the traditions and the ethics of the profession.

The regulations state that the General Assembly of the LAAA elects a chairman and eight members for the managers' board who in turn conduct an internal election to elect the: vice chairman, the treasurer and the secretary. This board is in charge of the administration of association in accordance with Law no. 116, articles 10, 11. According to Law no. 116, articles 36, the profession membership comprises the following different groups:

1. The working accountants and auditors list that includes
   - The accountants and auditors list.
   - The accountants and auditors' assistants list.
2. Non-working accountants and auditors list that includes
   - The non-working accountants and auditors list.
   - The non-working accounts and auditors' assistants list.

Law Nr. 116 and other Libyan laws relevant to this area are largely investigated in the following sections.

Registration with LAAA and Qualification Requirements

Law 116, article No 3 listed the following five conditions for the accountants who would like to register as members[18]:

1. Citisenship: the applicant for the membership of the LAAA must be a Libyan citisen.
2. Active membership: the applicant should be an active member concerning political and civil rights.
3. Residence: the applicant should be resident of Libya.
4. Behavior and conduct: the applicant should have good manners, a good reputation and decency
5. Educational experience: the applicant should have an accounting degree from the Faculty of Economic and Commerce of the Libyan University, or any other recognized university or higher institute. For an applicant to be registered in the accountant register, he must have at least five years' experience of accounting work in an accounting office after graduation.

Applicants who have a postgraduate degree M. Sc. or PhD are exempted from the experience requirement if the higher degree requires four or more years of training. Others who have had adequate practice but no university or higher institute degree should enroll as working auditors provided that they may only be regarded as accountants' or auditors' assistants, in case they have less than five years' experience. Regarding those who would like to practice accountancy but have a degree not higher than a bachelor with no experience, they are permitted to register as a practicing accountant assistant. At first, the holder of a bachelor degree should join an accountant corporation and start as an apprentice until he becomes entitled to practice in his area of specialization with certain limitations. These limitations allow the apprentice to carry out certain tasks; s/he can, for instance, only validate the Stake-free corporation's' accounts and balance sheets, the

[18] Currently there are around 500 members of the LAAA (Ritchie and Khorwatt, 2007)

Tax- payers` accounts whose prosperity does not exceed 20000 LD (US$32800), those whose yearly net revenue does not go beyond 5000 LD (US$8200) and/or others whose income is generated from careers such as commerce, industry, private business enterprises or professions together with the taxpayers` accounts whose income is less than 10000 LD (US$16400) and who still have to pay the common income tax.

If the applicants have five or more than five years' experience in a fulltime accounting job after passing a special examination set by the LAAA, they would be able to enroll as charter accountants. It is worth pointing out that the executive's memo of law No. 116 for the year1973 clarified article 24 of the law which is related to the qualification and experience required for registering with the LAAA. The explanation of the executive's memo is as follows: the qualifications and experiences required for enrolling as a chartered accountant are:

1- PhD in accounting, auditing, taxation or costing from any recognized Arabic or international university.
2- Membership of the Institute of Chartered Accountants in England and Wales.
3- Membership of the American Accountants Association.
4- Any certificate equivalent to those stated above attained from any recognized university or institute that specializes in accounting or auditing and that requires four years or more for graduation.
5- A bachelor's degree in accounting together with five years' experience of accounting in an accounting office or one may perform one of the following jobs:

- A director or a head of an accounting or auditing department in the Ministry of Treasury.
- An accountant or auditor who works for the Accounting Council.
- An accountant or auditor who works for the Taxation Authority.
- A manager or head of an accounting department in a public bank or an enterprise.
- A teacher of accounting or auditing in any public university or institute.
- Any other job that is equivalent to the jobs stated above endorsed by the LAAA.
- Three years of work experience in the jobs stated above along with the following:

- Membership of the Chartered Institute of Management Accountants in England or any other equivalent certificate.
- Membership of the Association of Chartered Certified Accountants in England or any other equivalent certificate.
- Membership of the Taxation Association in England or any other equivalent certificate.

One may conclude that the LAAA which is the only authoritative organization that is in charge of the auditing profession requires higher degrees of education and experience in order to be licensed as a chartered accountant. When all those qualifications are met, an person who would like to become a member should make an oath and preserve it; s/he should swear by Allah 'God' that s/he should work attentively and honestly and perform the auditing services in the highest degree of excellence and integrity. Vowing unto Allah in accordance with the Islamic faith entails that this person shoulders the responsibility and accountability in the name of Allah and under His guidance. This oath obliges members to truthfully implement their auditing obligations without any misbehavior or deception.

Accountants enrolled in the audit practicing list are permitted to validate all the companies' and taxpayers' accounts and balance statements. The LAAA licensed the accounting corporations in Libya; they thus are allowed to supply a number of services that produce fiscal statements, among which are auditing, tax services, liquidation, management consulting, system design and set-up. Buzied, (1998) noted that public accountants are primarily involved in auditing and in preparing the financial statements owing to insufficient knowledge and skills of the other services and the slight need for those services in companies and institutes. Thus, additional services are hardly ever performed. Nonetheless, after one becomes a member of the LAAA, no additional professional training is needed (Ahmad & Gao, 2004) and the Libyan accountants should not pass a professional exam in order to be allowed to supply public accounting and auditing services (Shareia, 2010). Consequently, very few Libyan accounting corporations carry out training programmes for their accounting staff (Shareia, 2010). Since it was established in 1975, the LAAA has possibly performed very little to help build up a hypothetical base for professional accounting in Libya. Furthermore, Khorwatt, (2006) and Shareia,(2010) observed that LAAA has not succeeded in accomplishing its other objectives, causing the status of the accounting profession in Libya to stay underprivileged. The auditors' tasks, responsibilities and morals will be explored in the next sections.

Responsibility to Clients and to Third Parties

Preserving the privacy of the clients' data and collecting charges are the responsibility of the accountants towards the customers. Their responsibility towards the community, however, entails the public accountant's appropriate consideration and good sense while communicating judgements concerning the fiscal statements of the auditors' clients. The Law Nr. 116, (1973) places emphasis on commitment towards privacy; accountants are forbidden from giving any piece of information that might have been obtained throughout their work (Article 51). This law, anyhow, allows accountants to reveal information if it can hinder an unlawful act. Concerning the public accountants' responsibility towards the public, this law provides no lawful statements apart from general circumstances present as small fragments inside the diverse articles. Article number 49, 53, and 56 serve as good examples of this. Article 49 said that an accountant and auditor should work in accordance with the principles of integrity and should accomplish all of the duties which are required by the profession's laws, regulations and traditions. The penalties specified by the association are illustrated in article 53 whereby the members, who degrade the profession or violate any of its commitments especially those of honesty and truthfulness while carrying out their professional work, can be alerted, suspended from their jobs for a maximum of three years or even dismissed. The directors' board chooses two people who will be in charge of making the decision of dismissal, suspension or alerting. The public prosecutor can also try the accountants in accordance with article number 56.

The Libyan accountants apply what they have learnt in their daily practice, since they don't have any specific or formal code of ethics, accounting principles, auditing standards or processes. Furthermore, the lack of the requirements of both the uniform audit report and the professional test make accounting education the lone source of information available to the accountants (Kilani, 1988). The Libyan accounting profession has not been positively affected by the establishment of the LAAA since it was established in 1975. This association did not achieve anything that is related to the administration of the Libyan accounting profession such as publishing or implementing the auditing standards or the code of ethics (Khorwatt, 2006) and (Alhsadi, 2007). Apparently, one can claim that the LAAA has not succeeded in formulating rules for itself; one cannot deny its responsibility towards the public benefit, either. In addition, the following objectives laid down by the LAAA, still have not been attained.

In their attempt to improve its statue in 2006, LAAA issued a new regulation (the first Exposure Draft of the Libyan Accounting Standards) as mentioned early. This draft is not formally compulsory since it is not endorsed by the Libyan authorities. Additionally, most recently, the Big four firms have got into partnership with the Libyan accounting and auditing firms/offices. Thus, KPMG, Deloitte and Price Waterhouse Coopers got involved into partnerships with those national Libyan accounting and auditing firms in Tripoli. Anyhow, according to Faraj and Akbar, (2010), Ernst and Young have founded their own branch under the name of Ernst and Young and Partners. Consequently, due to the lack of the accounting standards, it is possible to argue that the commercial law together with the income tax laws and some other regulations like the General Financial Regulation are viewed as substantial factors that contribute to the development and the regulation of corporate accounting and auditing practices in Libya.

Auditor's Independence and Professional Code of Ethics

To realise success and progress, external auditors must be autonomous and trustworthy; thus, Law Nr. 116, (1973) article 25 was enacted to maintain objectivity by prohibition auditors from holding certain posts that can influence their work like: (a) being a minister; (b) provisionally or permanently occupying any public post, with salary or payment; still, certain cases are disqualified on conditions clarified by law, (c) practicing any other work generating income and (d) getting involved in transactions incompatible with the profession. The members are also forbidden by law from advertising or using mediators' whale working in auditing. All these commitments which are imposed by law and the professional ethics must be considered and upheld by all members of the LAAA (Law Nr. 116, article 49). Both the controlling and auditing committee members are not permitted to become permanent workers in the auditing corporation and/or in any of its subordinates or to have affiliation to the fourth degree to any executive of the corporation in accordance with the L.C.C of 1953 and the Commercial Companies Act No. 65 of 1970. Nevertheless, the complete observance of this law has not been put in practice yet. A code of ethics is the conventional mode whereby a profession ensures the public and its customers of its responsibilities and thus, the preservation of its standing and integrity. Larkin, (2000) argues that in all avenues of work, ethical and unethical behaviour is considerably important. By the same token, the auditors are often faced by ethical predicaments that force them to morally judge their options for the common benefit of the auditing profession (Pomerantz, 1998). Thus, a proper code of ethics must be set up in order to direct the members of the profession themselves and their clients as well.

Technical education emphasizes ethics as a vital parameter in the practice of the auditors. Ethics are viewed as a primary component of any auditing course, whereby a separate section in any auditing textbook must be devoted to the ethics of the profession. A book with no such chapter is thought to be incomplete. Almost all well-known avenues of work have an official code of ethics; however, the accounting profession in Libya should be no exception but it in fact lacks these formal codes of ethics (Salehi, Mansoury, & Azary, 2009). The professionals under such circumstances should meet and informally agree upon a sensible code of ethics which helps them uphold the profession if this code of ethics was collectively agreed on and appropriately complied with (Kilani, 1988). In Libya, Law Nr. 116,(1973) requires that the auditors behave according to their profession ethics. Since the profession in Libya has not yet founded such a code of ethics, the academic accountants recommended a code of ethics to the LAAA. This code was drawn completely from the AICPA's code of ethics; it encompasses the same rules of conduct as those applied in the USA. It holds the following parameters: autonomy, integrity and objectivity, honesty, the general and auditing standards and compliance with the accounting principles; yet, this draft did not last long since no such law or code has been obviously published.

Buzied, (1998) and Khorwatt (2006) observe that the accounting profession in Libya employs rules similar to those currently applied in the US and UK to compensate for the lack of formal codes of conduct in Libya. These rules which are narrowly applied are endorsed by both the Commercial Companies Act published in 1970 and Law Nr. 116 enacted in 1973. Evidently, until now, all these regulations were not considered by the profession itself or by any particular committee; thus, the Libyan government itself was the sole authority that issues such laws and regulation. From the preceding presentation and discussion of the history of accounting practices and the auditors' education in Libya, and law Nr 116 of 1973, it becomes obvious that the American and British accounting systems have enormously impacted the Libyan accountants and auditors education and practices (Shareia, 2006). It is the conviction of the researcher who is a Libyan and a full-time lecturer at Al-Fateh University and in some other higher accounting institutes in Libya that there are some reasons behind the dominance of the American or British accounting principles and auditing standards on the Libyan auditors' education and practices. Regarding this aspect, Kilani,(1988, p. 156) stresses the conclusion arrived at above when he stated what Robin Peters of the accounting firm "Touche Ross" who audited the British company's operations in Libya reported regarding the British and American accounting practices, which are still extensively adopted by the companies operating in Libya; often, the tax authorities accept those fiscal statements which were prepared and verified in accordance with the American and British accounting practices as legitimate statements for tax purposes. Therefore, clearly, until present time all these regulations were not provided by the profession itself or any specialised committee, the Libyan government itself was the only body issuing such laws and regulation.